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U.S. Department of the Treasury

PRESS RELEASES

TREASURY NEWS

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

For Release Upon Delivery
June 27, 1990

Statement by
Nicholas F. Brady
Secretary of the Treasury

Good afternoon. I'd like to begin with a few comments on the important new Latin American initiative announced by the President this afternoon, before commenting on the other economic issues that will be discussed at the Houston Economic Summit and taking your questions.

During the past year or so, as Eastern Europe has undergone a dramatic political and economic reform effort, a quieter but equally dramatic revolution has occurred in Latin America and the Caribbean. There, a new generation of leaders has demonstrated its commitment to market-based economic reforms that hold out the prospect of a new era of growth and prosperity in our own hemisphere.

President Bush, in recognition of the strong movement to genuine economic reform and the great importance of the nations of Latin America and the Caribbean to the United States, has proposed a cooperative effort to strengthen our economic ties and encourage economic growth and development throughout the Western Hemisphere.

The President has already described the three pillars of trade, investment and debt reduction. This balanced program is designed to address obstacles to growth and development, while requiring additional market-based economic reforms. Open trade and investment policies are the key to economic growth and opportunity for Latin America. They will create new opportunities for the U.S., as well, as greater trade creates new jobs throughout the Hemisphere.

This initiative will give added emphasis to discussions in Houston about the efforts of the developed nations to encourage the shift to market-oriented economic reform that is underway in both Eastern Europe and Latin America. We expect that the heads of state also will discuss the economic situation in the Soviet Union and that the issue of assistance to the Soviets will be raised.

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The Summit also will address the issue of moving the Uruguay Round to a successful conclusion this year. A comprehensive package of agreements is necessary by December in order to ensure the health of the international trading system and encourage continued growth in the industrial nations as well as the developing countries and Eastern Europe. It is especially important to develop effective disciplines in the agricultural sector, which is characterized by very serious and expensive distortions. Developed country export subsidies and trade barriers in the agricultural area reduce foreign exchange earnings by developing countries from agricultural exports.

The Summit will take place in the context of a positive world economic situation. The eight-year-old economic expansion is expected to continue, with aggregate growth of the Summit countries near three percent. Inflation pressures in the G-7 industrialized economies have been easing, and while inflation concerns warrant continued vigilance, these concerns should not undermine the prospects for continued expansion.

We and the other G-7 members remain fully committed to the economic policy coordination process, and we expect a strong reaffirmation of support at the Summit from the heads of state. Progress has been made in reducing major trade and current account imbalances, but more progress is necessary. Surplus countries must bring down their external surpluses by increasing investment relative to savings. In deficit countries, including the U.S., further progress in reducing budget deficits and encouraging savings is required.

The heads of state will discuss progress made in the past year in implementing the strengthened debt strategy, and we expect that they will pledge continuing support to those nations still struggling with debt problems and committed to fundamental policy reforms.

The Summit will also include discussions of money laundering. The Financial Action Task Force launched a year ago in Paris recently concluded agreement on 40 action recommendations that will facilitate greater international cooperation in investigating and prosecuting money launderers. The Houston Summit will seek to build on that progress.

Finally, the Summit will seek solutions to environmental problems which are consistent with growth and development objectives.

Now, I'll be glad to take your questions.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 27, 1990

CONTACT: Office of Financing
202/376-4350

RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted $8,313 million of $44,780 million of tenders received from the public for the 4-year notes, Series N-1994, auctioned today. The notes will be issued July 2, 1990, and mature June 30, 1994.

The interest rate on the notes will be 8-1/2%. The range of accepted competitive bids, and the corresponding prices at the 8-1/2% rate are as follows:

	Yield	Price
Low	8.49%*	100.033
High	8.50%	100.000
Average	8.50%	100.000

*Excepting $5,000 at lower yields.

Tenders at the high yield were allotted 20%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 28,589	$ 27,469
New York	42,130,441	7,694,521
Philadelphia	14,275	14,275
Cleveland	45,924	40,924
Richmond	296,100	59,100
Atlanta	30,488	28,687
Chicago	1,338,578	201,570
St. Louis	50,452	30,852
Minneapolis	47,678	23,678
Kansas City	62,022	62,021
Dallas	13,697	13,697
San Francisco	667,874	62,874
Treasury	53,731	53,731
Totals	$44,779,849	$8,313,399

The $8,313 million of accepted tenders includes $796 million of noncompetitive tenders and $7,517 million of competitive tenders from the public.

In addition to the $8,313 million of tenders accepted in the auction process, $342 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $500 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

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DEPARTMENT OF THE TREASURY

For Immediate Release June 27, 1990

ENTERPRISE FOR THE AMERICAS - INICIATIVA PARA LAS AMERICAS

THE TRADE INITIATIVE

FACT SHEET

- The trade initiative proposes a vision of a Hemisphere-wide free trade zone with Latin America. It offers the possibility of secure access to the U.S. market to those countries willing to open their economies.

  -- The trade initiative will encourage economic growth in Latin America through expanded international trade and investment among these countries and the United States.

  -- Removal of trade and investment barriers will be an engine for economic growth, opening up new markets, generating more jobs and enhancing international competitiveness for both Latin America and the United States.

- The successful conclusion of the Uruguay Round of multilateral trade negotiations by December remains the President's highest trade priority.

  -- Increased liberalization through these negotiations would yield the greatest benefits to these countries.

  -- The Latin trade initiative will build on and complement the results of the Uruguay Round.

- Free Trade Agreements (FTAs). The key element of the trade initiative is U.S. willingness to enter into comprehensive Free Trade Agreements with other markets in Latin America and the Caribbean -- particularly with groups of countries that have associated for purposes of liberalization.

  -- Interested countries must demonstrate a commitment to economic reform, including trade and investment liberalization and sound macroeconomic policies.

  -- FTAs eliminate trade barriers between two countries including:

    .. the phased elimination of import tariffs;

    .. elimination of non-tariff barriers, such as import quotas, licenses and technical barriers to trade;

.. the establishment of clear, binding protection for intellectual property rights;

.. rules to improve and expand the free flow of goods, services and investment between the countries; and

.. fair and expeditious dispute settlement procedures.

o Since the negotiation and implementation of Free Trade Agreements are long-term projects, the Latin trade initiative contains two shorter term elements:

-- Framework Agreements: The United States is willing to negotiate framework agreements for discussing trade issues between the United States and groups of or individual Latin American and Caribbean countries.

These framework agreements could be used to lay the foundation for FTAs by serving as the means for negotiating reciprocal reductions in trade barriers and for consulting on specific bilateral trade and investment issues.

-- Uruguay Round Offers: To encourage Latin American participation in the global trading system, the United States will seek to engage these countries in the Uruguay Round of multilateral trade negotiations for trade liberalization.

Specifically, the United States will make offers to cut tariffs on products of interest to Latin America countries, without waiting for them to make requests for cuts in U.S. tariffs.

The United States will also offer tariff cuts greater than the 50 percent cuts authorized by the Omnibus Trade and Competitiveness Act of 1988.

The Administration will seek Congressional approval of these reductions as part of the implementing legislation for the Uruguay Round.

o Mexico represents a good example of this approach. We already have a bilateral framework agreement, which has been successful in liberalizing trade to the benefit of both countries. On June 11, the Presidents of Mexico and the United States agreed to move in a timely manner toward a comprehensive Free Trade Agreement.

o Conclusion: Two-way trade in goods and services between the United States and Latin America was nearly $200 billion in 1989. The Program for the Americas promises to remove obstacles to trade and investment, allowing international trade and our economies to flourish.

DEPARTMENT OF THE TREASURY

For Immediate Release June 27, 1990

ENTERPRISE FOR THE AMERICAS - INICIATIVA PARA LAS AMERICAS

THE INVESTMENT INITIATIVE

FACT SHEET

Introduction

- During the past decade the nations of Latin America and the Caribbean have endured a difficult decade of painful economic adjustment.

- Diminished trade, debilitating financial imbalances, the flight of their own citizens' capital, and the harsh reality of insufficient growth have taken a heavy toll.

- Today, policies designed to unlock the potential for domestic and foreign investment are the region's strongest hope for financing sustainable growth in a world short of resources.

The Investment Initiative

- The investment elements of this program are designed to encourage more open investment regimes to help the nations of Latin America and the Caribbean attract indispensable capital.

- First, we propose to work to develop a new investment sector loan program in the Inter-American Development Bank.

  -- The program could provide both technical advice and financial support for privatization efforts and liberalization of investment regimes -- possibly in conjunction with the World Bank.

- In a parallel effort, we will seek support to establish a multilateral investment fund to advance comprehensive investment reforms in Latin America and the Caribbean.

  -- This five-year multilateral fund would provide up to $300 million per year in grants in response to broad investment reforms.

-- These reforms would be specific, market-oriented, investment policy initiatives and reforms aimed at attracting foreign investment.

-- It would also support efforts to privatize government-owned industries and to finance worker training, education, and health programs to develop vital human capital.

-- The United States would contribute $100 million annually to the Fund and would seek matching contributions from Europe and Japan.

-- Because the Fund would be designed to serve as an incentive, funds would only be disbursed after reforms were enacted.

-- The IDB could serve as a conduit and trustee for these funds, which would complement both IDB and World Bank sector lending programs.

DEPARTMENT OF THE TREASURY

For Immediate Release June 27, 1990

ENTERPRISE FOR THE AMERICAS - INICIATIVA PARA LAS AMERICAS

THE DEBT INITIATIVE

FACT SHEET

Introduction

- o As a further incentive for investment reform, we intend to build on the progress already being made in addressing the debt problems of the region.

- o We have already seen in Mexico and Chile that reduced debt servicing burdens, in combination with strong domestic economic reforms, can have a strong positive impact on capital flows and confidence in a nation's economy.

IDB Enhancements

- o For this reason we propose that the IDB become an additional source of support for commercial bank debt reduction under the existing debt strategy.

- o As in the IMF and World Bank, the availability of these resources would be tied to economic reform efforts.

Official Bilateral Debt

- o We also recognize that many countries in the region are burdened by large official bilateral debt, which has been increasingly difficult to service on a timely basis.

- o To help address this problem, we propose to reduce U.S. bilateral official debt obligations of Latin American and Caribbean countries on a case-by-case basis.

- o To this end, the Administration will propose comprehensive legislation to create under the auspices of the Treasury Department a facility to carry out a range of operations in support of new investment, capital repatriation, and sustainable natural resource use in Latin America and the Caribbean.

-- These operations would include the reduction of concessional AID and PL-480 obligations, the receipt of interest payments in local currency for environmental purposes, and the sale of some CCC and Ex-Im credits.

-- This program will be available to Latin American and Caribbean countries which have:

.. negotiated comprehensive IMF/World Bank economic reform programs;

.. adopted major investment reforms in conjunction with the IDB or other multilateral institutions; and

.. negotiated commercial bank debt reduction agreements under the existing debt strategy as appropriate.

1. <u>Treatment of Bilateral Concessional Claims</u>

o We propose to reduce outstanding concessional AID and PL-480 claims, which total $7 billion for the Latin American and Caribbean region, while preserving necessary revenues to continue current spending in these programs.

o For eligible countries, the United States will substantially reduce outstanding principal of AID and PL-480 loans -- provided necessary economic reforms are in place.

  -- Reduced principal obligations would be repaid in annual installments over several years, depending on the individual circumstances of each country.

o Although the amount of reduction will be undertaken on a case-by-case basis, we expect it to be substantial, in some cases more than 50%.

o Participating countries would make interest payments in local currency at an agreed concessional rate. The United States would place these local currency resources in trust funds to support environmental projects or programs agreed with each country.

2. <u>Treatment of Bilateral Commercial Claims</u>

o We also propose to sell in the market a portion of outstanding Commodity Credit Corporation and Ex-Im Bank loans to eligible countries in order to facilitate debt/equity and debt/nature swap transactions.

- o Purchasers of the U.S. claims would leverage these claims into local currency for investment or environmental purposes, as now occurs with commercial bank debt paper purchased in the secondary market.

- o Revenues from the sale of these non-concessional credits would be returned to these programs for future lending.

Conclusion

- o This program will help improve confidence in Latin American and Caribbean countries, encourage new investment flows, and stimulate a return of flight capital.

- o We would, of course, encourage other creditor governments to take similar action.

DEPARTMENT OF THE TREASURY

For Immediate Release June 27, 1990

ENTERPRISE FOR THE AMERICAS - INICIATIVA PARA LAS AMERICAS

ENVIRONMENTAL ASPECTS

FACT SHEET

o In addition to building a stronger and more comprehensive economic partnership, the program can be a major force for environmental action in the Hemisphere.

o As each nation moves to take advantage of the trade and investment elements embodied in the Program, the resulting new prosperity should ease pressure on scarce resources and permit more attention to pressing environmental concerns.

o The program incorporates two elements that will provide enhanced support for environmental concerns.

  -- The first is a provision that interest payments on restructured concessional debt instruments will be earmarked for environmental grants through new environmental trust funds for eligible countries.

  -- The second is the provision for commercial sales of a portion of Export-Import Bank and CCC loans to secondary markets for subsequent use in debt-for-nature and debt-equity swaps.

Environmental Trust Funds

o To reinforce efforts already underway and provide a firm foundation of continuing support for environmental programs in the Hemisphere, we have decided to seek authority to redirect interest payments on restructured concessional official bilateral loans for qualifying countries.

o Interest on official debt reduction instruments under this program would continue to be paid at a concessional rate, but would be accepted in local currency and placed into trust funds for the purpose of supporting environmental projects.

- The interest accumulated in the trust funds would be used to support long-term funding for environmental programs and projects in the debtor country supported by the IBRD, IDB, AID or qualified private environmental groups.

- Once enabling legislation is approved, we are confident that proposed environmental trust funds can become a major vehicle for environmental support in the 1990's.

- We anticipate that interest payments on new debt reduction instruments for concessional bilateral debt would be at a single fixed percentage rate for each country.

  -- Quarterly interest payments could be made in local currency or debtor government securities where appropriate.

  -- Amounts in the fund (including any interest earned) would be used for grants in connection with qualifying environmental projects in that country.

  -- All payments, whether in local currency or local debt instruments, would have the value of amounts in the trust funds maintained in real terms.

- The environmental trust funds would have to be authorized by Congress.

- Funds would be used to provide grant co-financing for projects, programs or loans undertaken with the support of the IDB, IBRD, AID, or qualified non-governmental environmental organization.

Debt-for-Nature Swaps

- As part of the Program's efforts to reduce official debt burdens, we will be seeking authority to sell a portion of outstanding bilateral commercial credits under Export-Import Bank and Commodity Credit Corporation programs.

- Some of these instruments sold would, in turn, be used to fund additional action in support of the environment through debt-for-nature swaps.

- These would be similar to past debt-for-nature operations using obligations to commercial bank. These have been done with a number of countries, including Costa Rica, Bolivia, and Madagascar.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 27, 1990

ENTERPRISE FOR THE AMERICAS - INICIATIVA PARA LAS AMERICAS
A NEW PARTNERSHIP FOR TRADE, INVESTMENT, AND GROWTH

FACT SHEET

Introduction

As nations in Latin America and the Caribbean turn increasingly to democracy and market-oriented economic reforms, the President has proposed a new partnership to encourage growth in the Americas. This partnership will be based on three core initiatives addressing trade, investment, and debt. In addition, it will strengthen environmental policy in the hemisphere.

During the past decade Latin America and the Caribbean have faced a series of difficult economic challenges, reduced growth and lost opportunities. This difficult economic period has coincided with revolutionary political change. Democracy and freedom are now the clear choice of the peoples throughout the hemisphere.

In view of these developments, Treasury Secretary Brady was asked to lead a review in the Economic Policy Council of U.S. economic policy toward Latin America and the Caribbean. That review is now complete and we are proposing a new economic partnership in the hemisphere to meet the challenges ahead.

The Trade Initiative

- The first pillar of this program is a broad-based trade initiative which sets forth a vision and a challenge to Latin America to move toward a broad regime of free and fair trade within the hemisphere.

  - Barriers to trade continue to be a serious obstacle to growth and trade within our hemisphere which seriously lagged the pace of growth in world trade during the 1980's.

- The most effective way of promoting long-term trade growth in Latin America and the Caribbean and more fully integrating these nations into the global trading system is to successfully conclude the Uruguay Round.

- The trade initiative contains three elements:

  (1) A comprehensive Free Trade Agreement (FTA) for Latin America is our long-term goal. We are prepared to enter into FTAs with other markets in Latin America and the Caribbean -- particularly with groups of countries that have associated for purposes of liberalization.

  As we have begun to see in our trade with Canada and hope to see with Mexico, such agreements can offer significant and lasting benefits for both sides.

  (2) As an initial stepping stone toward this end -- and for those which are not yet positioned to embrace a free trade agreement -- we are prepared to develop bilateral framework agreements.

  Such agreements can help establish principles for bilateral cooperation on trade issues.

  (3) We are also prepared to work with Latin countries to help address their specific trade concerns within the Uruguay Round. To show our commitment, we will seek authority for deeper tariff cuts on specific products of interest to them.

The Investment Initiative

- The second pillar of our program is an investment initiative to unlock the potential for domestic and foreign investment, encourage capital flows, reduce debt burdens, and improve the environment.
- To encourage appropriate policies and help the nations of Latin America and the Caribbean attract indispensable capital, the United States is prepared to pursue a program on several fronts.
- First, we propose to work to develop a new investment sector loan program in the Inter-American Development Bank.
  - The program could provide both technical advice and financial support for privatization efforts and liberalization of investment regimes -- possibly in conjunction with the World Bank.
- Second, in a parallel effort, we will seek support to establish a multilateral investment fund to advance comprehensive investment reforms in Latin America and the Caribbean.
  - This Fund would provide grants of up to $300 million annually in response to broad investment reforms.

-- It would also support efforts to privatize government-owned industries and to finance worker training, education, and health programs to develop vital human capital.

-- The IDB would administer these funds, which would complement both IDB and World Bank sector lending programs.

<u>The Debt Initiative</u>

o The third pillar provides additional support for debt and debt-service reduction in Latin America and the Caribbean in an effort to provide further incentives to investment reform and a more flexible basis for hemispheric growth.

o The first part of this initiative builds on the progress already being made in addressing the debt problems of the region by proposing that the IDB become an additional source of enhancements under the existing debt strategy.

-- These enhancements would be used to back specific transactions negotiated by Latin American and Caribbean countries with their commercial banks.

-- As in the IMF and World Bank, the availability of these resources would be tied to economic reform efforts.

o Second, to address the growing problem of official debt, we will propose legislation to permit substantial reduction and restructuring of existing U.S. concessional loans to Latin American and Caribbean countries with serious debt servicing difficulties.

-- Action would be taken on a case-by-case basis for countries in the region which adopt strong economic reform programs in conjunction with the IMF and World Bank, pursue comprehensive investment reforms with the Inter-American Development Bank or other multilateral institutions, and complete commercial bank debt-reduction programs as appropriate.

-- We expect this program to produce substantial debt reduction on concessional U.S. AID and PL-480 claims, particularly for the smaller countries of the region. At the same time, new flows of foreign assistance to the region would be maintained.

-- To underscore our commitment to sustainable natural resource management, interest payments on the restructured concessional claims will be accepted in local currency and placed in trusts to support environmental projects agreed with each participating government.

Finally, we will also seek authority to sell a portion of outstanding bilateral commercial credits under Export-Import Bank and Commodity Credit Corporation programs.

-- Ex-Im and CCC credits sold would be used to facilitate foreign investment and fund additional action in support of the environment through debt/equity and debt-for-nature swaps.

PRESS RELEASE

OVERSIGHT BOARD

RESOLUTION FUNDING CORPORATION

FOR IMMEDIATE RELEASE
June 28, 1990

CONTACT: Diane Casey
(202) 786-9672

The Resolution Funding Corporation (REFCORP) announces that it will auction 30-year bonds in July 1990. The amount and exact maturity date of the bonds to be auctioned will be announced on Tuesday, July 3, 1990, and when-issued trading can begin at that time. The securities will be auctioned on Tuesday, July 10, and will settle on Tuesday, July 17.

TREASURY NEWS

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

CONTACT: Office of Financing
202/376-4350

FOR IMMEDIATE RELEASE
June 28, 1990

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $10,264 million of 52-week bills to be issued July 5, 1990, and to mature July 5, 1991 were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	7.51%	8.08%	92.386
High -	7.53%	8.10%	92.365
Average -	7.52%	8.09%	92.376

Tenders at the high discount rate were allotted 12%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 30,790	$ 30,790
New York	27,657,715	9,572,115
Philadelphia	15,250	15,250
Cleveland	29,065	29,065
Richmond	31,115	31,115
Atlanta	31,320	21,320
Chicago	2,601,880	123,880
St. Louis	22,695	18,695
Minneapolis	11,650	11,650
Kansas City	44,370	44,360
Dallas	12,595	12,595
San Francisco	882,535	61,135
Treasury	291,860	291,860
TOTALS	$31,662,840	$10,263,830
Type		
Competitive	$28,128,560	$ 6,729,550
Noncompetitive	834,280	834,280
Subtotal, Public	$28,962,840	$ 7,563,830
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	--	--
TOTALS	$31,662,840	$10,263,830

An additional $265,000 thousand of the bills will be issued to foreign official institutions for new cash.

NB-861

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FOR IMMEDIATE RELEASE

June 29, 1990

Contact: Bob Levine
(202) 566-2041

EXCHANGE OF LETTERS ON IMPORTATION OF SOVIET ORIGIN NICKEL

The Department of the Treasury announced today the Government of the Union of Soviet Socialist Republics (USSR) and the Government of the United States have completed an exchange of letters concerning U.S. imports of nickel and nickel-bearing products (such as stainless steel) exported from the USSR.

The letters establish procedures under which a Soviet trade organization, Raznoimport, taking into consideration instructions of the Ministry of Foreign Economic Relations, will certify that exports of nickel and nickel-bearing products intended for importation into the United States are exclusively of Soviet origin.

Prior to the institution of these procedures, these commodities from the USSR were prohibited entry into the United States under regulations administered by the Office of Foreign Assets Control of the Department of the Treasury.

Certificates of origin are available for nickel and nickel-bearing products from the Norilsk Mining and Metallurgical Plant, Norilsk, Krasnoyarsk Region, USSR, and the Nickel Industrial Amalgamation, Monchegorsk, Murmansk Region, USSR.

Certificates of origin must be presented to U. S. Customs officials at the time of importation. On or after June 28, 1990, the effective date of the procedures, all shipments of nickel and nickel-bearing products from the Soviet Union must be accompanied by a certificate to be permitted entry through U.S. Customs.

NB-862

TREASURY NEWS

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

CONTACT: Office of Financing
202/376-4350

FOR IMMEDIATE RELEASE
July 2, 1990

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $8,829 million of 13-week bills and for $8,814 million of 26-week bills, both to be issued on July 5, 1990, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 4, 1990			:	26-week bills maturing January 3, 1991		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.72%	7.98%	98.049	:	7.58%	7.99%	96.168
High	7.73%	7.99%	98.046	:	7.60%	8.01%	96.158
Average	7.73%	7.99%	98.046	:	7.60%	8.01%	96.158

Tenders at the high discount rate for the 13-week bills were allotted 70%.
Tenders at the high discount rate for the 26-week bills were allotted 98%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

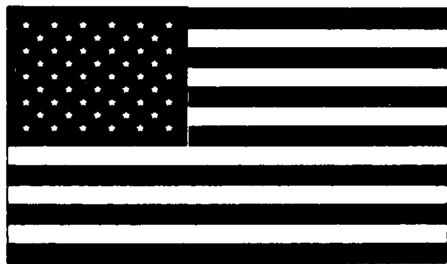
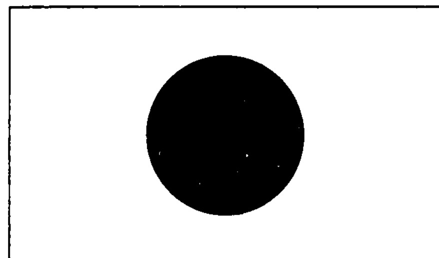
Location	Received	Accepted	:	Received	Accepted
Boston	$ 43,235	$ 40,535	:	$ 50,790	$ 50,790
New York	30,096,775	7,670,530	:	21,946,110	7,643,750
Philadelphia	21,805	21,805	:	18,155	18,155
Cleveland	59,000	58,910	:	49,610	49,610
Richmond	43,230	43,230	:	47,290	47,290
Atlanta	33,605	32,605	:	40,720	40,720
Chicago	3,114,450	64,110	:	1,560,145	183,245
St. Louis	36,015	16,015	:	34,850	28,730
Minneapolis	17,530	12,530	:	27,100	26,900
Kansas City	46,840	45,400	:	59,325	59,325
Dallas	40,080	30,080	:	38,475	33,375
San Francisco	1,112,325	154,325	:	824,585	70,585
Treasury	638,815	638,815	:	561,720	561,720
TOTALS	$35,303,705	$8,828,890	:	$25,258,875	$8,814,195
Type					
Competitive	$31,404,810	$4,929,995	:	$20,913,920	$4,469,240
Noncompetitive	1,538,940	1,538,940	:	1,342,775	1,342,775
Subtotal, Public	$32,943,750	$6,468,935	:	$22,256,695	$5,812,015
Federal Reserve	2,216,135	2,216,135	:	2,300,000	2,300,000
Foreign Official Institutions	143,820	143,820	:	702,180	702,180
TOTALS	$35,303,705	$8,828,890	:	$25,258,875	$8,814,195

An additional $81,780 thousand of 13-week bills and an additional $369,320 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

NB-863

JOINT REPORT
of the
U.S. - JAPAN WORKING GROUP
on the
STRUCTURAL IMPEDIMENTS INITIATIVE

June 28, 1990

The Honorable George Bush
President of the United States of America
Washington, D.C.

His Excellency
Toshiki Kaifu
Prime Minister of Japan
Tokyo

Pursuant to the decision made by the U.S. and Japanese Heads of Government at the Economic Summit in July 1989, the U.S.-Japan Working Group on the Structural Impediments Initiative (SII) presents the attached Joint Report on the SII talks.

We believe that the attached report contains significant, extensive efforts and actions by both governments that should contribute to further reductions in external payments imbalances. These actions should also lead to more efficient, competitive, and open markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States.

The report also establishes a follow-up mechanism to review progress achieved and to discuss matters relevant to problem areas and the need for actions to address them. Under this mechanism, the Working Group will meet regularly and produce an annual report respectively on the progress made by each country toward solving its structural problems, thereby contributing to the reduction of external imbalances.

Richard T. McCormack
Under Secretary of State

Charles H. Dallara
Assistant Secretary of the Treasury

S. Linn Williams
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JOINT REPORT

of the

U.S.-JAPAN WORKING GROUP

on the

STRUCTURAL IMPEDIMENTS INITIATIVE (SII)

Tokyo, Japan

June 28, 1990

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STRUCTURAL IMPEDIMENTS INITIATIVE

The Japan-U.S. Working Group on the Structural Impediments Initiative (SII) provides the attached Final Report on the SII talks. The Working Group believes that this report is a historic document that contains significant, extensive efforts and actions on both sides. These actions should complement the economic policy coordination efforts which have been made through multilateral fora and should contribute to a reduction in external payments imbalances. In this regard, it is to be noted that while the large external imbalances of the two countries have shown substantial reduction in recent years, the two Governments are strongly committed to make efforts for the further reduction of their respective external imbalances. The above-mentioned actions should also lead to more efficient, open and competitive markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States. Both Governments are firmly determined to achieve these goals.

The SII was launched by President Bush and former Prime Minister Uno in July 1989 to identify and solve structural problems in both countries that stand as impediments to trade and to balance of payments adjustment with the goal of contributing to the reduction of payments imbalances. Five Plenary sessions of the Working Group were held between September 1989 and June 1990. An Interim Report on progress was issued on April 5, 1990.

Both the U.S. and Japanese Governments have already taken initial steps and have developed plans for further actions to ensure continuing momentum in solving the structural problems that impede balance of payments adjustment. Both Governments believe that the Final Report represents substantial progress to address structural problems.

The Working Group strongly reaffirms its continuing commitment to solve structural problems in both countries that stand as impediments to trade and balance of payments adjustment.

In order to jointly follow up the year-long SII exercise, the SII

Working Group will continue the meetings under the interagency structure of the SII in a flexible, open and evolving manner which is characteristic to the SII, and agreed to meet three times in the first year and twice a year thereafter, most probably in spring and autumn and other times mutually agreed, at a level of Vice/Deputy Minister and Under Secretary/Assistant Secretary, to :

-- review progress achieved regarding issues identified in the Final Report ;

-- discuss matters relevant to problem areas already identified in the SII and the need for actions to address them; and

-- produce in spring of each year a written report respectively on the progress made by each country toward solving its structural problems thereby contributing to the reduction of external imbalances, review the reports together, and issue them with a joint press release.

After three years, the SII Working Group will review the follow-up process, taking into account measures in the Final Report that extend beyond three years.

These talks have taken and will take place outside Section 301 of the U.S. Trade Act.

The Working Group believes that in addition to its beneficial effects on the U.S. and Japanese economies, the SII process will benefit other countries and the global economy generally.

Saving and Investment Patterns

I. Basic Recognition

1. Reduction in the Current Account Surplus

As a result of appropriate policies pursued to sustain solid economic growth led by strong domestic demand, Japan's current account surplus has been reduced remarkably from 4.5 per cent of GNP in FY 1986 to an estimated 1.9 per cent in FY 1989, which is less than half the level of FY 1986. This downward trend is projected to continue in FY 1990.

Impressive growth of imports, along with increases in overseas travel expenditures by the Japanese people reflecting in part an increased emphasis on leisure, has contributed to this positive trend. U.S. exports to Japan have increased faster than U.S. exports to the rest of the world.

To make further progress on the basis of this positive trend, the Government of Japan will continue to undertake economic policies aimed at promoting sustained non-inflationary growth led by domestic demand.

The Government of Japan recognizes the need to continue to reduce its current account surplus and strongly reaffirms its commitment to work actively toward that end. While the Government recognizes the utility of making available savings for certain other parts of the world, including Eastern Europe, it further recognizes that a further reduction of Japanese current account surplus is compatible with Japan's ability to continue to export long-term capital. Thus, the Government commits itself to place a high priority on continuing a steady reduction in its current account surplus which will, together with the efforts of other major industrial countries, foster world growth and financial market stability. The Government of Japan also recognizes that a reduction of the imbalance between domestic savings and investment is important to that process. This will help further a reduction in the current account surplus.

2. Recognition of the Need for and Importance of Social Overhead Capital Improvement

The Government of Japan recognizes that there remain areas where Japan is still behind other major industrialized countries in terms of the levels of social overhead capital accumulation, though the pace of improvement has been rapid -- partly as Japan was historically a slow starter in this field -- with annual public investment (Ig) four times as large as that of the U.S. measured against GNP.

The Government of Japan will continue to pursue its policies to increase and promote steady accumulation of social overhead capital, based on the keen recognition of the need for and importance of social overhead capital improvement.

This would, through sustained non-inflationary growth of domestic demand, facilitate further reduction in the current account surplus.

II. Measures to be Taken

1. Positive Measures in the FY 1990 Budget

(1) FY 1990 budget was enacted on June 7, with the expenditures for public works which surpass the historic high level of the previous fiscal year at ¥7,444.7 billion, despite the revenue constraint caused by unsuccessful sales of NTT stocks in the previous fiscal year, and notwithstanding the vigorous expansion of the economy expected in FY 1990 which does not warrant additional stimulus.

The investment by the public sector on GNP basis (Ig) would add up to ¥26.3 trillion, including the public works expenditure by local governments financed entirely by themselves (in the Local Public Finance Program) and the expenditures of the public work executing agencies financed through the FILP (Fiscal Investment and Loan Program) which rose 7 per cent, respectively, over FY 1989.

(2) Total cumulative expenditures in seven out of eight sectoral long-term plans, which are to expire at the end of FY 1990, are expected to exceed the projected target expenditures as a result of further emphasis placed on social overhead capital in the FY 1990 Budget.

2. Toward Further Improvement

(1) The Government of Japan intends to increase and promote steady accumulation of social overhead capital, from a medium to long term perspective, as the nation heads for an aging society toward the twenty-first century.

For that purpose:

(i) The Government of Japan has newly launched the "Basic Plan for the Public Investment", which serves as guiding principles for steady accumulation of the social overhead capital toward the twenty-first century. This plan covers a decade from FY 1991 to FY 2000, and provides a basic blueprint of the basic direction of the public investment for the decade. Firm implementation of the public investment over the medium term based on this Plan, with due regard to balanced development of the economy, is expected to provide a basis for sustainable non-inflationary growth led by strong domestic demand, and this should, along with other measures, facilitate further reduction in the current account surplus.

The annual total of public investment and of investment in each sector will be determined through yearly budgets, according to prevailing circumstances, and compatible with the basic lines of this plan.

Building on the principle "to boost domestic investment, improve social overhead capital and to reduce the shortage of investment relative to savings and to the size of the Japanese economy," the Plan includes the aggregate investment expenditure of about 430 trillion yen for the decade, up drastically from the estimated 263 trillion yen in

the previous decade from FY 1981 to FY 1990.(note 1) This plan shows that the Government of Japan has taken the decisive step toward considerably increasing the public investment far above its previous pace.

This plan enunciates that the share of public investment related to "living environment and cultural functions (note 2)," which is directly linked to the everyday life of the people, would be raised from a few points over 50% of the total in the previous decade to about 60% of the total during the period of the plan.

Through the firm implementation of the plan, the levels of social overhead capital accumulation of Japan would be broadly comparable to those of other major industrial countries at the beginning of the twenty-first century.

In addition, the aggregate expenditures of the investment by such entities as JR and NTT which used to be included in the public investment prior to their privatization, are expected to be approximately 25 trillion yen for the coming ten years.(note 3) This is the amount of expenditure that the Government of Japan fully expects to be realized.

Adding this with the 430 trillion yen shown above would bring the total figure to about 455 trillion yen.

(note 1) The aggregate investment for the first five years calculated on the basis of an average annual increase is expected to be about 182 trillion yen.

(note 2) Public investment related to "living environment and cultural functions" includes investment for; water supply, sewers, parks, green spaces, waste disposal facilities, housing, local roads, subways, and welfare as well as educational facilities.

(note 3) Estimation based on the continued current annual expenditure.

(ii) As to the eight categories of social overhead capital whose current plans are to expire at the end of FY 1990 (i.e., March 1991), the ministries concerned will formulate larger long-term plans with the positive and specific targets as indicated in Table 1. By the end of FY 1990, yen figures shall be developed for most of the eight sectoral plans which are conistent with the ten year plan in order to improve the quality of life in Japan. It is envisaged that larger long-term plans for certain other key areas, such as roads, will also be formulated as the current plans expire on a scale similar to that for these plans.

(iii) The yearly expenditure for social overhead capital should be decided flexibly considering the prevailing economic and fiscal conditions, paying due attention to avoiding inflation and overheat of the economy as well, given the significant role that the public investment plays as a counter-cyclical measure in Japan, and compatible with the basic lines of the plan and the targets in (ii) above.

(2) In allocating the expenditure among various types of social overhead capital, utmost consideration should be given, as much as possible, to those closely linked to the improvement of the quality of life.

(3) In the implementation of public investment, including the above plans, the Government of Japan will make effective use of the legislative form of the budget that authorizes contracts incurring treasury liabilities over the succeeding fiscal years, in order to secure maximum efficiency in executing public investments within the constitutional framework of the single year budget system.

(4) The Government of Japan will make more effective use of the FILP (Fiscal Investment and Loan Program) funds to improve social overhead capital. Such effective use would include financing urban redevelopment projects through the Japan Development Bank. In allocating the FILP funds, utmost consideration should be given, as much as possible, to housing and other projects contributing to enhancement of the quality of life of the people. More effective use

of the FILP funds will also include attaching major importance to allocation of the funds, for feasible projects, with a view to achieving the long-term plans of social overhead capital in such areas as housing, roads and airports.

(5) The Government of Japan will see to it that overall efficiency is increased in promoting the complex multi-jurisdictional development projects like the Kansai International Airport and the Tokyo Bay Area Development, by ameliorating systems for securing better communication and closer cooperation among the related ministries.

(6) Land Use, Deregulation, etc.

(i) The Government of Japan will give due consideration to effective utilization of publicly held lands in metropolitan areas for urban facilities, urban redevelopment, and public housing projects to ensure smooth implementation of public works. The Government of Japan will see to it that the discharged track yard site in Shiodome should be highly utilized as multi-functional urban space responding to the needs arising from internationalization, and as a regional transportation hub. Related urban infrastructure including subways and roads should be furnished as well.

(ii) The Prime Minister's Office will be central in vigorously promoting utilization of super-subterranean space (about 50 meters below surface or deeper in metropolitan areas) for social overhead capital including urban infrastracture in metropolitan areas and thus securing more effective use of land. Wide-ranging issues--legal, safety, and environmental--need to be addressed carefully in the process.

(iii) More active use of various resources in the private sector, such as financial resources, technology and know-how, is important for the improvement of social overhead capital, as seen in such cases as the Kansai International Airport and the Trans Tokyo Bay Road Project. The Goverment of Japan will continue to promote further deregulation and provide various incentives as needed in order to make the best use of these private sector resources in the improvement of the social overhead capital.

(iv) The Government of Japan will effectively activate the special act

which aims at promoting organized development of housing sites and railways in greater metropolitan areas, thereby improving the quality of life of the residents and promoting orderly development of the region.

For example, discussions are being held on the formation of the basic plan, including the appropriate form of managing entities, for a new railway line called the "Joban New Line."

(7) The Government of Japan reconfirms the principle of non-discrimination in the Japanese construction market, and will continue to work with the U.S. Government in faithfully implementing and reviewing the provisions of the U.S.-Japan Major Projects Arrangements.

3. Private Consumption: Leisure Opportunity and Flexibility in Consumer Finances

(1) As to curtailing work hours, the Government of Japan launched a trial, starting this April, of 40 hour weeks for those government employees on shift work schedules, to pave a road to complete 5 day weeks for all government employees, and will encourage curtailing work hours in the private sector.

(2) As to improvement of consumer credit convenience, the interim report by the Credit Industry Committee of the Council on Credit Sales recommends that "concerning the introduction of revolving credit function to the credit cards issued by bank affiliated companies, it is appropriate to allow bank affiliated credit card companies to register under the Credit Sales Law within two years, with the existing restriction on access to bank teller machines by credit card companies removed." The Government of Japan will endeavor to implement this recommendation after consulting with the parties concerned.

(3) To quote a few examples of extended operating hours of automated teller machines, major financial institutions have since May lengthened operating hours of their machines on Saturdays, and some institutions have started to operate their machines on Sundays as well.

The Government of Japan will welcome business decisions of the

financial institutions to lengthen operating hours of their teller machines when they so decide based on their own commercial considerations, while there are no restrictions on the operating hours at present.

(Table 1)

Category	Targets of the Plans
Housing	To increase average floor space per unit to approx. 95m^2 in FY 1995, aiming at improving quality of housing stock (cf. average floor space per unit in 1988 was 89m^2).
Sewers	To increase sewerage service coverage ratio by approx. 10 percentage points during the period of the plan and to promote drainage programs, aiming at better urban environment (cf. sewerage service coverage ratio in March 1989 was 40%).
Parks	To increase park space per capita to more than 7m^2 in FY 1995, aiming at better urban environment with full of greenery and amenity (cf. park space per capita in March 1989 was 5.4m^2).
Waste Disposal	To increase waste treatment percentage ratio to the mid-80's in FY 1995, aiming at more hygienic and comfortable living environment (cf. waste treatment percentage ratio in March 1989 was 78%).
Traffic Safety	To construct sidewalks, etc. of approx. 25,000km in aggregate during the period of the plan, where current risk to pedestrian safety is high (cf. sidewalks, etc. in March 1989 were 99,712km in aggregate length).
Port Facilities	To construct berths for foreign trade terminal of approx. 30km in aggregate during the period of the plan, to cope with increased foreign trade cargoes and enlarged vessel size (cf. existing foreign trade terminal berths in March 1989 were 60km).
Airports	To increase the index of aggregate runway length as measured against population and land area to approx. 880 in FY 1995, and to initiate new construction of a substantial amount during the period of the plan in order to accommodate future aviation needs, with due regard to the levels in industrial nations. This would result in increasing aggregate runway length by 18% during the period of the plan (cf. the index of aggregate runway length in March 1989 was 742).
Seashore	To increase improvement ratio of seashore which needs protection by approx. 10 percentage points during the period of the plan (cf. the improvement ratio in March 1989 was 40%).

Land Policy

I. Basic Recognition

The land problem is one of the most serious domestic problems facing the Government of Japan. The Government of Japan has, as a first step, already enacted the Basic Land Act (*) last December. Recognizing the need such as for the increase of supply of housing, as well as the supply of land for buildings, with necessary facilities, such as public and commercial facilities, the Government of Japan will implement a wide range of specific measures as set forth in guidelines such as the Priority List of Land Policies, also announced last December, and as set forth below.

Due to these measures, it is expected that housing and other demand will be boosted, leading to greater import opportunities.

1. Promotion of further supply of housing and land for buildings in metropolitan areas.

2. Comprehensive review and adjustment of the land taxation system with the obejctive of making taxes more equitable, neutral and simple.

3. Greater utilization of idle and underutilized land owned by the central or local governments or other public land.

4. Improvement and increase of infrastructure necessary to facilitate increase in the supply of housing and land for buildings.

5. Review of the Land Lease Law and the House Lease Law.

6. Review of divisions between Urbanization Promotion Areas and Urbanization Control Areas and promotion of specific deregulation measures.

7. Rationalization of the official assessment of land value.

(*) The Basic Land Act stipulates:

(a) basic principles regarding land such as giving priority to public welfare;

(b) responsibilities of the central and local governments, private enterprises and individuals; and

(c) basic elements concerning land policies.

II. Measures to be Taken

1. In order to take the following measures, the Government of Japan has already enacted in this June the amendments of the "Special Measures Law for Facilitating Supply of Residential Land etc. in Major Metropolitan Areas", the "City Planning Law" and the "Building Standards Law".

(1) Improvement of the existing system to enable the formulation of master plans regarding the supply of housing and residential land across two or more prefectures.

(2) Establishment of a new system for identifying and promoting the utilization for housing, business and commercial purposes etc. of, idle land such as unused plant sites.

(3) Improvement of current city planning and other systems in order to facilitate the conversion of agricultural land within urbanization promotion areas to residential land.

In line with (2) above, the Goverment of Japan will establish a system for identifying idle land by the end of 1990 through the amendment of the "City Planning Law". The Government of Japan will encourage local authorities to actively and expeditiously utilize the

system. Through these measures, substantial increase of the supply of housing and residential land in metropolitan areas would be expected.

2. (1) The Government of Japan is conducting a comprehensive review on the land taxation system on the basis of such basic principles of taxation as equity, neutrality and simplicity, and in accordance with the principles expressed by the Basic Land Act and with other land policies. A study has been initiated by the Sub-Commission on Land Taxation established in April under the Government Tax Commission.

The Sub-Commission has met almost once a week, and has so far held 13 meetings since this April. It issued a paper on May 29, entitled "Main Issues in the Review of Land Taxation" which clarifies main issues to be considered in the course of the review of land taxation.

Subsequently on June 22, the Sub-Commission issued a paper entitled, "For the Review of Land Taxation", which sorts out opinions expressed by the commission members concerning land taxation.

In these papers, the Sub-Commission presented the following two points as points of reference for the review of land taxation: first, it is important to pursue appropriate tax burden on an asset of land, from viewpoints of equity and neutrality of taxation, and this consequently contributes to efficient utilization of land; second, land taxation, as a part of land policy, can play an important role in promotion of efficient utilization of land, preventing speculative land transactions.

The paper issued by the Sub-Commission on June 22 contains various opinions concerning appropriate tax burden on transfer, holding and acquisition of land, including issues related to (2), (3), and 7(1), (2) below, which indicate, inter alia, that the Government of Japan will conduct a review with a view to addressing the deferment system of payment of the inheritance tax and the fixed assets tax, as well as consider the possible strengthening of the special land holding tax on idle land.

The Government of Japan highly appreciates that the Sub-Commission has satisfactorily progressed the discussion and expects that the discussion will lead to land tax reform which contributes to such land policies as efficient utlization of land.

Taking account of the issues provided in the above mentioned papers, the Sub-Commission will continue to discuss possible changes in the land taxation system and issue a report by early November.

The Government of Japan will make out a draft of a revised land taxation system, with giving serious consideration to the report, and submit the necessary legislation to the Diet by the end of FY 1990.

(2) With respect to the taxation system on agricultural land within urbanization promotion areas of the major metropolitan areas, the Government of Japan, together with necessary adjustments and improvements in the related policies, will conduct a review with a view to addressing the deferment system of payment of the inheritance tax and the fixed assets tax, in accordance with the Comprehensive Land Policy Plan, so that the results will be smoothly implemented from FY 1992.

(3) In addition to the establishment of the new system for idle land mentioned in 1.(2), a review will be made with regard to the possible strengthening of the special land holding tax on idle land.

3. The Government of Japan is now examining, toward the end of FY 1990, the utilization of State-owned land in the major metropolitan areas and, in accordance with its findings, will try to enable the land to be utilized for, through sales and other arrangements, appropriate private projects of urban district development, urban facilities, urban redevelopment and public housing projects, except those cases where preservation of land for public use is necessary. The Government of Japan is urging local governments to take similar measures with regard to local government-owned land.

The Government of Japan will complete the identification of idle and underutilized State-owned land by the end of FY 1990. The Government of Japan will set a goal of converting idle and underutilized State-owned land to productive use by the end of FY 1991, and will carry out the conversion according to the goal.

Effective utilization of the extensive land owned by the Japanese National Railways Settlement Corporation in metropolitan areas will also be ensured.

4. In order to increase the supply of housing and residential land, installation of the required infrastructure will be steadily pursued. In this context, based on the target indicated in the "Saving and Investment Patterns" chapter, the Government of Japan is engaged in the formulation of a larger five-year plan for housing construction, improvement of sewerage and urban parks, etc.

Following the report submitted by the Administrative Reform Council in October 1987 etc., two circular notices were issued to give guidance concerning the utilization of the eminent domain system. As a result, the number of eminent domain operations authorized in FY 1989 increased largely by more than 20% from the previous year. The Government of Japan will encourage the more vigorous use of eminent domain.

The Government of Japan will encourage more effective use of subterranean property, and studies will also be conducted on the system concerning public use of the deep underground from various aspects including legislation in order to encourage its utilization.

5. In order to meet the changed circumstances and to improve the legal relationship between lessors and lessees, and taking into account the desirability of greater availability of housing, a review of the Land Lease Law and the House Lease Law is being conducted, and an outline of the draft amendment of these laws may be ready by as early as the end of FY 1990. The Government of Japan will then submit the necessary legislation to the Diet

without delay. These measures are expected to induce a more appropriate use of land and an increase in the supply of good quality houses for lease.

6. In order to encourage effective utilization of land and to facilitate the planned conversion of agricultural land to residential land within urbanization promotion areas, the Government of Japan will promote timely and appropriate review of divisions between Urbanization Promotion Areas and Urbanization Control Areas, and change of zoning designations. Particularly in major metropolitan areas, review of divisions between the two Areas will be promoted to provide for the growing housing demands.

The Government of Japan has enacted in this June the amendments of the "City Planning Law" and the "Building Standards Law" to establish the "District Plan to Promote Intensive Use of Residential Land" which will help ensure the relaxation of limits on building heights, total floor area ratio, etc. for quality projects contributing to the increase of housing supply and the formation of a better urban environment. Specific deregulation measures will be operated under this system by the end of 1990 with other existing systems.

7. In order to rationalize the official assessment of land value, the Government of Japan will:

(1) rationalize the land value assessment for inheritance tax calculation expeditiously, taking into account the nature of the tax with a view to making the assessment closer to the market value; and

(2) give guidance to local governments to rationalize their land value assessment for fixed assets tax calculation at the time of the reassessment of the land valued in FY 1991; and advise them to make public the land values of the standard points.

Distribution System

I. Basic Recognition

Concerning the distribution system in Japan, the Government of Japan attaches great importance to the enrichment of consumer life in Japan through further improving efficiency, ensuring market access, and building physical infrastructure. Based upon such recognition, the Government of Japan will promote the implementation of a broad spectrum of measures:

1. The distribution of import freight will be accelerated and its cost will be reduced by the improvement of airports, harbors, and other import infrastructure.

2. Customs clearance procedures and other import procedures will be further expedited to correspond to the increasing trade volume, while maintaining such functions as realizing a proper and fair sharing of the tax burden, and ensuring the health and safety of the people.

3. Deregulation of the distribution system will be further promoted with regard to a variety of laws and regulations, such as the Large -Scale Retail Store Law, with a view to enriching consumer life in Japan.

4. As to trade practices concerning distribution, an improved environment will be sought from the standpoint of promoting competition and securing market openness.

5. Wide-ranging measures with lasting, structural impact will be implemented in order to expand imports, thereby improving the efficiency of Japan's market structure including the distribution system.

II. Measures to be Taken

1. Improvement of Import-related Infrastructure

(1) Airport Improvement

(a) Based on the Fifth Five-Year Plan for Airport Improvement (FY 1986-90), the improvement of the New Tokyo International Airport, the off-shore expansion of the Tokyo International Airport and the improvement of the Kansai International Airport are being vigorously promoted as the three most important projects. In particular, completion of the second phase construction of the New Tokyo International Airport and the first phase construction of the Kansai International Airport will double the cargo handling capacity as the cargo handling area will expand from about 20 hectares at the New Tokyo International Airport alone to about 50 hectares at the two airports combined. This expansion of capacity, together with the improvement and the expansion of the regional airport and airport-related cargo handling facilities, is a significant step toward the goal of ensuring airport capacity sufficient to meet the demand for international air services for some time to come. The airport -related cargo handling facilities at the New Tokyo International Airport and at the Baraki Terminal are being improved and expanded responding to the increasing demand for international air cargo handling. Considerable efforts are also being invested in the improvement of local airport facilities: For instance, the construction of the New Hiroshima Airport is now vigorously under way with December, 1993 as the target inauguration date.

(b) (i) The Sixth Five Year Plan for Airport Improvement, to be initiated in FY 1991, will include Yen targets and specify airport and airport facility projects to substantially increase airport capacity sufficient to meet medium-to-long term growth of the demand in international air transportation. (The details of the Sixth Five Year Plan will be formulated in autumn in 1991.)

(ii) The Aviation Council is now discussing as one of the main agenda for the Sixth Plan various improvements of

airport facilities, including the overall concept of the Kansai International Airport and increased use for international service of regional airports.

(c) Improvement of roads related to import is being promoted in line with the Tenth Five-Year Plan for Road Improvement (FY 1988-92).

(2) Harbor Improvement

Harbors are being improved in line with the Seventh Five-Year Plan for Harbor Improvement (FY 1986-90). In recent years, imports of manufactured goods have been rising rapidly, and therefore, in order to be able to respond to these increasing imports, the improvement of container terminals for overseas trade and large scale multi-purpose terminals for overseas trade will be given high priority in the context of the Eighth Five-Year Plan now being prepared to be initiated in FY 1991. Concerning warehouse facilities, the Government of Japan is promoting private investment in facilities through such means as low-interest loans by the Japan Development Bank (JDB) and favorable tax measures. Since FY 1989, special emphasis is being placed on promoting the improvement of warehouse facilities dealing primarily with imported goods through a special low-interest loan facility. Thanks to these measures, warehouse companies in the Tokyo and Osaka metropolitan areas plan to expand their facilities by 16% by the end of FY 1991.

2. Expeditious and Proper Import Procedures

In order to ensure rapid entry of normal cargo imports into the Japanese distribution system, the Government of Japan goal is 24 hours clearance (from presentation of import declaration to import permit) through entry procedures for imports by 1991. The Government of Japan will ensure adequate budget resources and make regulatory changes necessary to accomplish this goal.

(1) Customs Clearance Procedures

Automated Processing System will be introduced for customs clearance of sea cargoes from 1991 to 1992. In addition, the Japanese Customs will further improve and rationalize the customs clearance procedures, in accordance with the report by the Japan-U.S. Customs Experts Group. This will include efforts for achieving, within a few years, the implementation of upgrading of NACCS (Nippon Air Cargo Clearance System), expansion of the scope of the Provisional Examination System and its procedural simplification, and introduction of the Automated Risk Judgement System supported by the Customs Data Base.

(2) Import Procedures other than Customs Clearance Procedures

In accordance with the report submitted by the Japan-U.S. Experts Group on Import Procedures, which was established with a view to achieving more expeditious and proper import procedures and consists of agencies concerned, the Government of Japan will, after study as necessary, start any of the following measures as soon as it becomes feasible and make efforts to implement them within three years.

(a) Establishment of an integrated import processing system under the cooperation between Customs and other agencies with jurisdiction over import procedures through measures such as setting up of Liaison Committee consisting of agencies with jurisdiction over import procedures, simultaneous processing of customs clearance and procedures required by other import -related laws, and facilitation of information transmission among agencies with jurisdiction over import procedures.

(b) Promotion of pre-arrival processing by introduction of pre -filing system, improvement and expansion of pre-export examination system, including promotion of acceptance of overseas examination data, enlargement of blanket handling system, etc.

(c) Physical improvement and expansion of cargo processing system, including expansion of working hours.

3. Deregulation

(1) Large-Scale Retail Store Law

As dynamic changes are called for in the distribution industry, deregulation measures will be taken in order to meet new needs of consumers, to enhance the vitality of the distribution industry and to ensure smooth procedures for opening new stores. Deregulation measures will be put into place by both the central Government and local public authorities.

The following deregulation measures will be implemented by the Government of Japan.

(a) Deregulation measures that will be immediately taken (such measures as those for an appropriate implementation of the law)

(i) In order to ensure smooth coordination procedures and to facilitate the opening of new stores and expansion of existing stores, the following deregulation measures for an appropriate implementation of the law came in effect on May 30, 1990, subsequent to the deliberation by the Joint Conference of the Industrial Structural Council and the Small and Medium Enterprise Policy Council on April 27, this year. These are the maximum measures which are legally possible under the current Large-Scale Retail Store Law (LSRSL).

(aa) Shortening of coordination processing period for opening stores:

The coordination processing period will be less than one and a half years. The day the items required by the public ordinance (tsūtatsu) are presented on the

plan to open the store with the relevant regional Bureau of the Ministry of International Trade and Industry (MITI) is regarded as the announcement day of the store opening. All the applications will be received.

(bb) Exceptional measures concerning floor space for import sales:

Regarding floor space for import sales, coordination procedures will be exempted for an increase up to a specific scale (100㎡ or less of the floor space).

(cc) Exemption of coordination procedures for the increase of a certain increase in floor space:

Coordination procedures will be exempted for certain cases such as a floor space increase up to a specific scale (whichever is the smaller, 10% of the existing floor space or $50m^2$).

(dd) Relaxation of the scope of regulation on closing time and the number of business holidays:

Closing time under regulation will be relaxed from "after six o'clock p.m." to "after seven o'clock p.m." The number of business holidays under regulation will be relaxed from "less than four days a month" to "less than 44 days a year".

(ee) Enhancement of transparency in the coordination procedures:

Transparency of the coordination procedures will be improved through such measures as further disclosure of the outcome of the deliberation in the Council for

Coordinating Commercial Activities, quarterly publication of the status of coordination activities and establishment of the office for receipt and processing of the inquiries by the interested parties including those wishing to open stores.

It is confirmed that, as has been the case in the past, the ongoing coordination procedures will not prevent other procedures required by other laws and regulations (such as Building Standards Law and City Planning Law) from being pursued in parallel nor will they prevent those wishing to open stores from advertising for potential tenants. It is also confirmed that in case of acquisition of existing retail outlets through corporate acquisition (including those by foreign firms), the coordination procedures are not required.

(ii) Regarding separate regulation by local public authorities, the central Government, together with the above measures, is making its utmost efforts by, for example, notifying each prefectural Governor to take necessary corrective measures as local public authorities in the light of objectives of the law.

(iii) In order to ensure an appropriate implementation of the law and of separate regulation by local public authorities, the Government of Japan will take necessary follow-up steps including the checking of the status of implementation of the above measures. For this purpose, Headquarters for the Promotion of Smooth Coordination of Store Opening and Headquarters for Regional Promotion were established in the Ministry of International Trade and Industry (MITI) and in its regional Bureaus and Department from May 21 to 30, this year, with the first meeting of the Headquarters for the Promotion of Smooth Coordination of Store Opening taking place on June 1, in an effort to follow up the steady

implementation of the above measures.

(iv) In order to ensure an appropriate implementation of the above measures thus to expedite the processing of the coordination procedures, the fiscal 1990 budget establishes a new division called the Distribution Industries Division in MITI (as of July 1, 1990) and increases by ten the number of officials concerned (as of October 1, 1990). Further efforts will be made to expand and strengthen the institutional set-up.

(v) In order to accelerate changes in the distribution industry and to expand manufactured imports, together with the above measures, steps will be taken to help promote imports by the distribution industry including small and medium distributors. To achieve this objective, the budget, the fiscal loans and investment plan, and the tax reform of FY 1990 have established tax incentive measures to promote manufactured imports, grass-root import expansion activities of small and medium distributors, international comprehensive distribution centers, expansion of import promotion fairs by local retailers, and others. Further efforts will be exerted to expand and reinforce such measures.

(b) Amendment of the law which is to be submitted to the Japanese Diet during the next regular session

The Government of Japan will immediately start preparation for the amendment of the law aiming at submitting the bill during the next regular session of the Japanese Diet, by initiating the deliberation of the relevant council.

(i) Standpoint of the amendment

(aa) Sufficient consideration upon consumer interest.

(bb) Ensuring expedited processing of the coordination procedures.

(cc) Ensuring the enhanced clarity and transparency of the procedures.

(dd) Consideration upon international request to Japan to increase imports.

(ii) Items considered as the elements of the amendment

(aa) Introduction of exceptional measures of coordination procedures concerning the floor space for import sales aiming at more import expansion.

(bb) Shortening of coordination processing period for opening stores. (The objective of efforts is to shorten the period to approximately one year.)

(cc) Enhancing clarity and transparency of coordination procedures for opening stores.

(dd) Restraining local public authorities' separate regulations.

(ee) Others

(c) Review after the above-mentioned amendment of the LSRSL

The LSRSL shall be reviewed further two years after the above-mentioned amendment of the LSRSL. This study will include an analysis of the law's impact on consumers and competition in the retail sector and, based thereon, the need for a basic review of the law and further action. In order to make the first point clear, the above-mentioned amendment shall include a provision stating that the effectiveness of the implementation of the amendment will be examined and that, based on this result,

examination will be made on matters including removal of regulations applied to specific geographical areas.

(2) Regulation concerning premium offers and advertisement

The regulation of premium offers by the Act Against Unjustifiable Premiums and Misleading Representation, including that by Fair Competition Codes, is designed to ensure fair competition in the market place and to protect consumer interests. Obviously, this system is not intended to be an impediment to new entry by foreign or domestic firms, and the Fair Trade Commission (FTC) has enforced and will continue to enforce this system so that it does not impede such new entry.

The FTC, however, is currently reviewing all existing Fair Competition Codes on premium offers so that they will not work as impediments to new entry by foreign or domestic firms, and will give priority to completing this review, and any relaxation as necessary, as early as possible with respect to Codes relevant to foreign trade or investment. As part of such an undertaking, the regulation by the Fair Competition Code on Premium Offers in Chocolate Industries will be relaxed for the second time in July this year. The regulation of eight Codes will also be relaxed as early as possible this year and, among them, newspaper advertisements with coupons are scheduled to be allowed by this summer.

In reviewing the Codes, the FTC will hear the opinions of foreign firms and foreign businessmen.

Guidance on Fair Trade Conferences by the FTC will be tightened lest they should take any action beyond their proper objectives.

(3) Regulation concerning liquor sales and other businesses

(a) The Guidelines for Liquor Sales Licencing were amended, and their implementation has been improved since last September by such measures as the easing of the licensing

criteria for large retail shops and the simplification and clarification of those for average-sized liquor shops. Under these measures, liquor sales licenses were planned to be issued to all the large retail shops (with a floor space of more than 10,000m²) and to about 5,000 average-sized shops by 1994. In accordance with the Interim Report of the SII, the Government of Japan has decided on front-loading licensing to large retail shops, which are expected to sell more imported liquors. The issuance of licenses to all of those shops will be completed by the fall of 1993.

(b) On trucking business, a law was approved by the Diet at the end of last year and the Government of Japan has decided to promote deregulation. The revised law altered the method of entry regulation from the licensing system to a permit system while abolishing the supply-demand adjustment regulation, and changes the permit system for fare regulations to a notification system. (The revised law is due to take effect on December 1 this year.)

(c) With regard to the Pharmaceutical Affairs Law regulation concerning general sales of pharmaceuticals, the Government of Japan took deregulation measures which include the reduction of items sellers should be equipped with for the tests of drugs to about one third of the previous number.

(d) In NTT, discounts for bulk contractors of the "free dial" (toll-free calls) have been introduced this June. Reduced postal rates have been made available for direct mails and catalogues sent out in large numbers for business purposes. These have become possible by the introduction of the advertising mail service in October 1987 and the catalogue parcel service in September 1989.

4. Improvement of trade practices

(1) The FTC received a recommendation on June 21 from the "Advisory Group on Distribution Systems, Business Practices and Competition Policy," consisting of scholars and business experts.

The main contents of the recommendation are as follows.

① The FTC should formulate guidelines concerning the Antimonopoly Act enforcement with regard to marketing policy by manufacturers towards distributors and by distributors towards manufacturers in the field of consumer goods' distribution, taking fully into account merits and demerits of concerned business conduct from the viewpoint of competition policy.

In formulating the guidelines, the following points should be taken into consideration.

a. To alleviate excessive interference into business activities of trading partners, and to promote more active and independent business conduct.

b. Especially to promote price competition among companies.

c. To enhance openness of markets in order that new entrants, whether domestic or foreign companies, can more freely enter the market or perform more active business activities.

The guidelines may include the following types of conduct and other issues.

a. Resale price maintenance.

b. Suggested retail or wholesale prices by manufacturers which come under resale price maintenance.

c. Non price vertical restraints (restraints on dealing

with competitors' products or imported goods, territorial or customer restriction, and restraints on sales methods), interference into distributors' business, rebates or allowances, return of unsold goods, dispatching salespersons to shops, systematizations regarding purchasing of commodities by large scale retailers, coercion into purchase, and coercive collection of contribution, which fall into unfair trade practices.

d. Group boycott formed among competitors or among trading partners which falls into private monopolization or unreasonable restraints of trade when they substantially restrain competition in certain fields of trade or else which fall into unfair trade practices.

e. Application of the Antimonopoly Act regarding unfair trade practices to dealings between parent and subsidiary companies.

② Although sole import agent agreements are an important instrument for new entry of imported goods, it may sometimes cause anti-competitive effects upon domestic distribution. Therefore, the FTC has to review its current guidelines by clarifying its interpretations with regard to manufacturers' import, sales at high price in domestic markets, and undue inhibition of parallel imports, in order to effectively tackle these anti-competitive effects.

Furthermore in case foreign companies or sole import agents are engaged in anti-competitive conduct, the FTC has to apply the Antimonopoly Act strictly.

③ Individual companies, especially big companies, should desirably enhance their legal affairs division and make compliance programs, etc. in order to prevent violations of the Antimonopoly Act.

The FTC, based on these recommendations, will formulate

and publish guidelines by the end of FY 1990 which will clarify, as concretely and clearly as possible, the criteria regarding the enforcement of the Antimonopoly Act so that fair competition with regard to trade practices in the distribution sector will not be hindered. In formulating such guidelines, drafts will be made available in advance to the agencies concerned at home and abroad, so that they may provide comments to the FTC before the guidelines are finalized. The FTC will strictly enforce the Antimonopoly Act according to these guidelines.

The FTC has enhanced its investigation system so that it can intensify information gathering on illegal activities under the Antimonopoly Act and strictly eliminate such activities. The FTC will continue its endeavor to enhance steadily its investigation system.

(2) The Ministry of International Trade and Industry (MITI), after hearing the opinions of foreign business organizations in Japan and having received a recommendation from the Council on June 20, formulated and presented to the industries concerned on June 25, a guideline for improving trade practices aiming at simplification, clarification and increased transparency of trade practices. The MITI is encouraging the industry concerned to take positive steps to improve trade practices. Contact points for processing complaints from foreign businesses will be established in MITI and the industries concerned.

5. Import Promotion

(1) Japanese Government has introduced a new package of comprehensive import expansion measures in order for Japan to become a world leading importing nation. It includes:

(a) creation of tax incentives to promote manufactured goods imports;

(b) considerable increase in budget allocation for import expansion measures such as the establishment of an information network for promotion of imports and the dispatch of experts to western countries and other forms of human exchanges in search of products to be exported to Japan;

(c) strengthening and expansion of the low-interest loan facilities for import promotion;

(d) elimination of tariffs on more than 1,000 products

Having received Parliamentary approval in the Diet, these measures are now being implemented. In addition, agreement has been reached between the MITI and the U.S. Commerce Department for trade expansion. Efforts are thus being made to make the measures more effective in cooperation with those of the export countries.

(2) The Government of Japan will establish, in the Trade Conference (an interagency committee chaired by the Prime Minister), the Import Board (tentative name) consisting of both Japanese government officials and private businesspersons including foreign businesspersons. The board will summarise general requests and opinions of the board members that relate to import expansion and facilitation and will report them to the Trade Conference.

(3) Regarding concrete complaints by foreign firms concerning market openness and import smoothness, including import procedures, the Office of Trade and Investment Ombudsman (OTO) will continue to receive them at all times and promptly process those claims. With such meeting having taken place on May 29 this year, OTO will continue to hold meetings of the members of the OTO Advisory Council as well as the members of the Special Grievances Resolution Meeting with the members of the foreign Chambers of Commerce in Japan, including the members of the American Chamber of Commerce in Japan (ACCJ) at the latter's request, which will

continue to provide opportunities for the latter to express their opinions on the improvement of access to the Japanese market including issues relating to the standards and certification system. Appropriate government agencies concerned will study these opinions with a view to improving the openness of the Japanese market and will report back the results of their consideration. Moreover OTO will improve its management, such as participation of foreigners in the OTO Advisory Council Meeting, as special members.

The Government of Japan will initiate a new review in the area of standards, certification and testing, where it will review existing regulations and practices with regard to standards, certification and testing, including matters connected with industry association standards, to ensure that processes are transparent and that standards and testing are performance based where appropriate. As a first step, this new review will take up standards, certification and testing which are raised by ACCJ, other foreign chambers of commerce and other interested parties through the OTO and other appropriate channels.

Exclusionary Business Practices

I. Basic Recognition

Maintenance and promotion of fair and free competition is an extremely important policy objective, which not only serves the interest of the consumers but also increases new market entry opportunities including those of foreign companies. Based upon such recognition, the Government of Japan will implement wide-ranging measures.

1. Enhancement of the Antimonopoly Act and its enforcement.

2. Greater transparency and fairness in administrative guidance and other government practices.

3. Encouragement of transparent and non-discriminatory procurement procedures by private companies.

4. Facilitation of patent examination disposals including a shorter examination period.

II. Measures to be Taken

1. Enhancement of the Antimonopoly Act and its Enforcement

The Government of Japan or the Fair Trade Commission (FTC) will take the following actions, including legislative action, which are necessary or appropriate in achieving the goals set forth in the Report regarding enhancement of the Antimonopoly Act and its enforcement.

(1) Resorting More to Formal Actions

The Fair Trade Commission (FTC) will strictly exclude, through resorting more to formal actions, activities violating the Antimonopoly Act, by expanding and enhancing the investigatory function of the FTC and increasing its proof-collecting capacity against illegal activities. Especially, the FTC will rigorously deal with such conduct as price cartels, supply restraint cartels, market allocations, bidrigging, and group boycotts, and will take formal actions against them when they are found violating the Antimonopoly Act.

In addition, a system for consultations and complaints from foreign businessmen and foreign firms was established in the FTC on June 8 and a special official (Officer in charge of Consultation from Foreign Firms) was appointed, in order to make it easier for foreign businessmen and foreign firms to have consultations or make complaints concerning the Antimonopoly Act, to report cases of violation of the Act, and in order for the FTC to address such cases as violations of the Antimonopoly Act promptly and adequately.

(2) Ensuring Greater Transparency

In order to ensure transparency, to enhance the deterrent effect and to prevent similar illegal activities from occurring, the contents, including the names of the offenders, the nature of the offense and circumstances surrounding it, of all formal actions such as recommendations and surcharge payment orders will be made public. Warnings will also be made public other than in exceptional cases.

(3) Increase in Budgetary Allocation

In June this year, the Government of Japan increased the number of personnel in the FTC investigation department and created new divisions:

(a) Allocation of 25 new officials (129 → 154), resulting in a 20% increment in staff,

(b) Establishment of one new office for strengthening violation detection (1 → 2 offices),

(c) Establishment of two new divisions for enhancing investigative functions (6 → 8 offices),

(d) Establishment of one new division in the Osaka Local Office for enhancing investigative functions of local offices (1 → 2 offices).

The Government of Japan will continue with its efforts to steadily improve and strengthen the FTC.

(4) Surcharges

In order to enhance enforcement against violations, the Government of Japan plans to submit a bill to revise the Antimonopoly Act to the Diet during the next regular session, to raise the surcharges against cartels so that they effectively deter violations of the Antimonopoly Act. A consultative group consisting of scholars and other experts has been set up under the auspices of the Chief Cabinet Secretary, to consider the concrete contents regarding the raising of surcharges. Moreover, group boycotts will also be regulated as cartels if they substantially restrain competition, and will be subject to surcharges if they influence prices.

(5) Resorting to Criminal Penalties

More criminal penalties will be utilized in the future, by the FTC's accusation of illegal activities violating the Antimonopoly Act to seek criminal penalties for them.

Relevant governmental agencies (the Ministry of Justice, prosecuting authority and the FTC) have initiated coordination in enhancing systems to cope adequately with any case violating the Antimonopoly Act. As a specific measure, a liaison-coordination was set up in April between the Ministry of Justice and the FTC, to examine matters such as accusation procedures. The group is working with a view to reaching a conclusion by the end of this year. There is also a plan to establish a point of contact between the prosecuting authority and the FTC for exchange of opinions and information on concrete problems of each case being considered to be accused.

The FTC will, from now on, actively accuse to seek criminal penalties on the following cases, and this policy was made public on June 20:

(a) Vicious and serious cases which are considered to have wide spread influence on people's livings, out of those violations which substantially restrain competition in certain areas of trade such as price cartels, supply restraint cartels, market allocations, bidrigging, group boycotts and other violations.

(b) Among violation cases involving those businessmen or industries who are repeat offenders or those who do not abide by the elimination measures, those cases for which the administrative measures of the FTC are not considered to fulfill the purpose of the law.

On June 20, 1990, the Minister of Justice, in a publicly released statement, called on all the chief prosecutors, on the occasion of the Annual Meeting of Chief Prosecutors, to provide to the FTC any relevant

information on Antimonopoly Act violations they have obtained during the course of investigation or otherwise. In addition, he directed all the chief prosecutors to make special efforts to vigorously pursue cases where the FTC has accused a criminal violation of the Antimononopoly Act.

(6) The Damage Remedy System

A study on the effective use of the current damage remedy system provided in the Section 25 of the Antimonopoly Act is currently undertaken by a study group set up in the FTC, in order that any individual party suffering damage from violation of the Antimonopoly Act can resort effectively to damage remedy suits. The study group has publicized the results of its deliberations on June 25. The FTC will implement the recommendations of the study group, effective immediately, and will take necessary measures, including the following, so that the current damage remedy system will be able to be effectively utilized:

(a) In order to deter violations of the Antimonopoly Act through proper and swift recovery of damages caused by such violations, the FTC intends to play a more active role in damage remedy suits under Section 25 of the Antimonopoly Act.

(b) In order to alleviate plaintiffs' (injured parties') burden of proof concerning violation and damage, the FTC will take the following measures:

aa. the FTC will describe its findings on the violation as concretely and clearly as possible in its document of decision.

bb. when the FTC submits its opinion pursuant to Section 84 of the Antimonopoly Act, it will describe as much as possible its judgment on the relevance or causal relations between violations and damages, the amount of damages, and the measure used for its calculation. The FTC will also append as far as possible, the materials and the data which are the

bases of its views.

cc. the FTC will, upon request of the court, submit to the court materials and data necessary to prove the existence of violations, or the amount or causation of damages. Plaintiffs (injured parties) will be permitted, according to the civil procedures, to review such materials and data upon receipt by the court.

dd. the FTC will retain originals or copies of materials and data obtained in the course of investigations resulting in formal decisions of violation of the Antimonopoly Act that might be relevant to proof of violation, or the amount or causation of damages, in a private damage action based on such violation.

(c) The FTC will fully publicize the damage suit system under the Section 25 of the Antimonopoly Act.

(d) The FTC will take necessary actions, including measures similar to those listed in paragraph (b) above, to ensure that the private damage remedy can be utilized effectively when the FTC finds that a trade association has violated the Antimonopoly Act.

Moreover, with regard to the question of filing fees of private damage remedy suits based upon the section 25 of the Antimonopoly Act, the Ministry of Justice and the FTC will continue to study the matter as to whether or not there is room for improvement.

(7) Effective Deterrence against Bidrigging

(a) The Government of Japan will continue to make efforts to eliminate bidrigging on government-funded projects. In this regard, procuring agencies will rigorously deal with any bidrigging cases, and will vigorously apply against firms found to have engaged in such bidrigging administrative measures, including suspension from designation, that are

effective in deterring bidrigging activities. Moreover, such procuring agencies will increase their vigilance against bidrigging activities on their procurements, and will on their own judgment report relevant information regarding such activities to the FTC.

(b) The FTC will enforce the Antimonopoly Act strictly against bidrigging in all industries.

(c) The National Coordinating Committee for Implementation of Public Works Contract Procedures (NCC) has revised its model guideline on designation suspension, extending the period of suspension and expanding the district of application of suspension in Antimonopoly Act violation cases. Through this revision, in certain cases, the minimum period of designation suspension has been doubled and it is to be applied on a nationwide level.

Upon the above-mentioned revision, governmental agencies and public corporations have been taking steps to revise their guidelines on designation suspension, and most of them have completed the revision of the guidelines in an expeditious manner since June this year.

(d) In reviewing the fines provided in the Criminal Code, the Ministry of Justice is considering an increase in the maximum fine under the Criminal Code 96-3 concerning bidrigging, and will endeavor to amend the Criminal Code to that effect at the earliest time possible.

2. Government Practices

(1) The Government of Japan has been making strenuous efforts to promote deregulation. On the basis of the recommendations of the Provisional Council for the Promotion of Administrative Reform, a Cabinet decision on Deregulation Policy Proposals was adopted. Based upon these Proposals, improvements in the system and its implementation

will be made as soon as possible, through such means as expeditious considerations in the relevant Councils.

(2) Administrative Guidance

In order to ensure comprehensive and government wide transparency and fairness of administrative guidance, the Government of Japan will ensure that administrative guidance conforms with its intention that administrative guidance does not restrict market access or undermine fair competition. The Government of Japan will implement its administrative guidance in writing as much as possible. It will make the administrative guidance public when it is implemented, unless there are strong reasons not to do so, for example, when it is related to national security or when a publication of the administrative guidance causes, or may cause, such harm as might result from divulgence of trade secrets.

(3) Advisory Committees and Study Groups

The Government of Japan confirms the following principles:

(a) The results of the deliberations of government-sponsored "industry advisory committees and study groups" shall be made public.

(b) Where the subject of discussion is related to consumer interests, the committee or study group shall invite, as members, those who can effectively represent consumer interests.

(c) Where the subject of discussion is relevant to the interests of foreign companies, the committee or study group shall make efforts to hear the opinions of foreigners or representatives of foreign companies who represent the balanced and general interests of foreign companies.

(d) Study groups, in Japanese practice, consist of those who have

outstanding knowledge or experience on the subject of discussion and are able to make valuable contributions to the discussions. Likewise, when study groups address matters relevant to the interests of foreign companies, qualified foreigners will be considered for participation in such study groups.

(e) The substance discussed in the committees and study groups shall not be anti-competitive.

(f) The "visions" developed by the Government shall not be used to enhance the competitiveness of particular companies in the Japanese market.

(g) In the "visions" involving trade matters, the significance of imports shall be emphasized.

(4) With regard to the exemptions from the application of the Antimonopoly Act, they are exceptional dispositions exempting certain special cases from the general rules of the Antimonopoly Act. The exceptional treatment has therefore always been kept to a minimum.

The exemptions from the application of the Antimonopoly Act should be at a minimum, and the necessity of existing exemptions will be reconsidered with a view to promoting competition policy. The scope of exemptions will also be reviewed, even in cases where they will be maintained, beginning with the exemptions, if any, which impede import trade or investment.

No recession cartel based upon the Antimonopoly Act is currently in effect. The FTC will not allow recession cartels to be used to impede imports.

3. Procurement Practices of Private Firms

(1) The Government of Japan confirms its view that procurement by private firms should be left to the decisions of the buyers and the

efforts of the suppliers under free competition at the market place, and that any action in violation of the Antimonopoly Act hindering market competition must be resolutely eliminated.

(2) The Government of Japan believes that, as a matter of course, procurement by private firms should be non-discriminatory against foreign goods.

(3) The Government of Japan, therefore, highly appreciates the "Guidelines of Procurement Policies", announced by the Japan Federation of Economic Organizations (Keidanren) on April 24, as a voluntary effort of the business sector in Japan and supports those guidelines. In addition, the Government of Japan will encourage, from an international viewpoint, private firms to make their procurement procedures transparent and non-discriminatory against foreign goods as soon as possible, and will conduct statistical surveys of those procedures annually for three years following the publication of this report.

4. Effective Patent Examination

Regarding the patent system, consideration on the harmonization of patent systems is under way in multilateral fora such as WIPO and GATT. The Government of Japan, together with the U.S. Government, will actively participate in, and contribute to, the discussions there.

The Government of Japan has vigorously promoted comprehensive policy measures to expedite patent examination disposals, which include the continual increase in the prescribed number of officials of the Patent Office (increase of patent examiners; by 30 persons each in FY 1989 and in FY 1990), commencement of the world's first electronic filing of patent applications (special measures laws including the revision of the Patent Law; approved by the Diet on June 7, 1990, and to start the electronic filing in December, 1990), as well as the contracting with a specialized outside agency for prior art search necessary for patent examination (10,000 cases in the budget of FY 1989 and 20,000 cases in the budget of FY 1990). Through such comprehensive

measures, the situation of the patent examination delay has already started to improve.

The Government of Japan will use its best efforts to reduce the average patent examination period of Japan to 24 months within five years.

For the implementation of the above, the Government of Japan will make continuous and significant annual increases of the prescribed number of patent examiners and other officials of the Patent Office which are to be newly implemented under a special consideration in addition to the on-going comprehensive measures.

Apart from the ordinary examination procedure, the accelerated examination system, which terminates the examination in a short period, has been introduced, and its active utilization is expected.

Keiretsu Relationships

I. Basic Recognition

Certain aspects of economic rationality of Keiretsu relationships notwithstanding, there is a view that certain aspects of Keiretsu relationships also promote preferential group trade, negatively affect foreign direct investment in Japan, and may give rise to anti-competitive business practices. In order to address this concern, the Government of Japan intends to make Keiretsu more open and transparent and to take necessary steps toward that end. The Government of Japan will take measures in its competition policy and enforce the Antimonopoly Act strictly, so that business transactions among companies with the background of Keiretsu relationship would not hinder fair competition and thereby have an exclusionary effect on foreign firms attempting to export, market or invest in Japan.

The Government of Japan will also implement a wide range of policies to facilitate the entry of foreign enterprises into the Japanese market.

II. Measures to be Taken

1. Strengthening the Function of the Fair Trade Commission

(1) The Fair Trade Commission (FTC) will strengthen its monitoring of transactions among Keiretsu firms, including but not limited to, those which have cross shareholding relationships, to determine whether these transactions are being conducted in a way that impedes fair competition. If such monitoring reveals that the effect of the cross shareholding may be a substantial restraint on competition, the FTC will restrict cross shareholding or order transfers of shares held in the cross shareholding to remedy the illegal situation; if the monitoring reveals that cross shareholding is used as a means of effecting an unfair trade practice, the FTC will take appropriate measures, including restriction on cross shareholding or transfers of shares held in the cross shareholding, to remedy the illegal situation. Further, if such monitoring reveals that anti-competitive practices are occurring, the FTC will take appropriate measures to prevent and remedy the anti

-competitive practices. The FTC will include in its annual report any results and such actions as have been taken.

In this connection, on June 21 this year, the "Advisory Group on Distribution Systems, Business Practices and Competition Policy" established by the FTC, consisting of scholars and business experts, issued recommendations with respect to the continuity and the exclusiveness of the transactions among companies in the same Keiretsu group whether or not cross shareholding is involved. Main contents of the recommmendations are as follows:

① Although continuous trade relationships may have been formed due to certain reasonable motives, impediments to competition, such as entry barriers, should be removed. For this purpose, regarding the exclusiveness in transactions among companies where a continuous trade relationship or a shareholding relationship exists, the FTC should establish guidelines setting out the conduct which may be illegal under the Antimonopoly Act. The guidelines should include following types of conduct:

a. Cartels regarding customer restrictions, and market allocation cartels, among competitors.

b. Group boycotts formed among competitors or among trading partners which fall into private monopolization or unreasonable restraint of trade when they substantially restrain competition, or else which fall into unfair trade practices.

c. Unilateral refusals to deal, exclusive dealing, coercing to deal or mutually beneficial reciprocal dealing, and other anti-competitive conduct associated with continuous trade relationships, which fall into unfair trade practices.

d. When shareholding is used as a means of ensuring the effectiveness of conduct listed in a, b, and c above, or when dealing is refused etc, because of the absence of a shareholding relationship, the FTC should clarify its interpretation that such conduct could be

regulated from the viewpoint of unfair trade practices. Furthermore, when it is envisaged that unfair trade practices can not be eliminated effectively without ordering disposition of stocks, the FTC can order such disposition.

② Individual companies, especially big companies, should desirably enhance their legal affairs division and make compliance programs, etc., to prevent violations of the Antimonopoly Act and other exclusionary practices. It is also desirable to improve transparency of presidents' meetings within corporate groups through such means as providing the public with information on their activities.

On the basis of the recommendations, the FTC will set up and publish guidelines by the end of FY 1990, which will clarify, as concretely and clearly as possible, the criteria regarding the enforcement of the Antimonopoly Act with respect to the continuity and the exclusiveness of business practices among companies in the same Keiretsu group, with a view to ensuring that business practices among companies in Keiretsu groups will not hinder fair competition, and thereby contributing to the promotion of fair and more open transactions among them without any discrimination against foreign firms. In formulating such guidelines, drafts will be made available in advance to the agencies concerned at home and abroad, so that they may provide comments to the FTC before the guidelines are finalized. The FTC will strictly enforce the Antimonopoly Act in accordance with the guidelines.

(2) The FTC will conduct regularly, roughly every two years, close analysis of various aspects of Keiretsu groups, including supplier -customer transactions, financing arrangements among group firms, personal ties, and special emphasis on the role of general trading companies in Keiretsu groups. The results of these analyses will be published. The FTC will take steps, including stricter enforcement of the Antimonopoly Act, to address anti-competitive and exclusionary practices uncovered in the FTC analyses. Furthermore, the FTC will survey the transactions among companies in specific industries regarding such issues as the effect of cross shareholding among

companies which have trade relations.

(3) The Chief Cabinet Secretary will issue a statement which affirms that the Government of Japan will implement a wide-range of measures so that Keiretsu relationships will not hinder fair competition and transparent transactions and thereby the entry of foreign firms into the Japanese market will be facilitated as well as calling upon keiretsu firms for their cooperation to that effect.

2. Foreign Direct Investment

(1) The Government of Japan will issue a clear policy statement affirming its strong commitment to an open foreign direct investment policy, encompassing the principle of national treatment. This statement will be issued as soon as possible following release of the SII Final Report.

(2) The Government of Japan will submit, after due legal examination, a bill to amend the Foreign Exchange and Foreign Trade Control Law in the next ordinary Diet session.

The current Foreign Exchange and Foreign Trade Control Law enables the Government of Japan to restrict the foreign direct investment and importation of technology into Japan in any industrial sector on the grounds that the investment and the importation of technology might adversely and seriously affect similar domestic business activities or the smooth performance of the Japanese economy.

The Government of Japan, recognizing that these provisions are neither appropriate nor fit to the present practices of the law and that such broad restrictions are not needed on a general basis, will abolish these provisions of the law and replace them with new provisions to ensure that restrictions will only be applied to those cases which concern national security or related interests as described in Article 3 of the Code (Code of Liberalization of Capital Movements of OECD) and to cases in sectors as reserved under the Code. Recognizing the objectives of the OECD Code, the Government of Japan

continues to review carefully its reservations within the framework of the OECD Code.

In relaxing or abolishing the provisions relating to the present prior notification requirements for foreign direct investment and importation of technology into Japan, the Government of Japan will positively examine the possibility of replacing prior notification requirements with ex post facto notification procedures for cases clearly excluding those which concern national security or related interests as described in Article 3 of the Code and those in sectors as reserved under the Code.

(3) The low-interest loan facility offered exclusively to foreign companies and Japanese affiliates of foreign companies by the Japan Development Bank (JDB) and the Okinawa Development Finance Corporation was drastically expanded in June. In addition, a corresponding facility was also established in the Hokkaido-Tohoku Development Finance Corporation in June. Furthermore, advisory offices for the promotion of foreign direct investment in Japan are to be set up in the overseas representative offices of the JDB in order to support foreign companies investing in Japan in cooperation with Embassies, Consulates -General and JETRO offices. Appropriate offices of JETRO or these advisory offices in cooperation with Embassies and Consulates-General provide information useful in arrranging beneficial ventures between foreign firms and Japanese companies and arrange seminars and missions for potential investors (JETRO offices only).

3. Revision of the Take-Over Bid System

Regarding the Take-Over Bid (TOB) system, the Goverment of Japan submitted to the Diet a bill calling for abolition of the prior notification requirement for TOB's, prolongation of the take-over period and so forth. The bill was approved on June 15.

4. Enhancement of the Disclosure Requirements

(1) In order to introduce the so-called 5 percent rule, which requires the disclosure of substantial ownership in shares, the Government of Japan submitted to the Diet a bill. Together with the revision of the TOB system, the bill was approved on June 15. The new rule would also require continuing reporting as investors above the five percent threshold acquire or dispose of blocks of shares in an amount equal to one percent or more.

(2) With respect to the disclosure requirements related to the Keiretsu problem, the Government of Japan will enhance them as follows:

① With respect to reporting of related-party transactions, the Government of Japan will expand the scope of related-party disclosure requirements to such as specified by the standard of FASB statement No. 57 in the United States, so that they will include a company's transactions with its affiliated companies, major shareholders (holding 10 percent of the shares or more) and any other significant related -parties, in addition to transactions with its parent company and with the directors of the company concerned.

Such reporting will include the nature of the relationships, description of the transactions, and their amounts.

② With respect to the consolidated financial statement required by the Securities and Exchange Law, the Government of Japan will amend the rule so that the consolidated financial statement will be disclosed in the primary annual statement instead of being provided as its attachment.

③ The Government of Japan has implemented the rule for segmented financial reporting on a consolidated basis from the business year beginning on or after April 1, 1990, under which sales amounts and operational profits and losses by industry as well as sales amounts in home country and abroad will be disclosed.

④ The Government of Japan will further improve disclosure requirements on unconsolidated financial report as well to include sales amounts to each major customer, defined as those accounting for over 10 percent of total revenue, in addition to the current requirements for disclosure including amounts receivable and amounts payable by major parties.

Regarding ①, ② and ④ above, the Government of Japan will implement the enhanced rules from the business year beginning on or after April 1, 1991.

The Government of Japan expects that these enhanced disclosure requirements will promote transparancy of relations among firms.

5. Reexamination of the Company Law

The Committee on Legislation will reexamine the Company Law with a view to enhancing disclosure requirements and shareholders' rights, and to simplifying mergers and acquisitions procedures.

Pricing Mechanisms

I. Basic Recognition

Based upon the recognition that it is undesirable, in realizing a high quality of life, for large and unreasonable price differentials between domestic and overseas markets to continue to exist for a long time, the Government of Japan will implement the following policies to adjust the differentials:

1. Obtaining information on price differentials and providing it to consumers and industries;

2. Deregulation and strict enforcement of the Antimonopoly Act;

3. Promotion of imports and improving productivity;

4. Formation of more appropriate land prices;

5. Setting of public utility prices at more appropriate levels.

II. Measures to be Taken

1. Implementation of Measures to Adjust Price Differentials between Domestic and Overseas Markets

The Government and the Liberal Democratic Party (LDP) established on December 4 last year the Government-LDP Joint Headquarters for Adjustment of Price Differentials between Domestic and Overseas Markets to promote comprehensive policy measures for the adjustment of the price differentials from a consumer-oriented standpoint. The membership consists of the Prime Minister as Chairman, with the Minister of State of Economic Planning Agency, the Minister of International Trade and Industry, the Chief Cabinet Secretary and the Chairman of Policy Affairs Research Council of the LDP as Vice Chairmen, and other Cabinet Ministers and LDP leaders concerned. The Headquarters decided on 52 items as concrete measures to be taken for

the adjustment of price differentials between domestic and overseas markets in its second meeting held on January 19 this year.

These concrete measures can be grouped into the following six pillars:

(1) The government agencies concerned will endeavor to obtain information on price differentials through such means as surveys of price differentials of goods and services between domestic and overseas markets, and, where needed, to take necessary measures such as providing the industries concerned with the information on price differentials in order to adjust and narrow the gap.

(2) The government agencies concerned will endeavor to improve the competitive condition in the distribution system by such means as deregulation and strict enforcement of the Antimonopoly Act.

(3) The government agencies concerned will endeavor to further promote import and/or improve productivity of the relevant industries for the purpose of contributing to the adjustment and narrowing of the price differentials between domestic and overseas markets.

(4) Efforts will be made to set prices for public utilities at more appropriate levels by further improving productivity of the industries concerned and by examining from an international perspective their cost compositions and other elements of price formation.

(5) Based upon the deliberations of the Ministerial Conference for Land Policies, efforts will be made to rationalize land prices, especially in metropolitan areas, through close coordination among the government agencies concerned.

(6) The government agencies concerned will promote other policy measures which will contribute to the adjustment of price differentials, such as further deregulation, strict enforcement of the Antimonopoly Act and the dissemination of relevant information to

the consumers.

The government agencies concerned will steadily implement the 52 measures included in the above six pillars. In July 1990, the Headquarters will review the implementation of the 52 measures to date and make public the results of such follow-up at that time, including, where needed, a clearer schedule for further implementation. The Government of Japan will be prepared to explain implementation measures in the SII follow-up process.

The government agencies concerned will thereafter publish the state of implementation each time any measure is implemented.

2. Continuous Implementation of Domestic and Overseas Price Survey and the Dissemination of Information to Consumers and Industries

(1) Pursuant to the decision of the Joint Government-LDP Headquarters, the Ministries of International Trade and Industry, Health and Welfare, Agriculture, Forestry and Fisheries, Finance and Transport, which participated in the joint U.S.-Japan price survey conducted by MITI and the Department of Commerce, as well as the Japan Fair Trade Commission, have also conducted independent surveys under their jurisdiction.

MITI held meetings with consumers and industrial representatives in eight major cities to explain, as well as exchange views on the problem of price differentials. MITI also gave publicity to the problem through advertisements on newspapers and in pamphelets.

(2) Methodology for price survey

The government agencies concerned will continue to endeavor to grasp the present conditions of domestic and overseas price differentials to provide detailed information to consumers and industries.

The surveys will be done mainly from the standpoint of consumers' interest. Methodology, product focus, identification of price

differentials and analysis of the surveys will be undertaken transparently.

For the purpose of SII follow-up by the Government of Japan and U.S. Government, these issues will be addressed and discussed in a deliberative manner.

Such surveys will not be mandatory, nor will they compel the disclosure of trade secrets. The dissemination of comparative price information will not be done in a manner whch discriminates against imports or interferes with individual firm pricing decisions.

3. Promotion of Deregulation

The Second Council for the Promotion of Administrative Reform made an extensive study on deregulation, and the Government of Japan has been engaged in the promotion of deregulation based upon the recommendations of the Council.

Specifically, the Cabinet decided, in December 1988, on the General Plan for the Promotion of Deregulation to promote the reform of public regulations, basing its decision on the recommendations made by the Second Council. In addition, the Government of Japan decided to continue active promotion of deregulation in its Administrative Reform Plan of 1990 (Cabinet Decision, December, 1989), and the agencies concerned have been making the utmost efforts in accordance with this decision.

As the Second Council was dissolved on April 19 this year, the Government of Japan, after considering the most effective scheme thereafter for the continued promotion of administrative reform, including deregulation, decided to establish the Third Council in the Office of the Prime Minister. The bill for that purpose passed the Diet, on June 26. The Third Council will focus on the implementation of the recommendations of the Second Council and is expected to identify new areas for deregulation.

4. Further Steps Based on the Final Report of the SII

In addition to the measures listed above, the Government of Japan will take concrete steps with respect to the structural problems identified in this final report.

Some of them are described below, and it is expected that those steps will allow price mechanisms to work more effectively in the Japanese market.

These measures will be implemented in conjunction with the six policy pillars and 52 measures decided in December 1989 and January 1990 by the Government-LDP Joint Headquarters.

(1) Deregulation of the distribution system, including the Large-Scale Retail Store Law, liquor sales, trucking and other businesses

The government agencies concerned will endeavor to improve conditions for free and fair competition in the distribution system through various measures. These will include the immediate relaxation of implementation and subsequent amendment of the Large-Scale Retail Store Law and the Government of Japan encouragement to private firms to make their procurement transparent and non-discriminatory.

The Government of Japan has established the goal of 24 hour import clearance system (from presentation of import declaration to import permit) for normal cargo imports. This can have a positive long-term effect on the cost of imports entering the Japanese market.

(2) Promotion of fair and free competition in the market through the enhancement of the Antimonopoly Act and its enforcement

In order to enhance enforcement against violations, the Government of Japan plans to submit a bill to revise the Antimonopoly Act to the Diet during the next regular session, to raise the surcharges against cartels so that they effectively deter violations of the Antimonopoly Act.

More criminal penalties will be utilized in the future, by the FTC's accusation of illegal activities violating the Antimonopoly Act to seek criminal penalties for them.

Appropriate measures will be taken so that the current damage remedy system will be effectively utilized.

The FTC will not allow recession cartels to be used to impede imports.

(3) Increase of Japanese overhead capital

The Government of Japan notes that these efforts will include the substantial increase in social overhead capital, including that which relates to the entry and distribution of imported products in Japan.

Building on the principle "to boost domestic investment, improve social overhead capital and to reduce the shortage of investment relative to savings and to the size of the Japanese economy," the newly launched "Basic Plan for the Public Investment" which serves as guiding principles for steady accumulation of the social overhead capital toward the twenty-first century, includes the aggregate investment expenditure of about 430 trillion yen for the decade.

Through the firm implementation of the plan, the levels of social overhead capital accumulation of Japan would be broadly comparable to those of other major industrial countries at the beginning of the twenty-first century.

(4) Efforts to rationalize land prices

The Government of Japan will implement a wide range of measures with respect to the land problem. These include measures which encourage increased supply of available land for buildings with necessary facilities such as public and commercial facilities, including the establishment of a new system for identifying and

promoting the utilization of idle land, such as unused plant sites, by the end of 1990. Local authorities will be encouraged to utilize the new system. The Government of Japan will set a goal of converting idle and underutilized state-owned land to productive uses by the end of FY 1991.

The Government of Japan will also review the land taxation system, as well as the Land Lease Law and the House Lease Law in order to improve the legal relationship between lessors and lessees.

(Note) Full and precise contents of the measures above are described in the related part of this final report.

5. Submission of the Results of Price Surveys and Joint Activities

Recognizing that changes in relative prices can be significantly related to structural matters, the Government of Japan and U.S. Government will cooperate on SII follow-up action to track price differentials in the two markets.

(1) The Government of Japan will submit the results of price surveys relevant to the SII follow-up process and discuss them with regard to SII issues.

(2) The Government of Japan will conduct joint price surveys with the U.S. Government, as agreed. These surveys will be discussed in the senior level SII follow-up process, and utilize methodology and procedures as described in Section 2.(2).

Structural Impediments in the U.S. Economy

The Government of Japan has identified several conditions in the U.S. economy which may impede balance of payments adjustment and long-term competitiveness and has offered helpful suggestions to remedy these conditions. Below is a review of U.S. initiatives that address the issues raised by the Government of Japan.

I. Saving and Investment Patterns

An important goal of U.S. economic policy is to continue to reduce the U.S. current account deficit. Raising U.S. saving rates -- by reducing the Federal budget deficit and increasing private saving -- would make an important contribution toward the reduction of the Nation's current account imbalance. Increasing the pool of savings would also contribute to lower interest rates, thereby facilitating investment, productivity and economic growth in the U.S. and in other countries. The Administration is taking action to promote saving by both the public and private sectors.

Public Sector: Deficit Reduction and Government Saving

The top budget priorities are to eliminate the Federal budget deficit, in accordance with the Gramm-Rudman-Hollings (G-R-H) budget law, and to reform the budgeting process. The Administration supports improving the G-R-H budget law, which requires a balanced budget by FY 1993, by extending and strengthening the law so that it applies beyond FY 1993 and incorporates an automatic second sequester. Once a balanced budget is achieved, projected surpluses will be used to reduce the Federal government's outstanding debt.

Since the publication of the SII "Interim Report and Assessment", President Bush has reaffirmed his commitment to achieving these aims by initiating negotiations with Congressional leaders to develop a responsible and lasting solution to Federal budgetary imbalances.

On June 26, 1990, the President issued the following statement reviewing the status of these negotiations: "It is clear to me that both the size of the deficit problem and the need for a package that can be enacted require all of the following: entitlement and mandatory program reform; tax revenue increases; growth incentives; discretionary spending reductions; orderly reductions in defense expenditures; and budget process reform -- to assure that any Bipartisan agreement is enforceable and that the deficit problem is brought under responsible control. The Bipartisan leadership agree with me on these points".

Federal Budget Deficit

- o Substantial progress has been made on reducing the Federal budget deficit. It has been cut from 6.3% of GNP in FY 1983 to 2.9% in FY 1989.

- o In FY 1990, following the procedures in the Gramm-Rudman-Hollings (G-R-H) budget law, the President ordered a sequester. He demonstrated his fiscal resolve by announcing his willingness to operate with the sequester for the entire fiscal year if necessary, and by not canceling the budget savings achieved through the sequester. This reversed past practice and set a strong precedent for future fiscal discipline.

The Budget Negotiations

- o The purpose of the Budget Summit is to produce a Federal budget that will:

  - -- reduce the deficit substantially on a multi-year basis;

  - -- allow the economy to continue to grow;

  - -- strengthen the budget process; and

  - -- avoid the adverse economic and programmatic effects of a budget stalemate.

- o When initiating the budget negotiations with the Congressional leadership, the President stressed that the discussion should proceed without preconditions on what should or should not be discussed.

- o The budget negotiations are continuing. Many of the policy initiatives described in the "Interim Report and Assessment", including suggestions by the Government of Japan, have been discussed already in the Budget Summit.

  - -- These issues include spending and revenue measures needed to reach a balanced budget, various budget process reforms, and the budgetary treatment of social security.

- o Future sessions of the Budget Summit will undoubtedly continue discussions of these items and will include discussions of the other policy initiatives described in the "Interim Report and Assessment" as well.

The Budget Process

During the past year, weaknesses in the current budgeting process have been recognized. The Administration has supported the following reforms and shall make best efforts for them to be implemented:

- A stronger Gramm-Rudman-Hollings (G-R-H) budget law, including:
  - an automatic second sequester during the fiscal year. This would close the principal loophole in the G-R-H, which is that spending increases and revenue reductions enacted after October 15 do not count against the deficit target and do not trigger a sequester. Any deficit effect of new policy actions would be added to the calculation.
  - the use of updated economic and technical assumptions for the purpose of assessing whether the G-R-H targets have been exceeded and setting second sequester levels.
  - a requirement for a super-majority vote to cancel a sequester. This would create a strong incentive to make the necessary reductions to avoid a sequester in the first instance. Should a sequester occur, this requirement would make it more difficult for Congress to restore the expenditures and reduce the savings achieved by the spending reductions.
  - automatic off-set rules. Equal off-sets to both budget authority and outlays would be required for supplemental appropriations.
  - extending G-R-H beyond FY 1993, to require a balanced budget for each fiscal year thereafter.
- Legislative line-item veto. On April 25, 1990, the President reiterated his support for the Legislative Line-Item Veto Act of 1989 (S. 1553), so-called "enhanced rescission authority", which would enable the President to rescind spending programs of lower priority. This legislation would provide the President with a realistic option to disapprove special interest items, while preserving the right of Congress to overturn the President's veto by a vote on each.

- Joint budget resolution. The annual budget resolution would be converted from a concurrent resolution, which does not need the President's approval, to a joint resolution, which does. This would ensure that budget negotiations, similar to those leading to the Bipartisan Budget Agreements of recent years, would occur early in the process. The result would be less conflict later over individual appropriations bills, revenue measures, and spending measures included in reconciliation bills.

- Biennial budgeting. The budget process would cover two years. Biennial budgeting would free time for both Congress and the Administration to pursue improved program management.

- Supplemental appropriations restraints. Formal procedures would ensure restraint in the use of supplemental appropriations. These appropriations have the potential to undermine any discipline exercised during the regular appropriations process. The needed rule would either limit supplemental increases to amounts provided in a separate contingency allowance (that would be reserved for funding emergencies outside of regular appropriations bills), or would require that equal off-sets to both budget authority and outlays be provided for in the legislation (as proposed for the G-R-H budget law).

  - The off-set would apply automatically; that is, if a full off-set is not provided for explicitly, then a uniform, across-the-board reduction would be applied to discretionary accounts in the same appropriations act.

- Credit reform. The Administration has proposed a change in the treatment of credit programs that would result in measuring credit activity on an expenditure basis equivalent to other Federal spending.

  - Support for the basic principle of credit reform appears to be widespread in the House and Senate Budget Committees, the Congressional Budget Office and the General Accounting Office.

- o Balanced budget amendment. While the G-R-H balanced budget law has brought some additional discipline to the process, it has not been enough. For this reason, the President, on April 25, 1990, called for a constitutional requirement to balance the budget in order to counter forces demanding higher spending for particular purposes.

  -- The President endorsed Senate Joint Resolution 12, a balanced budget amendment introduced by Senator Thurmond, but he urged that it be changed so that the mandate for a balanced budget be effective beginning with FY 1993, the year that the G-R-H law requires elimination of the deficit.

  -- The proposed amendment would require that outlays not exceed receipts, thus allowing the budget to be balanced or to run a surplus.

- o Constitutional line-item veto authority. On April 25, 1990, the President transmitted to the Congress a proposed constitutional amendment to create a line-item veto applicable to bills containing spending authority. The line-item veto is a tool the President, as the Nation's representative of the general interest, would use to curb the demands for special interest spending.

  -- Under the current system, the President faces the choice of vetoing an entire bill, which is usually not a practical choice, or proposing a rescission, which Congress can, and usually does, ignore.

Social Security Surpluses

The President's FY 1991 budget proposed a Social Security Integrity and Debt Reduction Fund (SSIDRF) to ensure that anticipated surpluses in the social security program are not spent for other purposes. Instead, they would be applied to reduce the Federal government's publicly held debt. By retiring government debt and, in effect, balancing the non-social security budget, anticipated surpluses would be injected into the Nation's capital markets. Thus, the Federal government would become a net saver -- a source of funds for enhanced growth.

- o The proposed SSIDRF would have the following key elements:
  - -- The social security trust funds would be treated as they are now, with their reserve balances building up.
  - -- Beginning in FY 1993, the SSIDRF would receive each year, as outlays, an amount equivalent to an increasing portion of the projected social security operating surplus (reaching 100 percent in 1996). The fund would be obliged to use these outlays to reduce Federal debt.
  - -- In the near term, savings allocated to the SSIDRF would rise quickly, from an estimated 0.3% of GNP in 1993 to an estimated 1.5% of GNP in 1995.
  - -- The G-R-H law would be extended beyond FY 1993 and would require a balanced budget thereafter, including the payment to the new fund.
  - -- The required payment to the fund would be counted as an outlay and the budget would have to be balanced including this outlay.
- o Apart from increasing national savings, the merits of this approach include:
  - -- The social security trust fund reserves would be protected and would continue to build up for the payment of future retirees.
  - -- The budget would be balanced without, in effect, relying on the social security reserves, and some of the national debt would be retired.
  - -- There would be no unified budget "surplus" available to create a temptation for additional spending.
- o There are other ways to achieve these goals, and the Administration is

working with the Congress to find a mutually acceptable reform in the budgetary treatment of social security. As noted above, some discussions of these issues have already taken place in the Budget Summit.

Revenue Developments

- o Federal revenues have grown steadily during the current, 8-year economic expansion. In each year since the expansion began, Federal revenues have exceeded the average of 18% of GNP experienced during the 1950-1979 period. Revenues are projected to increase further in FY 1991, remaining at historically high levels as a proportion of GNP.

- o The projected increase in revenues in FY 1991 comes largely from a projected increase in incomes, but additional steps are being proposed which would affect revenues. For example, the President's budget for FY 1991 proposed:

  -- Extending social security retirement coverage to those state and local employees not currently participating in public employee retirement programs. This measure would provide coverage for approximately 4 million state and local employees. This extension of coverage is expected to yield revenues of $2.1 billion in FY 1991, and more in future years.

  -- Providing coverage for all state and local government employees under the Medicare Hospital Insurance program. This proposed extension, to take effect on October 1, 1990, would yield an anticipated $1.7 billion in FY 1991.

  -- Reducing the rates on capital gains will increase Federal revenues (see Lower Capital Gains Tax Rates, below).

- Raising a variety of user fees. For example, the air passenger tax would be increased to 10%, the air freight tax to 6.25%, the non-commercial aviation gasoline tax to 15 cents per gallon, and the non-commercial jet fuel tax to 17.5 cents per gallon. These proposals would raise $500 million for the Airport and Airway Trust Fund in FY 1991, and more in future years. The ad valorem fee on shippers would be increased, yielding an estimated $300 million in FY 1991 and $1.7 billion from FY 1991-5. Taken together, proposed user fee increases would raise $1 billion in FY 1991 and $7.8 billion from FY 1991-5.

- Making permanent the 3% communications excise tax. If enacted, this extension would yield an estimated $1.6 billion in FY 1991, and more in future years.

o In addition to these revenue measures, the IRS has identified several management reforms and opportunities for increased enforcement that are expected to yield more revenue. Some of these are listed below.

  - Resources will be reallocated to accelerate the examination process for tax shelter cases, making it possible to close such cases more quickly. Significant cases will be prioritized and given expeditious handling. It is estimated that this reallocation of resources will yield an additional $349 million in FY 1991.

  - Settlement authority for appeals will be delegated to the examiners of the Coordinated Examination Program on the basis of historical appeals settlement precedents. The result will be an acceleration of the receipt of taxes, penalties, and interest. The effect on FY 1991 revenues is estimated to be $547 million.

  - Resources will be shifted to conduct actuarial examinations of small retirement plans, increasing the number of examinations in this area from the previously planned 700 to 18,000. The revenue effect begins in FY 1990, with additional collections of $64 million. An additional $602 million is anticipated for FY 1991.

  - Resources will be reallocated from examinations staff to appeals staff in order to help close targeted large cases in the appeals process. The IRS plans to target between 30 and 50 cases in FY 1991, yielding collections of approximately $1 billion in that year.

Financial Safety and Soundness

The failure of many Federally insured savings and loan institutions, and the level of Federal funding required to resolve the thrift problem, have renewed attention on other areas in which the Government may be exposed to financial risks. The Administration and the Congress are taking actions that will reduce the likelihood of a similar occurrence in the future.

- o President Bush, in his FY 1991 Budget, gave recognition to the underwriting risks associated with Federal credit programs. He suggested that "structural reforms and better incentives for evaluating risk can preserve the benefits of Federal credit programs while avoiding excessive Federal risk".

- o The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) has remedied conditions which contributed to the savings and loan problem. Among other things, the Act:

  - -- increased capital standards;

  - -- separated regulatory and insurance functions; and

  - -- strengthened enforcement.

- o In May 1990, the Treasury Department submitted to Congress a major study of the financial safety and soundness of the Government-sponsored enterprises (GSEs), and the risks associated with each. A second study of this subject will be submitted by May 15, 1991. Treasury's proposals would reduce risk to the taxpayer while ensuring the long-term solvency of GSEs by:

  - -- ensuring that each GSE has a significant amount of its own capital at risk;

  - -- requiring each GSE to obtain a triple-A rating, absent any implicit Government guarantee, from at least two of the nationally recognized credit rating agencies;

  - -- separating the regulation of GSE programs from the regulation of standards of financial safety and soundness;

  - -- requiring disclosure of the value of the Government's financial support.

- The Treasury Department is currently engaged in a study which investigates and discusses how the exposure of the Federal government, as the underwriter of Federal deposit insurance, can be reduced. The Federal deposit insurance study will be submitted by February 9, 1991 and possibly earlier.

Private Sector: Incentives to Save and Invest

Though still below historical levels, the personal saving rate in the U.S. seems to be improving. It reached 5.4% in 1989, up from a trough of 3.2% in 1987, and it now appears to be moving higher. The Administration's Working Group on Savings and the Cost of Capital considered numerous options to stimulate personal savings. As a result of this review and analysis, the Administration has proposed to Congress several initiatives, grouped together as the Savings and Economic Growth Act (SEGA), which are designed to stimulate private saving and investment further.

- The Savings and Economic Growth Act of 1990 (S. 2071) was introduced by Senator Packwood on February 6, 1990, and has been referred to the Senate Finance Committee for consideration. The House version of SEGA, introduced the following day by Representative Archer, has been referred to the Ways and Means Committee.

- The proposals comprising SEGA (outlined below) are being discussed in the Budget Summit now underway, and the Administration shall make best efforts to realize them.

New Family Savings Accounts

- The Administration has proposed the introduction of Family Savings Accounts (FSAs). FSAs would stimulate private saving by allowing tax-free earnings on contributions to these accounts.

  - Individuals would be able to make non-deductible contributions of up to $2500 per year and couples up to $5000 per year, provided the taxpayer's adjusted gross income is less than $60,000 per year (less than $100,000 for heads of households, and less than $120,000 for married couples filing joint returns).

  - Contributions to FSAs would be allowed in addition to contributions to qualified pension plans, IRAs, 401(k) plans, and other tax-favored forms of saving.

- Earnings on contributions retained in the FSA for at least seven years would be eligible for full tax exemption upon withdrawal. Withdrawals of earnings allocable to contributions retained in the FSA for less than three years would be subject to both a 10% excise tax penalty and to income tax. Withdrawals of earnings allocable to contributions retained in the FSA for three to seven years would be subject only to income tax.

Enhanced Individual Retirement Accounts

- The Administration has proposed improving existing Individual Retirement Accounts (IRAs) by making them more attractive to savers.

  - Withdrawals of up to $10,000 per taxpayer would be allowed for eligible home purchases.

  - The 10 percent excise tax on early withdrawals would be waived for eligible taxpayers.

  - Eligibility for penalty-free withdrawals would be limited to individuals who did not own a home in the last three years and are purchasing or constructing a principal residence that costs no more than 110% of the median home price in the area where the residence is located.

Lower Capital Gains Tax Rates

- The Administration has proposed lowering the effective tax rates on capital gains. The proposal would induce more saving and investment by raising after-tax rates of return, especially for long-term investment.

  - When fully effective in 1992, the exclusion on capital gains would be 30% for assets held 3 years or more, 20% for assets held at least 2 years (but less than 3 years), and 10% for assets held at least one year (but less than 2 years).

  - The holding period requirements are phased in. For dispositions of assets in 1990, the 30 percent exclusion applies to all assets held at least 1 year. For dispositions in 1991, assets held 2 years receive the 30 percent exclusion, and assets held 1 year receive a 20 percent exclusion.

- The proposal would apply to all individual capital assets except collectibles (e.g., works of art, antiques, gems, etc.).

- Depreciation deductions would be recaptured in full as ordinary income.

- Excluded capital gains are included in the alternative minimum tax.

- As a result of these exclusions, the effective tax rates applicable to capital gains on qualified assets by a taxpayer in the 28 percent tax bracket would be, respectively, 19.6 percent, 22.4 percent, and 25.2 percent.

Other Incentives to Save and Invest

The Administration continues to support strongly the measures to promote saving that have been proposed in the President's FY 1991 budget (and described above). These new initiatives will usefully supplement the substantial tax inducements now being offered to millions of American savers.

- o The President's FY 1991 budget projects that the tax exclusion on contributions to and earnings in pension plans will be worth $54.8 billion in that fiscal year.

- o The President's FY 1991 budget retains the exclusion from Federal tax of all accrued capital gains on assets held at the time of death. This inducement to private saving is estimated to be worth $14.5 billion in FY 1991.

- o The Secretary of the Treasury has testified against the double taxation of dividends. The Department of the Treasury is currently studying this issue. This study should be completed in the autumn of 1990. No legislation is expected in 1990.

II. Corporation Investment Activities and Supply Capacity: Improvement of U.S. Competitiveness

Investment in U.S.-based production capacity would enhance the competitiveness of exports from the United States. Changes in certain U.S. laws and regulations, as well as the continued openness of the United States to foreign investment, will facilitate productive investment in the United States.

Antitrust Reform

- The Administration has forwarded legislation to Congress, introduced in the Senate as S. 2692, which would reduce uncertainty about the treatment of joint production ventures under the antitrust laws. The bill would promote joint production ventures that enhance competition, while retaining appropriate safeguards for consumers.

- The Administration will actively encourage speedy enactment of this legislation.

- When an antitrust lawsuit is filed against a joint production venture, the bill would require the courts to take into account the competitive benefits of the venture as well as its costs.

- For joint production ventures that are notified to the government, the legislation would limit antitrust liability to actual damages rather than the current treble damage liability.

- Under the Administration's proposed legislation, joint production ventures would receive the benefits of the law, regardless of the nationality of the owners or the location of the facilities. In connection with joint venture legislation, the Administration opposes provisions that would afford less favorable treatment under the antitrust laws to firms with foreign ownership or to firms with joint venture facilities located outside the United States.

- Upon enactment of this legislation, all stages of joint production -- from the beginning stage of joint R&D activities to the final stage of joint production -- would be covered by the 1984 National Cooperative Research Act, as amended. United States Government guidelines, either those in effect or those to be issued within a reasonable period of time after such enactment, will clarify the treatment of joint research and production activities under the antitrust laws.

Product Liability Reform

- o Product liability reform is a top priority of the Bush Administration.

- o The Administration strongly endorses the Product Liability Coordinating Committee (PLCC) Bill (S. 1400) that would reform product liability laws.

- o The PLCC Bill was voted out of the Senate Commerce Committee in May 1990 and was referred jointly to the Senate Judiciary and Senate Labor Committees. It is possible that the legislation could be voted on as early as mid-September.

- o The PLCC Bill would contribute to uniformity in all 50 states and limit damage awards.

  - -- It is designed to restore basic principles of fairness: adequate compensation for accident victims; fault-based liability; and dispute resolution.

  - -- The result would be to cut down on excessive litigation and the cost of doing business in the U.S.. It would also lessen disincentives to develop new products and other innovations.

- o Features of the PLCC Bill are:

  - -- The elimination of joint and several liability for non-economic damages (pain and suffering), but not for economic damages (medical expenses, lost wages).

  - -- An expedited claims settlement procedure, which would benefit both parties to an action.

  - -- Uniform rules that establish the liability of product sellers.

  - -- The improvement of the law governing punitive damage awards. The bill provides a uniform standard that punitive damages may be awarded only if there is "clear and convincing" evidence that the actions of the defendant show a "conscious, flagrant indifference to safety".

  - -- A two year statute of limitations from the time a claimant discovers both his harm and its cause.

- A 25 year-statute of repose for capital goods. A statute of repose presumes that after a product has been in the marketplace for a certain length of time without causing harm the manufacturer should not be sued for an alleged defect in the product. A small proportion of the states now have such statutes.

- A prohibition on double recovery. Damages would be reduced by the amount of worker's compensation benefits available to an injured person.

Policy Toward Foreign Direct Investment

- United States policy toward foreign direct investment has long recognized that a free flow of investment capital across borders benefits both host and investor countries. The United States generally provides non-discriminatory treatment of foreign investors under U.S. laws and regulations. It is in the interests of U.S. consumers, workers and investors to maintain this open and non-discriminatory policy.

- In his Economic Report transmitted to the Congress in February 1990, President Bush wrote:

  > To serve the interests of all Americans, we must open markets here and abroad, not close them. I will strongly resist any attempts to hinder the free international flows of investment capital, which have benefitted workers and consumers here and abroad.

- The Administration will issue a detailed policy statement reaffirming its strong commitment to an open and non-discriminatory direct investment policy. This statement will be issued as soon as possible following release of the SII Joint Report.

- For over 200 years, the United States has welcomed foreign investment and, at the same time, protected vital national security concerns. The U.S. restricts foreign investment only to protect the national security. It has reserved certain sectors under the OECD Code on Liberalization of Capital Movements. The Exon-Florio provision of the Omnibus Trade Act of 1988, which authorizes the President to prohibit foreign acquisitions that threaten to impair the national security, is consistent with this long standing policy.

- o The President delegated his authority to review foreign acquisitions that might impair the national security to the Committee on Foreign Investment in the United States (CFIUS). As of June 13, 1990, CFIUS had reviewed over 375 transactions, formally investigated ten, and referred six to the President for a decision. In only one case has the President prohibited a transaction pursuant to Exon-Florio.

  - The Administration is in the process of preparing the final regulations for the implementation of Exon-Florio. These will be released soon.

- o In line with the Administration's open investment policy and the provisions of the law, the Exon-Florio authority will be used only when no other measures are adequate or appropriate to protect the national security. On May 29, 1990, the Secretary of the Treasury reaffirmed that Exon-Florio "has not been and will not be used as a barrier to direct investment in the United States".

- o The Administration has strongly opposed the Bryant Bill (H.R. 5), which would require registration and disclosure of foreign direct investment in the United States. The Congress is no longer actively considering this bill. The Administration also opposes other legislation containing foreign registration and disclosure requirements similar to those in H.R. 5.

Tax Treatment of Foreign Investors

- o The U.S. and Japan have entered into a tax treaty that provides for non-discriminatory treatment of business enterprises of the two countries.

- o The Administration will seek to ensure that Japanese investors will be given a non-discriminatory treatment under the U. S. - Japan Tax Treaty.

- o The Treasury Department has made clear to Congress its opposition to pending legislation which would tax certain foreign shareholders on capital gains from the sale of stock in U.S. corporations.

Other Measures to Build Supply Capacity

- In order to reduce U.S. reliance on oil imports, the President's FY 1991 budget includes proposals for tax credits to encourage the discovery of new oil and gas fields and the reclamation of old ones.

- Capital investment in productive capacity will also be encouraged by the Administration's proposals that would lower the cost of capital.

III. Corporate Behavior

The productivity of U.S. workers and the competitiveness of U.S. corporations are affected by the decisions of corporate managers. These managers, in turn, are influenced by the behavior of company shareholders. The Administration is pursuing policies which will encourage managers to take decisions that will benefit their companies in the long-term and thereby making them more competitive. The Administration also recognizes that investment in research, experimentation and development can improve a company's competitiveness.

Long-term Outlook

- Long-term investment (as well as short-term) can be discouraged by the high cost of capital in the United States, and by a tax system which penalizes saving and investment.

- The Bush Administration is pursuing policies to lower the cost of capital. Such policies include lowering the effective tax rate on capital gains, promoting private saving, and eliminating Federal dis-saving. These policies are intended to lower the cost of capital for companies in the U.S., thereby encouraging long-term investment and long-term planning by management.

- The Administration's Working Group on Savings and the Cost of Capital continues to review proposals that could result in a lower cost of capital for companies in the U.S..

- In addition to efforts to reduce the cost of capital, the Administration continues to seek ways to foster a long-term investment horizon on the part of corporate managers. The Treasury is conducting a study on how the relationship between managers and owners of U.S. corporations affects long-term competitiveness. The study is in process and should be completed in the autumn of 1990.

- As part of the study of the relationship between company owners and managers, the Treasury is examining the role executive compensation plays in affecting company performance and competitiveness. In this study, the Treasury is also examining which government barriers, if any, adversely affect the long-term time horizons of investors.

- o The Secretary of the Treasury and other top Administration officials are continuously speaking to groups of corporate executives on the need for long-term thinking in business. Vice President Quayle, through the Council on Competitiveness, has also taken an active role in promoting national competitiveness and long-term thinking.

<u>Highly Leveraged Transactions</u>

- o Even though the market has demonstrated its capacity to correct itself, USG regulators and other regulatory entities have taken steps to ensure that prudent LBO lending practices continue. These steps include:

  - -- U.S. commercial banks have been, and continue to be, proscribed from owning high yield debt. Long-standing regulations allow commercial banks to own investment grade securities only.

  - -- Bank regulators have increased scrutiny and standards for bank financing of highly leveraged transactions (HLTs). This effort has been facilitated because, in February 1990, the three major bank regulators, the Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board, adopted a common definition of HLTs.

  - -- As a result of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), savings and loan institutions must divest their portfolios of high yield securities during the next five years.

  - -- The Securities and Exchange Commission (SEC) recently requested that all financial institutions, including insurance companies, increase disclosures regarding high yield debt.

  - -- Insurance companies, which are regulated by the states, also face more stringent reporting standards. On June 6, 1990, the National Association of Insurance Commissioners adopted reporting changes that will provide insurance regulators with more useful information regarding insurance company holdings of high yield bonds. The new system, which will apply to 1990 insurance filings, expands the number of classifications from four to six and provides for the gradual acceleration of mandatory security valuation reserves.

- Certain tax provisions affecting highly leveraged transactions were enacted in 1989. They were:

  - In 1989, Congress enacted tax legislation (Section 7211, which amends Code section 172) that limits the carry-back of a net operating loss for companies which have undergone either a major stock acquisition or an excess distribution. This provision was enacted to prohibit partial financing of leveraged transactions through tax refunds generated by carry-backs of net operating losses when such losses are incurred as a result of interest deductions generated from the financing of the transaction.

  - The Budget Reconciliation Act of 1989 limited interest deductions for certain high yield obligations known as Original Issue Discount Obligations (OIDs). (These securities are often characterized by deferred interest or paid-in-kind provisions.) For tax purposes, the yield on these securities is divided into two parts: a deferred portion and a disqualified portion (the portion in excess of the Applicable Federal Rate (AFR)). The owner of such securities may deduct the interest from the deferred portion when the interest is actually paid. No interest deduction may be taken for the disqualified portion.

IV. Government Regulation

Certain government regulations discourage international trade and competition. Progress is being made to deregulate controls on both exports and imports.

Export Deregulation

- o In view of the changing strategic situation, the U.S. and its allies on the Coordinating Committee for Multilateral Export Controls (COCOM) have agreed to streamline export controls. COCOM is discussing the liberalization of export controls in machine tools, telecommunications and computers as a first step to reducing the number of controlled goods.

- o COCOM has also agreed to guidelines for member countries to eliminate most licensing requirements for trade among COCOM member countries. The U.S. plans to implement its new system this summer.

- o In July 1989, the U.S. removed all controls on the reexport of dual use goods and technologies (except supercomputers and electronic listening devices) into and among COCOM member countries (and Finland and Sweden), as provided for in Section 774.2(k) of the Export Administration Regulations.

- o New export administration regulations issued in October 1989 eliminated the requirement for U.S. reexport authorization for exported U.S. goods that are incorporated as parts and components and comprise less than 25 percent of the end product. This liberalization eliminated reexport controls on large numbers of telecommunications, electronic and instrumentation equipment imported into European nations and Japan from the U.S..

- o The U.S. Government is reviewing and will consider changing its export control scheme to allow exports of strategic products and technology by those countries such as Japan which impose strict export control on those items without U.S. re-export license irrespective of their destination.

- o The U.S. has significantly reduced trade impediments resulting from short supply export controls. The Administration has revised U.S. short supply policy with regard to agricultural commodities. The Administration has proposed in the Uruguay Round that GATT-contracting parties should be prohibited from restricting exports and imports of agricultural food products for reasons of short supply. The United States is working with its major trading partners, including Japan, to gain support for elimination of GATT Article XI 2.(a).

Energy Exports

- o The U.S. has made significant progress in eliminating many energy trade barriers:

  - -- In 1985, controls on exports of refined petroleum products were eliminated as part of the renewal of the Export Administration Act of 1979.

  - -- Exports of crude oil to Canada were substantially decontrolled in 1985, as authorized by both the Energy Policy and Conservation Act (EPCA) and the Mineral Leasing Act.

  - -- Exports of crude oil produced in the state waters of Alaska's Cook Inlet were allowed in 1986, pursuant to the EPCA of 1976.

  - -- From 1988 to 1990, the Administration removed legal and regulatory barriers to the development of a project to export Alaskan LNG to Pacific Rim energy markets, as authorized by the Natural Gas Policy Act.

  - -- In January 1990, the Commerce Department submitted a study to the Congress (prepared in compliance with Section 2424 of the Omnibus Trade and Competitiveness Act of 1988) which assesses the benefits and costs of exporting California heavy crude oil. The Administration supports the study's recommendation for a partial relaxation of the ban on exports.

Import Liberalization

- o On July 25, 1989, President Bush announced the Steel Trade Liberalization Program to phase out the voluntary restraint agreements (VRA) after two and a half years and to negotiate the elimination of subsidies and other trade distorting practices affecting steel. This program reflects the President's commitment to a meaningful international consensus and to freer and fairer trade in steel on a global basis.

  -- As part of this extension and in keeping with overall Administration policy regarding adjustment measures, major U.S. steel companies must make substantial commitments to reinvestment in modernization for enforcement authority to continue. In addition, each of the major steel companies is required to commit at least one percent of net cash flow for worker retraining.

  -- Since the inception of VRAs on steel in 1984, the major U.S. steel producers have spent $8.0 billion on steel-related expenditures, including plant and equipment, research and development, worker retraining, and other efforts to adjust and modernize. These companies have modernized their production facilities, eliminated excess capacity, and drastically reduced their production costs.

- o VRAs on machine tools, which began on January 1, 1987, are due to expire on December 31, 1991.

  -- As with steel, and reflecting Administration policy on adjustment, there is a domestic action plan in place which is intended to facilitate the revitalization of the U.S. machine tool industry.

  -- Despite thin profits, the machine tool industry has increased expenditures on research and development and product engineering and design.

  -- Combined spending on research and new product development totalled $143 million in 1988 (the most recent data available), or 4.2% of gross sales. By comparison, profits were only 2.1% of sales in 1988.

  -- During the last two years, many machine tool companies have introduced major new models of machining centers, milling machines, lathes and punching machines.

V. Research and Development

A steady stream of innovative ideas and technological developments will enable the United States to remain a formidable competitor in international markets. To maintain this technological flow, the United States must strengthen its research and development efforts. The Administration has proposed several initiatives to advance U.S. research and development by both the public and private sectors.

Federally-supported Research and Development

- o The President's FY 1991 budget calls for a $4.5 billion increase in Federal funding for research and development, to a record high of $71 billion. Support for civilian R&D will increase by 12% and defense-related R&D will increase by 4%.

- o A 22% proposed increase for Federal civil space activities includes a 72% increase for the development of the commercial potential of space, a 47% increase for manned exploration, a 36% increase for space station development, and a 22% increase for scientific exploration.

- o Part of the $4.5 billion expansion in Federal R&D spending is devoted to a 14% funding increase for the National Science Foundation. The Administration remains committed to doubling the NSF budget by 1993.

- o Other R&D projects with significant implications for civilian technology development for which Federal funding is proposed in the President's budget for FY 1991 include:

  - -- $537 million for research on semiconductor development and applications;

  - -- $469 million for high-performance computing R&D, including systems and applications software, networking, and underlying research and human resource infrastructure;

  - -- $192 million for robotics R&D, a 28% increase;

  - -- $50.1 million for the funding of Engineering Research Centers and $5.2 million for Industry/University Cooperative Research Centers;

- $10 million for the Advanced Technology Program that provides grants to industry-led consortia to support development of generic, pre-competitive technologies;

- $5 million to establish Manufacturing Technology Centers that facilitate the transfer of new and innovative manufacturing technology to small and medium size businesses; and

- $10 million to explore the possibilities of magnetic levitation transportation, a 400% increase.

o The President demonstrated his commitment to promote technological development in the United States by establishing the position of Under Secretary for Technology at the Commerce Department. The President's nominee for this position assumed office June 13, 1990.

Private Research and Development

o The Omnibus Budget Reconciliation Act of 1989 modified the Research and Experimentation (R&E) credit and extended it for first nine months of 1990. The R&E credit is 20% of qualified research expenses that exceed a company's base amount (the product of the company's average gross receipts during the previous four years and the ratio of the company's 1984-88 R&E to its 1984-88 gross sales).

o The President's FY 1991 budget would make permanent the R&E credit, and would revise R&E expense allocation rules. These changes would encourage firms to establish and expand research facilities by assuring them that tax incentives will still be available when research is carried out.

o Private research and development would also be bolstered by lowering the cost of capital and reducing regulatory and legal barriers to investment (see policy initiatives described above).

Adoption of the Metric System

- Comments have been received on the proposed update to the "Metric Conversion Policy for Federal Agencies". The updated version, which includes stronger guidance for federal metric implementation and agency reporting requirements to Congress, will be published in final form in July 1990.

- Commerce officials continue to meet with standards groups, trade associations and business advisory groups to encourage use of the metric system in the private sector.

- The Secretary of Commerce received supportive responses to his December 1988 letter to the state governors alerting them to the 1988 Trade Act provisions requiring Federal agencies to use the metric system by the end of FY 1992 in grants, procurement, and other business-related activities. He urged the governors to plan similar initiatives at the state level and to name a senior official to the National Council on State Metrication.

- In response to the Secretary's letter, 46 states have named officials to the National Council on State Metrication. The Secretary will continue to urge greater activity at the state level that will encourage adoption of the metric system.

- The General Services Administration (GSA) metrication plan, published in the Federal Register on April 6, 1990, is expected to become a model for many other Federal agencies.

- Through metrication, the GSA will cause, directly and indirectly, many thousands of U.S. companies to become capable of producing metric products. This is because the GSA is the largest purchaser of non-defense items in the Federal government, and its purchases encompass a large majority of all goods and services used in the economy. In turn, the standards organizations, trade associations, service companies, publishers, etc. will be driven to become capable of using metric measurements in their operations.

- Hearings on Federal metrication progress by the Science, Research and Technology Subcommittee of the House Committee on Science, Space and Technology, held on April 24, 1990, have stimulated increased activity.

  - The Department of Energy has announced that the new Superconducting Super Collider will be of metric design.

  - NASA has indicated its intent to strengthen metric requirements for new projects.

  - The Department of Transportation is recirculating its metric planning and transition plan.

- The Interagency Committee on Metric Policy, comprising senior Federal officials, held a special meeting on June 19, 1990. The Committee will develop a timetable for specific actions in carrying out the objectives of metrication. The newly appointed Under Secretary of Commerce for Technology, who chairs this committee, took this opportunity to urge greater priority for metrication in all agencies.

- The Department of Commerce continues to study ways for the private sector to expand and increase significantly the use of the metric system.

- The U.S. Government will provide a progress report on its efforts and future plans to encourage use of the metric system in the ways described above.

VI. Export Promotion

The President has clearly stated that trade and the competitiveness of U.S. business are high priorities of his Administration. To this end, the Administration has been working hard to make U.S. export promotion efforts more effective.

- o The President's FY 1991 budget proposed $159 million for the Commerce Department's export promotion efforts, an increase of $10 million over 1990.

- o President Bush has directed the Economic Policy Council to undertake a Commercial Opportunities Initiative to assist U.S. exporters in their aggressive pursuit of these opportunities in international markets. The cornerstone of the President's initiative is the Trade Promotion Coordinating Committee (TPCC), which will be chaired by the Secretary of Commerce. The TPCC will, for the first time, unify and streamline Federal trade promotion activities, including:

  - -- Collection and analysis of market information;
  - -- Trade events, including trade missions;
  - -- Identification of agents and distributors;
  - -- Dissemination of information on export financing;
  - -- Representation of U.S. business interests with officials of foreign governmental and international organizations;
  - -- Assistance in identifying joint venture partners and foreign research and development projects; and
  - -- Counselling on foreign standards, testing and certification requirements.

- o The Department of Commerce is implementing a special export program aimed specifically at increasing U.S. exports to Japan.

  - -- This program focuses on long-term commitments by U.S. firms to the Japanese market and capturing a larger share of Japan's public infrastructure and overseas development projects.
  - -- It also provides services tailored to the needs of small and medium-sized U.S. exporters seeking to enter the Japanese market.

- Successful implementation and operation of this program will provide a model for the development of trade promotion plans for other countries and regions.

o The U.S. Government will work, in cooperation with the Government of Japan, to disseminate information to U.S. exporters and others within the United States on Japanese import procedures.

o The Department of Commerce is expanding its export promotion activities in several geographical areas:

  - Commerce has developed a 3-tiered program to help U.S. companies respond to the opportunities presented by the integration of the European Community (EC) into a unified market in 1992.

  - For Eastern Europe, the Commerce Department has been active in promoting U.S. business opportunities through a number of trade missions and, most recently, by establishing the Eastern Europe Business Information Center.

o The Commerce Department developed an education program to inform the U.S. business community, particularly small businesses, about the new trade and investment opportunities created by the U.S.-Canada Free Trade Agreement.

VII. Work Force Education and Training

Improving the education and training of the U.S. work force would heighten America's competitiveness. The Administration has established ambitious goals and plans to improve the quality of education and training in the United States.

Work Force Education

National Education Goals

- The President and the Nation's governors recently agreed on a package of six national educational goals for achieving scholastic excellence and providing U.S. students with skills to compete in a rapidly changing world.

- These goals, to be reached by the year 2000, include: a high school graduation rate of 90% or more; preeminence in the world in math and science scholastic achievement; full adult literacy; ensuring that all schools are free of drugs and violence; and testing that competence has been achieved at appropriate grade levels in key subject areas such as mathematics and English.

- If the ambitious goals of the education summit are to be achieved, then Federal, state and local governments must commit to work together to ensure that steady interest be maintained in funding the programs necessary to achieve these goals over the next ten years.

- The President's FY 1991 budget reflects these priorities. Under the President's proposals, total Education Department budget authority would amount to $24.6 billion, an increase of $500 million over total 1990 budget authority. This is the largest education budget ever proposed.

Excellence in Education Act

- o In February, 1990, the Senate passed the "Excellence in Education Act" which President Bush had submitted to Congress in 1989. The House of Representatives has not yet acted on this legislation. The President's FY 1991 budget provides $401 million to support programs proposed in the Act.

- o The Excellence in Education Act, among other things, would give incentives to schools to improve educational achievement, expand the use of magnet schools, reward excellent teachers, and promote the hiring of persons with proven subject matter knowledge and management abilities to be teachers and principals.

- o The Administration has proposed, as part of the Excellence in Education Act, an alternative teacher certification process. Under the Administration's plan, gifted professionals would be certified to teach elementary and secondary school, even if they had not followed the traditional course for teacher certification.

Foreign Language Education

- o The Department of Education has proposed the establishment of a "core" curriculum in high schools under which students would be required to take, among other subjects, several years of foreign language training. The Department has also made a grant to the University of Pittsburgh for the teaching of Japanese in elementary and secondary schools.

- o Many local school systems are moving ahead on their own in improving foreign language training. It must be recognized, however, that the U.S. has a diverse culture with citizens from many countries who already possess foreign language skills. Students in several U.S. schools systems have been found to represent over 100 foreign languages because of their backgrounds.

Science and Mathematics Education

- o President Bush has directed the appropriate Federal agencies to support science education programs that will reach students and teachers from the elementary to post-graduate levels. Accordingly, more than fifteen Federal agencies have formed a panel to coordinate their actions. Examples of related activities include:

  - -- The President's proposed budget for FY 1991 for the Department of Education includes $230 million for mathematics and science education, an increase of $94 million, or nearly 70%. These funds will be used to improve the preparation of teachers and help to raise the levels of achievement of American students in mathematics and science.

  - -- The FY 1991 budget for the Department of Education also includes $5 million for national science scholars. This would provide undergraduate college scholarships of up to $10,000 per year to students who demonstrate excellence and achievement in the life, physical, or computer sciences, mathematics or engineering.

  - -- The National Science Foundation budget for FY 1991 provides approximately $190 million for science and engineering education activities, including research fellowships and teacher training.

  - -- The Department of Energy has developed a number of initiatives to improve science education for women and minorities. For example, the Energy Department and the National Aeronautics and Space Administration (NASA) have reached agreement for a joint program to design laboratory experiments for children, provide voluntary science teachers and provide summer training for science teachers.

- o The Office of Educational Research and Improvement has requested applications for instructional awards to establish eighteen National Educational Research and Development Centers in such fields as adult literacy, educational quality of the work force, and the teaching of mathematics and science.

Community Colleges

- o The vast majority of community colleges in the United States are developing formal links with local businesses in order to make educational experience more relevant to job requirements.

- o The Department of Labor has launched several projects using community colleges to develop work-based training models.

Work Force Training

The U.S. Department of Labor, through the appropriate channels, will provide the Japanese Ministry of Labor with timely updates on the progress that has been made in the areas mentioned below.

Job Training Partnership Act

- o The programs provided for under the Job Training Partnership Act (JTPA) are considered highly effective, and the President's FY 1991 budget proposes spending approximately $4 billion to fund them.

- o The Administration proposed amendments to the JTPA in 1989 which are intended to revise eligibility criteria to ensure that the program targets the most disadvantaged; provide more intensive and comprehensive services to participants; and improve coordination among Federal, state and local human resource programs.

  - -- On June 6, 1990, the Secretary of Labor testified before the House Education and Labor Committee concerning these proposals.

Department of Labor Seven-Point Action Program

In addition to the growing commitment of the private sector to work force education, the Labor Department has initiated a seven-point action program to improve the quality of the work force. Elements of this program are:

- A "School-to-Work Conference", held May 15-17 in Washington, D.C., aimed at helping non-college bound youth make the transition from school to work.

  - The conference was attended by high-level representatives from the public and private sectors who are intimately involved in issues related to work force training and education. The Secretaries of Labor and Education participated.

  - The conference addressed ways to link education directly to workplace experience and learning, so that non-college-bound youth can become productively employed.

  - The Department of Labor has awarded several grants for school-to-work demonstration projects.

- The Secretary's Commission on Achieving Necessary Skills (SCANS) has been appointed. It is charged with defining the basic skills which American workers will need to close the gap between educational achievement and workplace requirements.

  - William E. Brock, formerly Secretary of Labor and U.S. Trade Representative, has been appointed Chairman of the Commission.

  - The Commission will announce, by May 1991, their findings and recommendations for national guidelines in five sectors to prepare high school youth for entry into employment. These guidelines will include basic skills required by high school graduates to achieve work readiness, including such areas as critical thinking, reading, science and math.

  - The Commission held its first meeting on May 18 and decided that 200 businesses will be analyzed regarding their human resource needs. More than 1,000 jobs will be evaluated according to the precise level of skill needed in each of seven generic skill areas.

- The Commission will encourage businesses to undertake a number of initiatives to make education more relevant to workplace skills, such as sharing resources with teachers and providing apprenticeships and scholarships.

o Solicitation of nominations for the first annual Labor Investing for Tomorrow (LIFT) awards. These awards will recognize exemplary business-school partnerships, school-to-work programs, employee training programs and employee work-life programs.

o Appointment of a national advisory board on workplace training. The board will guide the expansion of the apprenticeship concept to new industries and occupations.

o Meetings with governors and employers to refocus the Federal-state employment service system in order to deal with the new era of labor shortages. Consultations have already been held at the staff level and based on these discussions Labor Department officials are currently revising their plan of action.

o A "Partners for Tomorrow" program, to involve local businesses and labor groups more directly with parents and school personnel, will be initiated by September 1990, and a major conference dedicated to this topic will be held in the autumn of 1991.

o A program to survey the best practices by employers in meeting employee needs, such as flexible work schedules, is expected to begin in September of 1990 and then become an ongoing program of the Labor Department.

Work-based Training

o In January, 1990, the Department of Labor established an Office of Work-Based Learning, which has the primary responsibility for working with business to assist and encourage effective work-based training programs, including the Department's school-to-work initiatives.

o The Department of Labor has launched a series of pilot programs on work-based training. The first phase of these projects, a research phase, has been completed. Demonstration sites have been selected and the contractors are in the process of developing specific training programs. The Department of Labor will closely monitor implementation and results will be made public.

- o The Human Research Development Institute (HRDI) of the AFL-CIO is currently implementing three demonstration projects, noted below, as part of the Upgrading and Career Ladder Program.

  - -- HRDI is working with Boeing and the Aerospace Machinists Industrial Union to develop a training model that integrates structured, on-the-job training with theoretical instruction.

  - -- In two projects, HRDI is working with the health care industry in Seattle, Washington in conjunction with the local chapter of the Services Employees International Union.

- o Several Labor Department projects are underway regarding structured work-based training in small firms.

  - -- The National Alliance of Business is coordinating a project with the American Association of Community and Junior Colleges and the Southern Maine Technical College involving approximately 20 employers. This consortium will train environmental technicians through a two-year course at the college and integrated work experience. The employers include mostly small firms involved in environmental cleanup and waste management, as well as units of state and local government.

  - -- Another project is underway involving small businesses in the services industry.

- o The Secretary of Labor has recently published a booklet, "Workplace Learning: Training America's Workers", as part of the Administration's effort to build a positive perception of, and thereby encourage, work-based training. This booklet proposes a national work-based training board and improvements in the national apprenticeship system.

- The National Advisory Board on Work-based Learning will hold its first meeting by the end of 1990 to provide guidance on expansion of structured work-based training and on development of a voluntary system to accelerate such training. Among other things, the Board will explore the following options:

  - expanding the number of public/private partnerships with industry groups to implement structured work-based training programs;

  - establishing a national, voluntary system for accrediting work-based training programs and certifying worker skill competencies;

  - analyzing the effectiveness of various financial incentives for training, including grant programs, mandatory training programs, and various tax incentives and credits.

- In 1990, the U.S. and Japan are exchanging visits of experts on human resource development. The first visit, by a U.S. delegation comprising leaders from business, labor and government, took place in Tokyo from June 16-24. A complementary visit is planned to the U.S. in November by a Japanese delegation.

- Soon after the Japanese visit, an international symposium on skill training will be held in Washington, D.C.. This symposium will highlight the Japanese human resource development system and how business, labor and government work together in Japan to build a quality work force.

Innovations with Unemployment Insurance

- The Labor Department is in the process of testing alternative uses of unemployment insurance (UI) funds to accelerate jobless workers' return to work. Two experimental projects are studying the effectiveness of offering UI claimants a cash incentive to obtain a job as quickly as possible rather than wait for the expiration of UI benefits (normally 26 weeks). Two other demonstration projects are designed to help UI recipients set up their own businesses. In this regard, two distinct types of self-employment allowances are being tested:

  -- lump sum payments, equal to the total amount of the worker's remaining UI benefits, to help fund business start-up expenses; and

  -- bi-weekly payments, equal to the claimant's regular UI benefit check, for income support during the initial period of business planning and operations.

- A comprehensive project in New Jersey is testing three possible alternatives for UI beneficiaries: provision of job search assistance; provision of job search assistance with referral to Job Training Partnership Programs; and job search assistance with cash bonuses for early reemployment.

Structural Impediments Initiative

Opening Statement by U.S. Delegation

Press Conference, June 28, 1990

- We have reached agreement today with the Japanese Government on a Joint Report on the Structural Impediments Initiative.

- The SII is an unprecedented cooperative effort to identify and solve structural problems in both countries that stand as impediments to trade and to balance of payments adjustment, with the goal of contributing to the reduction of payments imbalances.

- A year ago we were asked by our heads of government to submit this report to President Bush and Prime Minister Kaifu by the time of the Houston Summit, a goal we have met.

- Our talks this week have been lengthy and intensive, taking us beyond the originally scheduled two days. This reflects the complexity of the subject and seriousness with which both sides view this exercise.

- We have reviewed a range of U.S. structural impediments, including saving and investment patterns, competitiveness, corporate behavior, government regulation, research and development promotion, and workforce training and education. We have also reviewed an equally broad range of structural problems in the Japanese economy, including public investment, land use, distribution, exclusionary business practices, keiretsu relationships, and pricing mechanisms. In all of these areas, progress has been made.

- We believe that this report is an historic document that contains wide-ranging commitments and actions with significant benefits for both economies. It also represents substantial progress since the Interim Report which the Working Group released in the beginning of April.

- We believe that the commitments and actions spelled out in the report should help to reduce payments imbalances, lead to more efficient, open and competitive markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States.

- Both governments are firmly determined to achieving these goals.

- We have agreed, therefore, on a follow up mechanism, involving a number of meetings, to:

  - review progress achieved regarding issues identified in the Final Report;

  - discuss matters relevant to problem areas already identified in the SII and the need for actions to address them; and

  - produce in spring of each year a written report respectively on the progress made by each country toward solving its structural problems thereby contributing to the reduction of external imbalances, review the reports together, and issue them with a joint press release.

PRESS RELEASE

OVERSIGHT BOARD

RESOLUTION FUNDING CORPORATION

FOR RELEASE AT NOON
July 3, 1990
OB 90-36

CONTACT: Diane Casey
(202) 786-9672

REFCORP ANNOUNCES AUCTION OF $5.0 BILLION OF 30-YEAR BONDS

The Resolution Funding Corporation will auction $5.0 billion of 30-year bonds on July 10, 1990, to provide funding to the Resolution Trust Corporation.

The bonds, which will mature July 15, 2020, will be offered to the public through a yield auction conducted by the Federal Reserve Banks as fiscal agents to REFCORP. The bonds will be available in book-entry form only and in minimum denominations of $1,000. Noncompetitive tenders must be submitted through a primary dealer or a depository institution with a book-entry account at a Federal Reserve Bank. Only commercial banks and primary dealers may submit tenders for the accounts of customers. Noncompetitive tenders will be accepted at the average price of accepted competitive tenders.

The bonds may be stripped into their separate principal and interest components in book-entry form and may be reconstituted into whole bonds on the book-entry system maintained by the Federal Reserve.

The details on the new securities are contained in the attached highlights of the offering and in the Resolution Funding Corporation offering circular dated October 13, 1989, and offering circular supplement dated July 3, 1990.

oOo

Attachment

HIGHLIGHTS OF REFCORP
OFFERING TO THE PUBLIC
OF 30-YEAR BONDS
TO BE ISSUED AS OF JULY 15, 1990

<u>Amount offered</u>:	
To the public	$5,000 million
<u>Description of Security</u>:	
Term and type of security	30-year bonds
Series and CUSIP designation	Series A-2020 (CUSIP No. 761157AD8)
Settlement date	July 17, 1990
Maturity date	July 15, 2020
Interest rate	To be determined based on average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	January 15 and July 15
Minimum denomination available	$1,000
<u>Terms of Sales</u>:	
Method of sale	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, i.e., 7.10%
Noncompetitive tenders	Accepted in full at average price up to $1,000,000
Accrued interest payable by investor	Interest accrues from July 15, 1990. Amount to be determined at auction
<u>Payment Terms</u>:	
Payment by non-institutional investors	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable
<u>Key Dates</u>:	
Receipt of tenders	Tuesday, July 10, 1990 prior to 1:00 p.m., EDST
<u>Settlement</u>:	
Immediately available funds	Tuesday, July 17, 1990

TREASURY NEWS

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

CONTACT: Office of Financing
202/376-4350

FOR RELEASE AT 12:00 NOON
July 3, 1990

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $18,000 million, to be issued July 12, 1990. This offering will provide about $1,900 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $16,089 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, July 9, 1990. The two series offered are as follows:

91-day bills (to maturity date) for approximately $9,000 million, representing an additional amount of bills dated April 12, 1990, and to mature October 11, 1990 (CUSIP No. 912794 VE 1), currently outstanding in the amount of $8,402 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $9,000 million, to be dated July 12, 1990, and to mature January 10, 1991 (CUSIP No. 912794 VQ 4).

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 July 12, 1990. 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 $802 million as agents for foreign and international monetary authorities, and $4,113 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-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 one-half hour prior to the closing time for receipt of tenders 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.

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.

If a bill is purchased at issue, and is held to maturity, the amount of discount is reportable as ordinary income on the Federal income tax return of the owner for the year in which the bill matures. 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, any gain in excess of the basis is treated as ordinary income.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76, 27-76, and 2-86, as applicable, 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.

8/89

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON
July 3, 1990

CONTACT: Office of Financing
202/376-4350

TREASURY TO AUCTION $8,000 MILLION OF 7-YEAR NOTES

The Department of the Treasury will auction $8,000 million of 7-year notes to refund $4,742 million of 7-year notes maturing July 15, 1990, and to raise about $3,250 million of new cash. The public holds $4,742 million of the maturing 7-year notes, including $352 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

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

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $271 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders.

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

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Attachment

NB-865

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 7-YEAR NOTES
TO BE ISSUED JULY 16, 1990

July 3, 1990

Amount Offered:

To the public	$8,000 million

Description of Security:

Term and type of security	7-year notes
Series and CUSIP designation	F-1997 (CUSIP No. 912827 ZB 1)
Maturity date	July 15, 1997
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	January 15 and July 15
Minimum denomination available ..	$1,000

Terms of Sale:

Method of sale	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $1,000,000
Accrued interest payable by investor	None

Payment Terms:

Payment by non-institutional investors	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable

Key Dates:

Receipt of tenders	Wednesday, July 11, 1990, prior to 1:00 p.m., EDST
Settlement (final payment due from institutions):	
a) funds immediately available to the Treasury ..	Monday, July 16, 1990
b) readily-collectible check ..	Thursday, July 12, 1990

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR RELEASE AT 3:OO PM
July 6, 1990

Contact: Peter Hollenbach
(202) 376-4302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JUNE 1990

Treasury's Bureau of the Public Debt announced activity figures for the month of June 1990, of securities within the Separate Trading of Registered Interest and Principal of Securities program, (STRIPS).

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$429,520,716
Held in Unstripped Form	$327,505,616
Held in Stripped Form	$102,015,100
Reconstituted in June	$4,016,320

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form." These can also be obtained through a recorded message on (202) 447-9873.

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TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JUNE 30, 1990
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month[1]
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
11-5/8% Note C-1994	11/15/94	$6,658,554	$5,212,154	$1,446,400	$35,200
11-1/4% Note A-1995	2/15/95	6,933,861	6,417,381	516,480	4,000
11-1/4% Note B-1995	5/15/95	7,127,086	5,419,566	1,707,520	-0-
10-1/2% Note C-1995	8/15/95	7,955,901	7,305,901	650,000	8,000
9-1/2% Note D-1995	11/15/95	7,318,550	6,476,150	842,400	-0-
8-7/8% Note A-1996	2/15/96	8,575,199	8,322,399	252,800	-0-
7-3/8% Note C-1996	5/15/96	20,085,643	19,864,843	220,800	-0-
[illegible]-1/4% Note D-1996	11/15/96	20,258,810	19,958,810	300,000	-0-
8-1/2% Note A-1997	5/15/97	9,921,237	9,849,637	71,600	-0-
8-5/8% Note B-1997	8/15/97	9,362,836	9,362,836	-0-	-0-
8-7/8% Note C-1997	11/15/97	9,808,329	9,792,329	16,000	-0-
8-1/8% Note A-1998	2/15/98	9,159,068	9,158,428	640	-0-
9% Note B-1998	5/15/98	9,165,387	9,135,387	30,000	-0-
9-1/4% Note C-1998	8/15/98	11,342,646	11,214,646	128,000	-0-
8-7/8% Note D-1998	11/15/98	9,902,875	9,896,475	6,400	-0-
8-7/8% Note A-1999	2/15/99	9,719,628	9,716,428	3,200	-0-
9-1/8% Note B-1999	5/15/99	10,047,103	9,178,303	868,800	-0-
8% Note C-1999	8/15/99	10,163,644	10,081,644	82,000	-0-
7-7/8% Note D-1999	11/15/99	10,773,960	10,769,160	4,800	-0-
8-1/2% Note A-2000	2/15/00	10,673,033	10,673,033	-0-	-0-
8-7/8% Note B-2000	5/15/00	10,496,230	10,496,230	-0-	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	3,629,806	4,672,000	22,400
12% Bond 2005	5/15/05	4,260,758	1,830,058	2,430,700	-0-
10-3/4% Bond 2005	8/15/05	9,269,713	8,347,313	922,400	52,000
9-3/8% Bond 2006	2/15/06	4,755,916	4,755,916	-0-	-0-
11-3/4% Bond 2009-14	11/15/14	6,005,584	1,706,384	4,299,200	112,800
11-1/4% Bond 2015	2/15/15	12,667,799	2,279,799	10,388,000	84,320
10-5/8% Bond 2015	8/15/15	7,149,916	1,997,276	5,152,640	491,200
9-7/8% Bond 2015	11/15/15	6,899,859	2,016,659	4,883,200	-0-
9-1/4% Bond 2016	2/15/16	7,266,854	6,121,254	1,145,600	-0-
7-1/4% Bond 2016	5/15/16	18,823,551	16,969,951	1,853,600	141,600
7-1/2% Bond 2016	11/15/16	18,864,448	11,397,968	7,466,480	296,560
8-3/4% Bond 2017	5/15/17	18,194,169	6,979,609	11,214,560	-0-
8-7/8% Bond 2017	8/15/17	14,016,858	9,036,058	4,980,800	92,800
9-1/8% Bond 2018	5/15/18	8,708,639	3,467,039	5,241,600	99,200
9% Bond 2018	11/15/18	9,032,870	1,872,070	7,160,800	278,400
8-7/8% Bond 2019	2/15/19	19,250,793	6,631,593	12,619,200	280,000
8-1/8% Bond 2019	8/15/19	20,213,832	13,490,952	6,722,880	1,803,840
8-1/2% Bond 2020	2/15/20	10,228,868	6,515,268	3,713,600	214,000
8-3/4% Bond 2020	5/15/20	10,158,903	10,158,903	-0-	-0-
Total		429,520,716	327,505,616	102,015,100	4,016,320

[1] Effective May 1, 1987, securities held in stripped form were eligible for reconstitution to their unstripped form.

Note: On the 4th workday of each month a recording of Table VI will be available after 3:00 pm. The telephone number is (202) 447-9873.
The balances in this table are subject to audit and subsequent adjustments.

GPO 942-446

TREASURY NEWS

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

CONTACT: Office of Financing
202/376-4350

FOR IMMEDIATE RELEASE
July 9, 1990

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $9,019 million of 13-week bills and for $9,019 million of 26-week bills, both to be issued on July 12, 1990, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 11, 1990			:	26-week bills maturing January 10, 1991		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.78%	8.05%	98.033	:	7.72%	8.15%	96.097
High	7.81%	8.08%	98.026	:	7.77%	8.20%	96.072
Average	7.81%	8.08%	98.026	:	7.75%	8.18%	96.082

Tenders at the high discount rate for the 13-week bills were allotted 86%.
Tenders at the high discount rate for the 26-week bills were allotted 31%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 36,340	$ 36,330	:	$ 44,485	$ 44,485
New York	19,522,495	7,586,170	:	17,741,010	7,338,510
Philadelphia	23,580	23,580	:	22,325	22,325
Cleveland	49,850	49,850	:	38,955	38,955
Richmond	191,830	116,830	:	117,160	117,160
Atlanta	62,785	58,285	:	29,430	29,430
Chicago	1,597,945	205,445	:	1,690,605	315,605
St. Louis	38,775	23,075	:	33,555	29,555
Minneapolis	13,705	13,005	:	17,790	17,790
Kansas City	35,595	35,595	:	58,980	58,980
Dallas	35,935	35,235	:	38,205	34,745
San Francisco	1,019,595	69,595	:	673,585	264,085
Treasury	765,615	765,615	:	707,195	707,195
TOTALS	$23,394,045	$9,018,610	:	$21,213,280	$9,018,820
Type					
Competitive	$19,542,940	$5,167,505	:	$17,154,395	$4,959,935
Noncompetitive	1,532,505	1,532,505	:	1,472,655	1,472,655
Subtotal, Public	$21,075,445	$6,700,010	:	$18,627,050	$6,432,590
Federal Reserve	2,112,630	2,112,630	:	2,000,000	2,000,000
Foreign Official Institutions	205,970	205,970	:	586,230	586,230
TOTALS	$23,394,045	$9,018,610	:	$21,213,280	$9,018,820

An additional $76,330 thousand of 13-week bills and an additional $221,870 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

NB-866

TREASURY NEWS

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

EMBARGOED FOR RELEASE UNTIL DELIVERY
EXPECTED AT 1:30 P.M., EDT
JULY 10, 1990

STATEMENT OF STEVEN W. BROADBENT
DEPUTY ASSISTANT SECRETARY FOR INFORMATION SYSTEMS
U.S. TREASURY DEPARTMENT
BEFORE THE SUBCOMMITTEE ON TRANSPORTATION, AVIATION AND MATERIALS
OF THE COMMITTEE ON SCIENCE, SPACE AND TECHNOLOGY
OF THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES
ON IMPLEMENTATION OF THE COMPUTER SECURITY ACT OF 1987
JULY 10, 1990

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to describe the Treasury Department's ongoing activities to implement the Computer Security Act of 1987. Since this is the first opportunity that Treasury has had to testify on this subject, I'd like to begin by giving you an overview of the importance of computer security within the Department of the Treasury.

Treasury is the third largest government department, after Defense and the Department of Veteran Affairs. With over 150,000 employees and 1,800 field offices in the U.S. and abroad, information technology plays a vital role throughout the variety of Treasury's missions.

Treasury's functions range from managing Federal finances, collecting taxes and duties, and paying all the bills of the U.S., to investigating and prosecuting counterfeiters, smugglers (including drug smugglers), and gun violators. Our enforcement mission extends to protecting executives such as the President and Vice President and their families, and visiting dignitaries. The use of information management technologies plays a vital role in each of these missions. The protection of the sensitive data within these systems is a cornerstone of our information systems plans. The emphasis on computer security has grown immensely within the past decade and will continue to grow as new threats evolve with new technologies.

TREASURY SECURITY PROGRAM PRIOR TO PL 100-235

Treasury security policies were implemented to comply with OMB Circulars A-123, A-127, and A-130, so our information systems security programs were already well underway and provided a solid base for Computer Security Act implementation. Our security policies, in the form of several Treasury Directives and one Treasury Order, issue guidelines and requirements to the bureaus.

NB-867

The policies are broadly consistent with the direction of the Act in most instances. For example:

- o Treasury Directive (TD) 85-01, Information Systems Security, defines Treasury sensitive information and protection requirements consistent with the Act.

- o TD 85-02, Automated Information Systems Security and Risk Management Program, provides minimum baseline security requirements, and mandates the annual submission of an inventory of sensitive systems and a plan for security reviews, risk analyses, and safeguard development by each bureau.

- o TD 85-04, Controlled Access Protection for Automated Systems Which Process Sensitive Unclassified Information, requires the implementation of controlled access protection (C2 level in Orange Book terminology) on all sensitive Treasury systems by October 1992.

- o Treasury Order (TO) 106-09, Electronic Funds Transfer Policy -- Message Authentication and Enhanced Security, requires proper authentication of EFT transactions.

In addition to Treasury Directives, we annually, through the information systems planning process, require updated plans, strategies, and timetables for security program activities and systems.

IMPLEMENTATION OF THE ACT WITHIN TREASURY

Treasury took a number of steps to ensure compliance with the Act. We (1) established deadlines for bureau completion and submission of sensitive system inventories, training plans, and draft and final security plans, (2) formed a Treasury ADP and Telecommunications Security Working Group to provide guidance and develop implementation strategies, (3) obtained agreement with NIST to allow one of their analysts to work with the IRS to develop a model security plan, (4) participated in workshops jointly sponsored by NIST, NSA, and OMB to provide interpretation and clarification on agency requirements under the Act, (5) responded to GAO Questionnaires on the CSA implementation progress at each step during the process, i.e., inventory, training, and security plan, and (6) conducted Departmental analysis and oversight of bureau submissions at each stage of milestone completion, e.g. as necessary, requested bureau inclusion of systems under development in inventories, required revision of training plans and/or security plans to more fully comply with implementation guidance.

As a result of this process, in December 1988 Treasury submitted 87 security plans covering over 300 sensitive systems. There were 87 rather than 300 plans in accordance with OMB, NIST, and NSA guidance that agencies could aggregate multiple systems under a few plans to cut down on the volume of plans. The majority of our plans indicated that adequate security measures and controls were in place. Other plans reflected systems in the process of implementing previously planned controls.

LESSONS LEARNED - IMPROVING THE PROCESS

On March 27, 1989, three months after the submission of security plans to NIST and NSA, Treasury participated with other Federal agencies in a "Computer Security Planning - Lessons Learned" workshop sponsored by OMB, NIST, and NSA. I would like to share with the Committee the thoughts and recommendations we presented at that workshop.

- Aggregation weakened security plans. One of the most valuable provisions of the law is the requirement to develop a security plan for every system. The planning guidance issued by OMB allowed plans to be prepared for either single systems or groups of like systems. As stated in the GAO report on the planning process, in some plans that combined systems, a security control was reported as "in place" for the entire plan when actually it was in place for only a few systems. While the grouping of the systems may not provide management in the oversight agencies with the complete assurance that bureau management has identified and planned for the security needs of individual systems, the submission of an individual plan on each system may overwhelm the ability of the oversight agencies to review and add value or better security in this oversight process. An alternative would be the selection of a limited number of security plans by OMB or NIST for detailed review. Additional on-site reviews of computer security plans would continue to be conducted by the Treasury's Departmental Offices' staff or the Treasury Inspector General.

- Building on existing Federal security policies by incorporating Computer Security Act provisions into them, providing tools and guides to aid agencies in implementation, and conducting periodic oversight reviews of selected systems - as opposed to detailed reviews of every plan - would go a long way in improving the systems security planning process and increasing our confidence in the adequacy of controls.

Since the submission of plans over a year ago, Treasury has been working toward that end. And we believe that OMB, NIST, and NSA are headed in the right direction by initiating the on-sight plan review program as described in OMB's draft planning bulletin circulated to agencies in January of this year. We look forward to working with the oversight agencies on this new program and, as we stated in our comments to OMB, we hope consideration will be given to the phased or "staggered" implementation of reviews. Also, we would appreciate as much advance notice of the onset of reviews as possible.

TREASURY INITIATIVES TO FURTHER IMPLEMENT THE ACT AND IMPROVE COMPUTER SECURITY SINCE INITIAL CSA IMPLEMENTATION

Treasury has continued to move at full speed to improve the computer security planning process and the security of our data and systems. We have taken numerous actions to ensure that computer security plans are implemented and material weaknesses corrected. Actions include:

1. A Management Review of each Treasury bureau's implementation of the CSA, including follow-up on implementation of security plans, was conducted in the summer of 1989.

2. Compliance Audits of CSA implementation in selected Treasury bureaus were completed by Treasury's Office of the Inspector General this year.

3. We forged a stronger linkage between Federal Managers Financial Integrity Act (FMFIA) reporting of material security and control weaknesses with security program requirements by having inventories of sensitive systems included in FMFIA reports.

4. A new Inventory Tracking and Closure System, developed this year at the direction of the Deputy Treasury Secretary, will allow the highest levels of senior agency management to assess the status of corrective actions on security and control weaknesses.

5. Treasury's Comptroller continues its close monitoring of the status of correction of all audit recommendations and material weaknesses.

6. As required by the CSA, the above information was reported to OMB in Treasury's five-year plan of October 1989.

Additionally, the following planned and ongoing actions will ensure continuous compliance with the CSA in Treasury.

1. New Treasury Directives have been developed regarding security planning and security awareness and training. These directives follow through with our earlier comments by requiring a security plan for each system and discouraging aggregate plans. We are also requiring annual updating of Training plans.

2. We have completed development of a Treasury-specific Risk Assessment Guideline which provides bureau users with pre-printed forms allowing determination of needed controls in line with Treasury baseline. The guideline also decreases cost and increases the probability that required risk analyses will be completed, providing critical information on which to base the security plan.

3. We plan to conduct ongoing oversight and monitoring of bureau compliance and practices. Our oversight actions will decrease the burden on bureaus through the conduct of Departmental **on-site reviews** of selected plans, rather than submission of plans.

4. Treasury looks forward to working with OMB, NIST, and NSA in the new security plan review program.

In general, I would say Treasury's process in implementing the CSA has been successful. The law has been successful in focusing management attention on security and the need to communicate a commitment to all levels. Follow-up by way of a strong oversight program is needed to make the law effective in the long run. This will make initial efforts worth the investment.

RESPONSE TO GAO REPORT

Your invitation letter requested our response to the recent GAO report regarding CSA implementation. Basically, the GAO findings are in line with the feedback we had given to OMB, NIST, and NSA at their "lessons learned" workshop and to the GAO analysts who interviewed my staff during the course of the review. The GAO report concluded that the agency visit and assistance program proposed in the draft OMB planning guidance has greater potential for improving computer security governmentwide. I very much agree and, as I indicated earlier in my testimony, we will be pleased to cooperate with OMB, NIST, and NSA in this review effort.

SCHEDULE OF IMPLEMENTATION OF SECURITY PLANS

Your letter also asked that we include a time schedule that shows the planned versus actual implementation for the major sensitive information systems that were discussed in the GAO report.

In the case of the U.S. Customs Service, the GAO reviewed the plan for the Automated Commercial System (ACS). Of the planned controls for this system that were scheduled for implementation during FY 1989, the Risk Assessment was completed on schedule. The Customs' data center that supported the system was merged with another data center, with a new facility risk assessment, and back-up and contingency plan completed in April 1990.

The two remaining controls scheduled for implementation in FY 1990 (Certification/Accredidation and Authorization/Access Control) have been rescheduled for completion in FY 1991 because of the identification of vulnerabilities and the need for additional corrective actions.

With respect to the Internal Revenue Service, two systems, the Tax Processing System and the Compliance Processing System, were reviewed by GAO. I should explain that both of these Security Plans were aggregrate plans covering several systems. For the most part, even though the plans reflected that controls were both "In Place and Planned", the controls for a majority of systems covered by these plans were already in place at the time of security plan submissions to NIST and NSA.

The status of implementation of remaining planned controls for the Tax Processing System is that implementation has been completed or begun for almost all measures during the period from December 1988 through April of this year. A Risk Assessment for a major application in this system (Integrated Management System) remains to be completed and carries a new target implementation date of December 1990.

For the Compliance Processing System, planned control measures were implemented between the period from December 1988 Through June of this year.

In the area of Security Awareness and Training, the status of this control measure will always be reflected as "Both In Place and Planned" because, as required by the law, training is an on-going activity. This is true for the Customs Service, the Internal Revenue Service, and all other Treasury bureaus.

That concludes my prepared testimony. I have with me representatives from the Internal Revenue Service and the U.S. Customs Service. We will be pleased to respond to your questions.

TREASURY NEWS

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

CONTACT: Office of Financing
202/376-4350

FOR RELEASE AT 4:00 P.M.
July 10, 1990

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $18,000 million, to be issued July 19, 1990. This offering will provide about $ 2,100 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $15,888 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, July 16, 1990. The two series offered are as follows:

91-day bills (to maturity date) for approximately $9,000 million, representing an additional amount of bills dated April 19, 1990, and to mature October 18, 1990 (CUSIP No. 912794 VF 8), currently outstanding in the amount of $8,237 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $9,000 million, representing an additional amount of bills dated January 18, 1990, and to mature January 17, 1991 (CUSIP No. 912794 VR 2), currently outstanding in the amount of $9,554 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 July 19, 1990. 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 $ 560 million as agents for foreign and international monetary authorities, and $ 4,178 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-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 one-half hour prior to the closing time for receipt of tenders 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.

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.

If a bill is purchased at issue, and is held to maturity, the amount of discount is reportable as ordinary income on the Federal income tax return of the owner for the year in which the bill matures. 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, any gain in excess of the basis is treated as ordinary income.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76, 27-76, and 2-86, as applicable, 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.

8/89

PRESS RELEASE

OVERSIGHT BOARD
RESOLUTION FUNDING CORPORATION

FOR IMMEDIATE RELEASE
July 10, 1990
(OB 90-38)

CONTACT: Diane Casey
202-786-9672

REFCORP ANNOUNCES RESULTS OF AUCTION OF 30-YEAR BONDS

The Resolution Funding Corporation has accepted $5,026 million of $15,477 million of tenders received from the public for the 30-year bonds, Series A-2020 auctioned today.1/ The bonds will be issued July 17, 1990, and mature July 15, 2020.

The interest rate on the bonds 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	Price2/
Low	8.92%	99.530
High	8.93%	99.427
Average	8.93%	99.427

Tenders at the high yield were allotted 38%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 150	$ 150
New York	14,658,384	4,866,624
Philadelphia	10	10
Cleveland	---	---
Richmond	10,500	4,380
Atlanta	---	---
Chicago	463,000	126,760
St. Louis	5,000	5,000
Minneapolis	---	---
Kansas City	2,586	2,086
Dallas	---	---
San Francisco	337,030	21,030
Totals	$15,476,660	$5,026,040

The $5,026 million of accepted tenders includes $208 million of noncompetitive tenders.

1/ The minimum par amount required to strip the REFCORP bonds is $1,600,000. Larger amounts must be in multiples of that amount.

2/ In addition to the auction price, accrued interest of $0.48234 per $1,000 for July 15, 1990, to July 17, 1990, must be paid.

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m.
July 11, 1990

TESTIMONY OF THE HONORABLE
ROBERT R. GLAUBER
UNDER SECRETARY OF THE TREASURY FOR FINANCE
BEFORE THE COMMITTEE ON WAYS AND MEANS
OF THE HOUSE OF REPRESENTATIVES

I appreciate the opportunity to appear before you today to advise you of the need for Congressional action to increase the debt limit before the scheduled August Congressional recess.

DEBT LIMIT

Treasury's current estimates show that the permanent ceiling of $3,122.7 billion will be sufficient only until mid-August. Without an increase in the debt limit, it appears likely that the Treasury will run out of cash and borrowing authority and default on the Government's obligations in mid-August. It is highly likely that default would occur before Congress returns in September.

Our estimates are subject to a greater-than-usual degree of uncertainty, because the Resolution Trust Corporation (RTC), which borrows from the Federal Financing Bank (FFB), faces difficulty in predicting the timing and level of its need for working capital

funds. A significant near-term increase in RTC spending above the current estimate could accelerate the need for an increase in the debt limit to early August in order to invest the social security trust funds fully.

As you know, the limit usually is raised to a new permanent level sufficient to fund the Government's needs for the coming fiscal year. We estimate that a debt limit of $3,509 billion will be sufficient to last through FY 1991. Since the debt subject to limit is expected to hit a peak level on September 2, 1991, when the normalized tax transfer to the social security trust funds is invested, this figure includes a $30 billion allowance above the $3,479 billion of debt subject to limit estimated by OMB in the Mid-Session Review.

In the spirit of the longer-term horizon for reducing Federal budget deficits in bipartisan negotiations on the budget, it is appropriate at this time to consider increasing the permanent debt limit in an amount that is sufficient for the next several fiscal years. In this connection, the Administration's current estimates indicate a debt limit need of $3,811 billion through FY 1992, including an allowance of $35 billion for social security trust fund investments in early September 1992, and $4,053 billion through FY 1993, including an allowance of $40 billion for trust fund investments in early September 1993.

These figures include the revisions of the RTC's financing needs discussed below, and they are consistent with the Mid-Session Review of the Budget for FY 1991, which is due for release by OMB on July 16. Since the Mid-Session Review will not be released until next week, I am not able to provide more detailed information on the specific receipts and outlay estimates that underlie the debt limit figures. I should note, however, that RTC outlays, which are subject to substantial forecast uncertainty, play a large role in the overall outlay figures. Depending on actual RTC experience, we could reach the debt limit before or after the end of the fiscal years indicated.

If Congress were to leave for its August recess -- scheduled for August 6 through September 4 -- without increasing the debt limit, the Treasury would likely default on $20 billion of notes maturing on August 15 and be unable to make interest payments totaling about $21 billion that day. Also the United States most likely could not honor, on August 31, $3 billion of military retirement and salary payments or payments totaling over $11 billion to social security and supplemental security income recipients, railroad retirees and veterans.

Defaulting on obligations already incurred is very different from halting operations of the Government where spending authority is allowed to lapse, such as occurs when appropriations are delayed. Once an obligation is incurred, it must be paid.

Finally, default would have very serious adverse consequences on domestic and international confidence and trust in the United States.

RTC CLEAN UP COSTS

I want to turn now to the financing needs of the RTC, in response to questions that have been asked by this Committee. We have attached for your information Secretary Brady's June 14 testimony before the House Committee on Banking, Finance, and Urban Affairs, which gives a more complete response to the questions you asked regarding cost of the thrift clean up.

Original Cost Estimates

The $50 billion provided to the RTC for thrift losses in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) was based on the most credible estimates at the time, prepared by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office. All three of these agencies estimated that $50 billion would be sufficient to meet the RTC's needs.

However, as we said during the legislative process, the level of resources needed, no matter how thoroughly researched or widely agreed upon, was still based only on estimates. Uncertainties included the level of interest rates and the strength of the

economy, the timing and amount of asset sales, as well as many other factors that could have a significant impact on the size of the problem.

Revised Estimates

Actual experience over the past ten months indicates that RTC losses have increased because: the losses in individual thrifts are larger than expected; marginal thrifts are likely to fail sooner than expected (becoming the responsibility of the RTC, not the Savings Association Insurance Fund); and the total number of projected thrift failures has increased.

A number of factors have contributed to these higher projections:

- The population of thrifts which has become the responsibility of the RTC has been in worse financial condition than anticipated. Until the RTC was able to get inside these institutions, it could not make an effective evaluation.

- There has been a general decline in regional real estate markets, particularly commercial real estate, in many parts of the country. Unfortunately, RTC thrifts' assets are heavily concentrated in real estate, whether through direct investments, foreclosed property, or real estate loans.

- Interest rates, which are now higher than we had projected, have increased operating losses for thrifts in conservatorships and caused softer real estate markets.

- There have been unexpected losses in below-investment grade bonds, sometimes referred to as "high yield" or "junk" bonds -- RTC has $4 billion of junk bonds in its portfolio.

Again, all of these factors have produced not only higher than expected losses, but also an increase in the population of savings and loans that will require attention.

When Will More Funding Be Needed?

Even though the RTC has spent only about half of the $50 billion provided in FIRREA to cover losses, it could, with an aggressive schedule of case resolutions, run out of loss funds by the end of this calendar year. However, the RTC faces another important constraint in the form of the obligation limitation included in FIRREA. This is the provision which limits RTC obligations -- most notably, working capital borrowings -- to the amount of unused REFCORP authority, cash on hand, and 85 percent of the fair market value of assets held by the RTC.

Based on its current method of calculating the working capital obligation limitation, the RTC will run up against that limitation sooner than it uses the $50 billion to cover losses -- almost

certainly not later than early in the fourth calendar quarter of this year. If the RTC cannot raise additional working capital and the cost of acquiring assets exceeds the amount generated from sales, it cannot proceed with resolutions. To assure that the pace of resolutions is not constrained by the availability of funds, and that the cost to the taxpayer is not increased by the consequent delay, it is essential that the RTC receive increased funding by the end of the third quarter -- by September 30, 1990.

How Much More Will Be Needed?

There are too many variables to pick a single number -- number of cases, losses on assets, interest rates, and market conditions, among others. The most responsible course, we believe, is to consider a range of possible outcomes.

Taking into account all of the uncertainty and all of the variables, it appears that the cost, in present value terms, of resolving institutions which are likely to come under the control of the RTC will be in the approximate range of $90 billion to $130 billion.

Any attempt to convert these present value costs to yearly expenditures must incorporate an additional factor, the pace at which the RTC can resolve institutions. This greatly affects the amount of RTC outlays on a yearly basis, but has relatively little impact on the overall size of the loss. A representative range of

the resources the RTC may need in fiscal year 1991 to cover losses should be from slightly over $30 billion to slightly over $50 billion. We estimate that working capital needs would be from $20 to $40 billion.

How Should Additional Funds Be Raised?

The Federal Home Loan Bank System simply does not have the financial capacity to back substantially more Resolution Funding Corporation (REFCORP) borrowing than was provided for in FIRREA. Additional resources will have to come from Treasury funds.

Form of Additional Financing

There appear to be two basic choices for how the funds should be provided: either through appropriations to RTC of specific amounts from time to time to cover some or all remaining losses, or through an appropriation to the RTC of such sums as are necessary to complete the job. No matter which way the funds are provided, the cost of resolving the savings and loan crisis will not change. Moreover, it must be emphasized that this is not a discretionary activity; the Government's deposit guarantee must be fulfilled.

There is precedent in the Federal budget for providing indefinite authority to fund mandatory activities. In addition, Congress will have plenty of oversight regarding the RTC's use of the funds provided, since the Oversight Board and the RTC must report to Congress on a regular basis.

Mr. Chairman, this completes my formal statement. I will be happy to answer the Committee's questions.

OVERSIGHT BOARD
RESOLUTION TRUST CORPORATION
Washington, D.C. 20232

STATEMENT OF SECRETARY NICHOLAS F. BRADY

ON BEHALF OF THE

OVERSIGHT BOARD

OF THE RESOLUTION TRUST CORPORATION

BEFORE THE

HOUSE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

JUNE 14, 1990

Mr. Chairman, members of the Committee, we are pleased to have this opportunity to present our views on the progress to date under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and to discuss the outlook for the months to come.

I address the Committee this morning in my capacity as Chairman of the Oversight Board and am accompanied by three other members of the Board: Chairman Greenspan, Secretary Kemp and Robert Larson. Our fifth member, Philip Jackson, Jr., is out of the country and unable to join us today.

We are also accompanied by William Taylor, who has served for the last several months as the Acting President of the Oversight Board, and Peter Monroe, the incoming President.

Speaking for a moment for the three charter members of the Board, let me tell you how pleased we are to have been joined by two such able individuals as Philip Jackson and Bob Larson. We are all grateful for their willingness to sign on and of course for their experience and judgment.

This testimony will cover our efforts since the enactment of FIRREA ten months ago. We are dealing with a moving target, made greatly more expensive by a weakening real estate market and constantly changing economic conditions. It is not susceptible to easy answers or simple solutions. The problems are complex and massive -- as we knew they were a year ago as we worked together to adopt legislation. If anything, the experience of ten months has revealed that the task is even more formidable than any of us then imagined.

As we proceed, we do so under three principles which have guided us from the start:

-- First, we will make sure that the millions of men and women who put their life savings in savings and loan institutions are protected to the full extent of their federal deposit insurance.

-- Second, we will do all within our power to do the job at the least cost to the taxpayer.

-- Third, we will aggressively pursue and prosecute the crooks and fraudulent operators who helped create the S & L problem.

It is important to bear in mind that money spent on the savings and loan crisis is spent with a single purpose in mind. The United States government made a promise to millions of Americans. We promised to protect their savings if deposited in a federally-insured savings and loan. Now we make good on that promise.

We are not using taxpayer dollars to bail out any thrift institution, their owners, or the savings and loan industry in general. We are living up to the government's end of the agreement represented by federal deposit insurance.

There are many who are impatient to wish these unpleasant problems behind us. We must remember, however, that it took over a decade for the thrift problem to become so costly and so difficult to fix. The enactment of FIRREA less than a year ago was only the beginning of the solution; we still have a long way

to go before we reach the end.

There are no magic solutions. We cannot predict with certainty the amount of money or the amount of time it will take to finally resolve this problem. What we can promise is to seek sound advice, use common sense, and see that the problem is effectively managed.

Our statement first takes a brief look back at the circumstances which led up to the enactment of FIRREA. It then provides a report on progress from last August to the present, covering the following areas: case resolutions; assets acquired and sold; enforcement efforts; affordable housing; and minority outreach. We address in this progress report several issues raised by the Committee in addition to housing and minority programs: the conservatorship program; quarterly operating plans; status of the accelerated resolution and clean sweep programs; compliance with the Community Reinvestment Act. Finally, we look ahead to consider the question of resources.

Before we do so, we should face squarely the fact that the real estate market in a number of areas in the U.S. is in a weakened state and has become particularly so in the last year. This affects every aspect of the problem we face, especially the job of estimating the size of the problem. The condition of the real estate market affects the number of institutions which fail, the value of their assets, the speed at which assets can be sold, and thus, the ultimate loss.

FIRREA requires that we estimate the remaining exposure of the U.S. government from institutions which will come under the control of the RTC. We have attempted to do so in this statement, but note that such estimates are highly uncertain because they require market predictions, which are themselves highly uncertain. For that reason, no one should assume that the estimates presented today will not change. They will.

A LOOK BACK

The problems we are wrestling with today have roots which reach back over many years. They extend back to events of more than a decade, as the thrift industry struggled to cope with economic adversity and fundamental changes in financial markets; to broadened powers, coupled with insufficient policing by government regulators; to capital requirements which resulted in too little of thrift owners' money being at risk; to problems in real estate and the junk bond markets; and, in many instances, to mismanagement and misdeeds. Many of these problems flow together and feed on one another.

The savings and loan problem was there to greet President Bush when he took office in January 1989 and he wasted no time in responding. Less than a month after taking the oath of office, the President came forward with a plan and made it one of his highest priorities to enact it into law.

You in the Congress and we in the Administration worked together last year as architects of a plan to repair the damage

and reform the system. Together we devised a plan to resolve the savings and loan crisis and to help prevent it from happening again. While comparisons with other government rescues are inevitable, this is not a bailout. We are not bailing out shareholders. We are not bailing out management. We are not in this to preserve institutions. In fact, many will be lost. It bears repeating that monies spent are to protect depositors.

It was just over a year ago that Congress took up consideration of FIRREA. Under your leadership, Mr. Chairman, and that of your Committee, the House of Representatives produced a bill in a timely manner. While preserving the essence of the Administration's plan, you added your imprint in areas such as capital requirements; affordable housing; the tightening of the qualified thrift lender test; purchased mortgage servicing rights; curtailing "junk" bond investments; open thrift assistance; the creation of the Federal Housing Finance Board; and the disclosure of Community Reinvestment Act ratings.

With the enactment of FIRREA on August 9, 1989, the machinery was put in place.

A PROGRESS REPORT

Under the provisions of FIRREA, the Oversight Board must report on case resolutions, costs incurred, and asset sales during the period from October 1, 1989 through March 31, 1990, along with providing certain other financial information. While reporting on the six-month period as required, we have not

limited ourselves to that and, where possible, provide in this statement information on more recent RTC activities.

As we review the progress to date, it is important to remember that a key purpose of FIRREA is to provide the money and mechanisms to separate out insolvent and failing thrifts, so that the industry which remains can compete successfully and safely in the financial marketplace.

The evidence is that FIRREA is working. Based on fourth quarter 1989 figures, OTS has analyzed the thrifts which remain after removing the institutions already resolved, those currently at the RTC for resolution, and those likely to be sent to the RTC in the near future. The industry which remains is profitable, has on average more than three percent tangible capital, and is growing by adding deposits.

Case resolutions

When the RTC started its work on August 9, 1989 there were 262 institutions in conservatorship. Since August, the RTC has resolved 148 cases (including 28 between October 1 and March 31), while adding 181 institutions to the caseload. That left the RTC, as of June 8, 1990, in control of 295 conservatorships.

While there has been a great deal of discussion about the RTC's relatively slow start in case resolutions, progress in recent months has been substantial. The RTC has resolved nearly 100 cases in the last eleven weeks -- by any measure, a tremendous accomplishment.

To the extent that it took longer for the process to get under way than some expected or hoped, it was not for lack of resources. Immediately after FIRREA was signed, $20 billion was provided to the RTC in appropriated funds and industry contributions. The Resolution Funding Corporation has provided $13 billion. The Oversight Board acted in February to allow the RTC to borrow working capital from the Federal Financing Bank. The availability of those resources has ensured that no disruption has occurred for lack of resources.

One factor that certainly affected the pace of resolutions during the first several months is that it takes time to build an organization, particularly one so large and with so difficult a task as the RTC. I am surprised by those who so readily dismiss the difficulties of creating in just ten months an organization that is roughly the size of Citicorp.

RTC's concern about a pile-up of retained assets of failed thrifts seems to have been another factor affecting the pace of resolutions. Because of the difficulty of managing and disposing of assets, the RTC will attempt to pass as many assets as possible to private sector acquirers. We certainly share that goal, but have tended to support a quicker pace of resolutions, while moving on a separate track to return assets to the private sector.

At the request of the RTC, the Oversight Board in February approved a policy establishing a general limit of twelve months on the amount of time that an acquirer has to decide to put

assets back to the RTC. This policy will give acquirers adequate time to get to review the assets of an institution without a lengthy period of review preceding the acquisition. The hope is that this will not only quicken the pace but also increase the likelihood that acquirers will take on assets.

The major problem faced by the RTC in trying to resolve cases, however, is that there simply have not been many interested buyers for the assets taken over, especially for whole thrifts.

Quarterly operating plans. With policies in place and the lessons of nearly eight months of operations, the RTC in March laid out an ambitious schedule of case resolutions for the third quarter of fiscal year 1990. The plan calls for resolving 141 institutions with assets totalling nearly $50 billion between April 1 and June 30, 1990.

The Oversight Board endorsed the third quarter plan and approved the funds necessary to carry it out. The plan approved by the Oversight Board provides for up to $51.6 billion in spending on case resolutions during the quarter, of which $19.1 billion represents estimated net losses and $32.5 billion the recovery value of receivership assets.

As of June 8, the RTC had resolved 96 of the 141 institutions with assets of $21.2 billion. Although a substantial amount of work remains to be done, we are advised by the RTC that they expect to hit the target of 141 resolutions by the end of the month.

Whatever the final number, the RTC deserves enormous credit for its accomplishments during the third quarter. This represents a significant achievement by historical standards.

Of the 141 institutions targeted for resolution during the current quarter, the RTC identified about 50 which would be resolved either through insured deposit transfers or payouts. This part of the plan was labeled "Operation Clean Sweep" (though many people use the term to describe the entire third quarter program). We have encouraged the RTC over the past several months to place greater reliance on liquidations and were therefore pleased to see the emphasis on this method of resolution in the third quarter.

Of the 96 third quarter resolutions through June 8, there have been 38 purchase and assumption transactions involving institutions with assets of $15.0 billion; 46 insured deposit transfers involving institutions with assets of $5.2 billion and 12 payouts involving institutions with assets of $1.0 billion.

The Oversight Board is involved in ongoing discussions with the RTC about projections for case resolutions during the quarterly periods beginning on July 1 and on October 1 of 1990. However, no operating plan has yet been presented or adopted for those quarters. Spending requirements will be driven by the pace of resolutions, which we would describe in terms of asset values rather than the number of institutions. It seems reasonable to expect that the RTC could resolve institutions with assets ranging from $20 billion to $40 billion per quarter.

We recognize that both the Congress and the Administration have a need for information about RTC spending plans. We hope to move toward planning for six-month periods and will work with the RTC to achieve that end.

Conservatorship program. As of June 8, 1990, there were 295 thrifts in conservatorship. It is impossible to say how many more will enter the program. The Office of Thrift Supervision (OTS) has identified 299 institutions which, as of April 27, 1990, were likely candidates for resolution and another 315 for which the future is uncertain. The number of failing thrifts which ultimately enter conservatorship also depends on the number that receive some form of expedited resolution, bypassing conservatorship altogether.

The benefit of placing an institution in conservatorship is that it allows the government to stem losses and bring to a halt practices which may have contributed to the insolvency. Once an institution has been taken over, the RTC reduces its risk exposure and prepares it for resolution. This includes reducing the asset side of the balance sheet through the packaging or securitization and sale of financial assets.

The problem with placing an institution in conservatorship -- particularly for an extended period of time -- is that it generally leads to a further erosion in franchise value. For example, the trained staff of a thrift in conservatorship may worry that it will be liquidated and opt to take jobs elsewhere.

We recognize that the General Accounting Office has raised concerns about the training and turnover of managing agents. Given the size and the unprecedented nature of the conservatorship program, it should come as no surprise that there may be operating difficulties in the field. The Oversight Board intends to monitor the situation and provide policy guidance as warranted.

Accelerated resolutions. We are concerned about the effect of the conservatorship program -- in essence, the government warehousing of private sector assets -- on franchise values. The RTC shares these concerns and therefore has developed the idea of the "accelerated resolution program."

Under the accelerated resolution program, an institution will be marketed before it is actually placed in conservatorship by the Office of Thrift Supervision. The RTC, in cooperation with the OTS, is in the process of developing a pilot project to test this form of resolution. The Oversight Board will monitor the development of this program to ensure that it operates in a manner consistent with the requirements of FIRREA and the Strategic Plan.

While the details of the accelerated resolution program remain to be worked out, we support the goal of trying to deal with an institution when resolution costs the least. At the same time, however, we will continue to focus on the need to resolve the existing conservatorship caseload.

Community obligations. Enforcing an acquirer's obligations to its community and encouraging it to meet such obligations are essentially functions of the financial supervisory agency which regulates an acquirer. In enacting FIRREA, Congress recognized that such supervisory functions would not be exercised by the RTC:

> "Neither the Oversight Board nor the RTC, whether in its corporate capacity or in its capacity as conservator or receiver, act as a supervisor or regulator of insured financial institutions. The appropriate Federal bank regulatory agency retains such status for all purposes."

Under the Community Reinvestment Act, the community credit record of an institution that applies to acquire an RTC institution will be evaluated by the Federal financial supervisory authority that created such a record as part of its examination of the acquirer. It is the responsibility of the supervisor to review a potential acquirer's community reinvestment record in considering the institution's application to acquire a failing thrift.

Assets acquired and sold

There are two groups of assets under the control of the RTC: those in conservatorship and those in receivership. As of March 31, 1990, there were 350 institutions in conservatorship with gross assets, in book value, of $159.9 billion (based on December 31, 1989 financial data). The composition of assets held at that time was as follows:

Table 1

CONSERVATORSHIP ASSETS
350 Conservatorships as of March 31, 1990
Book Value of Gross Assets

($ billions)

Cash and securities	$41.6	26%
Mortgages	$80.4	50%
Other loans	$13.5	8%
Real estate owned	$13.8	9%
Other assets	$10.6	7%
Total	$159.9	100%

The composition of assets under the control of RTC receiverships as of March 31, 1990 was as follows:

Table 2

RECEIVERSHIP ASSETS
52 Receiverships as of March 31, 1990
Book Value of Gross Assets

($ billions)

Cash and securities	$ 1.7	13%
Mortgages	$ 7.1	53%
Other loans	$ 0.9	7%
Real estate owned	$ 2.9	22%
Other assets	$ 0.7	5%
Total	$13.3	100%

The largest part of the RTC's asset disposition efforts has been sales from conservatorships. This follows from the guidance provided by the Oversight Board in the Strategic Plan, which provides "to the extent feasible and cost effective, the asset side of the balance sheet [of thrifts in conservatorship] should be reduced through the packaging or securitization and sale of

financial assets."

While the RTC has compiled a substantial record on sales from conservatorships, there has been less progress in disposing of receivership assets. To some extent, this is understandable, because the receivership assets are the most troubled. The Oversight Board and the RTC, however, are anxious to establish a record of steady and solid progress in the sale of assets.

Table 3 shows the level of sales and other collections on assets held or managed by the RTC through March 31, 1990. It shows that, through March 31, 1990, the RTC has reduced the volume of assets under its control -- including both conservatorships and receiverships -- by $41.9 billion through March 31, 1990. We recognize that the most marketable assets are sold first, but we are nonetheless pleased to see this level of reduction.

Of the $173.2 billion in assets under the control of the RTC at the end of March (both in conservatorships and receiverships), $16.7 billion or ten percent was owned real estate. It is too early in the process to assess the impact of RTC real estate sales on local markets.

It becomes critically important to achieve greater progress in the area of asset sales as the number of resolutions increases. At the end of the second quarter of the fiscal year, the estimated fair market value of receivership assets totalled about $7 billion. Under the third quarter operating plan, that total could increase as high as $39.5 billion.

Table 3

Balances of Assets Held or Managed by RTC from Inception through March 31, 1990
402 Institutions *

($ in billions)

Asset Type	Beginning Conserva-torship	Reductions during Conservatorship			Resolution & Receivership Reductions			Balance at March 31, 1990
		Sales Proceeds	Payments & Matur-ities	Other Changes (Net) **	Passed to Acquirer	Principal Collect-ions	Other Changes (Net)	
Mortgages	102.8	-2.3	-7.2	-1.8	-3.8	-0.2	0.0	87.5
Other Loans	17.1	-0.4	-2.3	0.7	-0.9	-0.1	0.2	14.4
Cash & Secur.	60.9	-14.8	-6.0	3.2	-1.0	-0.1	1.1	43.3 ***
Owned Assets	16.3	-1.8	-0.1	2.4	-0.0	-0.1	-0.0	16.7
Other Assets	17.7	-0.6	-0.3	-4.9	-0.6	-0.0	-0.0	11.3
TOTALS	214.9	-19.9	-16.0	-0.3	-6.3	-0.5	1.3	173.2

* At March 31: 350 Conservatorships
52 Receiverships

** Changes in Other Assets include charge-offs of certain intangible assets and equity investments

*** Includes approximately $1.1 billion in receivership cash available for the payment of expenses and dividends.

We must take advantage of the opportunity to dispose quickly of assets which have a ready market, such as single-family mortgages. With the encouragement of the Oversight Board, the RTC recently adopted a policy for providing representations and warranties, as are customary in the marketplace.

We also support the RTC in the procedures recently adopted for determining the market value of assets and establishing prices for sales by auction. We believe that the RTC Board has taken an initial step toward dealing with appraised values which may in some cases overstate market values and so communicated that to the RTC during its deliberations. We find the approach which they have taken to be responsible.

Last month, the members of the Oversight Board met with Chairman Seidman to discuss ways to expedite asset disposition.

Enforcement efforts

We must vigorously pursue those whose criminal and fraudulent activities helped create the current situation. As we observe the failed institutions and contemplate the mounting losses, we continue to be convinced that the government must provide the resources that are needed to make certain that those who have abused insured institutions know the effects of justice.

The RTC has established an Office of Investigations in Washington and has teams of investigators throughout the country. The RTC's investigations staff is planned to reach 300 by year end. These investigators will help to identify negligent and reckless mismanagement, fraud, and criminal conduct that

contributed to thrift insolvencies. The RTC's investigators will be involved throughout civil litigation proceedings and also will assist the FBI and the U.S. Attorneys in criminal prosecutions.

Thrift regulators and institutions have made over 17,000 criminal referrals in the last three years. Over the same period, OTS and its predecessors required 664 institutions to enter into binding agreements terminating unsafe and unsound practices; removed over 150 senior officers and directors from thrifts and forbade them ever again to be employed by an insured thrift institution; and issued 111 cease and desist orders, to stop unsafe and unsound practices and to require restitution. In addition, there are over 1,000 civil law suits seeking to recover billions of dollars from the former directors, officers and professionals -- including accountants and lawyers.

Criminal referrals have already resulted in prosecutions and convictions. The Woody Lemons case in Dallas, Texas provides a dramatic recent example. Lemons, the former Chairman and Chief Executive Officer of Vernon Savings and Loan in Vernon, Texas, was sentenced to spend 30 years in prison, following his conviction for an elaborate bank fraud scheme, misapplication of Vernon's funds, and bank bribery.

As of May 11, 1990, the Dallas Bank Fraud Task Force, in which OTS and RTC personnel are working closely with the Department of Justice, has charged 70 defendants and obtained 49 convictions. That Task Force also has succeeded in having the courts impose criminal restitution orders of over $16 million.

Despite the extent of our present enforcement activities, the government needs to do more. To accomplish this goal, the Attorney General and I are working to see that financial misconduct is punished. We are establishing priorities for the major criminal referrals and civil cases of all financial regulatory agencies and are working with the Department of Justice to see that the most important criminal cases receive the priority attention they deserve.

Affordable housing

Since we last appeared before the Committee, the RTC has proposed and the Oversight Board has approved an interim rule for the Affordable Housing Disposition Program. This rule implements the provisions of FIRREA requiring the RTC to offer certain residential properties to qualified purchasers for a 90-day marketing period. The interim rule was published in the Federal Register on April 16, 1990, and the 60-day comment period is over tomorrow.

The development of this rule was a collaborative process between the RTC and the Oversight Board, as has been the development of a guideline for the disposition of properties having no reasonable recovery value. The guidelines will provide for the conveyance of such properties to be used as shelter for the homeless, housing for lower-income families and other public uses.

In March, the Oversight Board approved a policy encouraging the RTC to enter into agreements with state and local housing

finance agencies to provide low-interest financing for RTC affordable housing properties. Pursuant to that policy, the RTC has entered into commitment agreements in Arizona and Texas and is negotiating for reservations of funds in other key states. The Oversight Board authorized the RTC to spend up to $6 million during fiscal year 1990 to pay commitment fees for bond programs, which could reserve funds to finance the sale of more than 6,000 properties.

The first use of this program will be in Texas, where the state housing agency is expected to issue $140 million in bonds during the next few days to fund approximately 3,500 homes at an expected interest rate of about 8.5 percent. Under the proposed commitment agreement between the RTC and the Texas Housing Agency, the RTC has identified 2,000 homes that are immediately ready for sale and that meet minimum property standards for insurability. The RTC also has committed under that agreement to make ready for marketing a minimum of 4,000 additional homes during the next year.

Approximately 84 percent of the homes currently in the affordable housing inventory are appraised at $50,000 or less and the average appraised value is less than $35,000. With low-interest bond financing, a $50,000 home is affordable to a family with an income of about $18,500, or about 53 percent of median income in Texas, based on standard loan underwriting criteria. This suggests that the affordable housing program will be able to serve the needs of a broad range of lower-income families, not

just those at or near 115 percent of median income.

A major obstacle to implementation of the affordable housing program has been the sheer difficulty of getting thousands of small properties ready for sale. For each property, someone must order an appraisal, authorize necessary repairs, select and contract with a broker and notify the clearinghouses. Since asset management contractors have not yet been selected in large numbers, the RTC's limited staff has performed these jobs on the initial properties. As institutions are resolved and private sector asset managers are selected and placed under contract, the flow of properties into the program is expected to increase dramatically.

We have included as an attachment to this statement a listing of the 100 single-family properties offered for sale under the first phase of the program, along with information about the property and buyers. In addition, we understand that the RTC will be releasing its second inventory of property this week, which will again include a listing of all properties eligible for the affordable housing disposition program.

The RTC has recently reported to the Oversight Board on its experience with the initial pilot program involving the marketing of 100 single family homes in 11 states. Though the report is based on very limited experience, the RTC has offered a number of observations about the program.

First, the income of purchasers ranged from 30 to 115 percent of median, with an average income at 83 percent of

median. Second, prearranged financing through bond or other programs helps to facilitate sales. Third, repairs are needed in most cases (about $1,000 per unit) to bring the properties up to standard. Finally, condominium units and duplex and triplex properties -- which represent a sizeable portion of the inventory -- present particular financing and marketing problems.

As you know, the Strategic Plan did not provide for the immediate use of direct subsidies such as price discounts and concessionary financing. Given the composition of the affordable housing inventory, it now appears that a wide range of lower-income families will be able to buy these properties without RTC subsidies. Nevertheless, the Oversight Board has had the issue of subsidies under study for several weeks and is examining various options.

We hope over the near term to see a rapid increase in the number of properties made available under the affordable housing program. We expect to see those homes sold to the intended beneficiaries of the affordable housing program. The Oversight Board will continue to monitor the affordable housing program carefully and will take the steps necessary to assure that the affordable housing objectives of FIRREA are met.

Minority outreach

The minority outreach efforts of the RTC fall into two major categories: outreach to minority and women contractors and preservation of minority- and women-owned institutions.

The RTC is developing its final policies and procedures for

contracting with minority contractors. Thus far, the RTC has concentrated on getting eligible minority contractors registered. Of the 5,378 contractors that registered with the RTC 1,101 or 20 percent are firms that are owned by minorities and/or women. The RTC has continued to conduct workshops and seminars around the country to promote and provide information about the outreach program.

This registration program represents a critical element in RTC's minority outreach efforts, because it forms the basis for the selection of contractors. The RTC will solicit qualified contractors on a generally random basis, but will include at least one minority or women-owned business or joint venture (unless none has indicated the capability for the specific undertaking).

Based on preliminary data from the first quarter of calendar year 1990, approximately 206 or 15 percent of the 1,411 contracts awarded by the RTC receiverships have been to minority- and women-owned businesses. These contracts represent about $3.9 million of the approximately $25.3 million in total estimated contracting fees.

The Oversight Board is in the process of developing its own regulation applicable to its contracting activities to ensure that firms owned by minorities and women are given the opportunity to participate fully.

The second major area of outreach is an effort to facilitate the continuation of minority institutions, as directed by FIRREA.

The Oversight Board has authorized the RTC to postpone closing a transaction for up to nine months or provide bridge financing for the same duration in order to assist minorities acquiring minority institutions.

There are presently 14 minority thrifts in conservatorship. As of June 12, the RTC has resolved 6 other minority owned institutions. Two of the black-owned institutions were sold to a black-owned bank and another minority thrift was sold to a minority-owned bank. (Only one minority institution has been liquidated). The RTC has provided a loan to a minority acquirer to facilitate the acquisition of another minority institution.

The Oversight Board will supplement these efforts through a program of information and outreach to minority- and women-owned organizations. On a quarterly basis information will be provided to the appropriate organizations which lists all the institutions in conservatorship and identifies those which are minority-owned.

FUTURE REQUIREMENTS

Since the thrift crisis first emerged, there have been a number of sources providing explanations and estimates of the size of the problem. Each has a projection as to how many thrifts will require government expenditures and how much the entire cleanup will cost.

Some give cost estimates on a present value basis while others give them on a cash basis. Some estimate total costs for

resolving the thrift crisis, while others focus on additional funds required.

Estimates also vary on whether they include REFCORP interest costs, interest on working capital, and even the effect on government borrowing costs. Including interest costs treats the savings and loan program differently from other government programs and has the effect of dramatically increasing cost estimates.

In short, there are a myriad of estimates prepared using a variety of methods. Of course, the highest estimates get the most attention. Let me give you our view of where things stand.

FIRREA established a funding structure which has three parts. First, it provided for the payment of prior commitments of FSLIC from the old FSLIC fund, anticipated insurance premiums from SAIF members, other revenues received by FSLIC, and, as a last resort, Treasury funds. At the time FIRREA was signed into law, it was estimated that the cost of winding down FSLIC, in present value terms, would be about $40 billion. Given market conditions, it now appears that the cost will be higher than originally estimated.

FIRREA requires the RTC to review all of FSLIC's 1988 assisted thrift acquisitions and report to Congress and the Oversight Board. Under the Strategic Plan, the report is to be completed by August 31, 1990. At that time, we will be better able to evaluate the long-term cost of these cases and to pursue modifications where savings would accrue.

Second, FIRREA provided $50 billion ($18.8 billion in appropriations, $1.2 billion from the Federal Home Loan Banks, and $30 billion from REFCORP) to resolve the RTC caseload -- that is, insolvent savings and loans which fail during the three years subsequent to the enactment of FIRREA.

At the time FIRREA was enacted, there were approximately 350 insolvent thrifts with assets of about $170 billion and roughly another 150 institutions with $100 billion in assets that would almost certainly become insolvent in the near term. The $50 billion requested was based on the most credible estimates at the time, prepared by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office.

Finally, FIRREA established the Savings Association Insurance Fund (SAIF) to bear the cost of thrift failures which occur after August 9, 1992. Though we did not have a firm estimate of the funds that would be required by SAIF to meet its obligations, FIRREA authorized the Treasury to provide up to another $32 billion for this purpose. The present value of these future commitments is $23 billion.

At the time of the legislation, there was a great deal of uncertainty about the long-term cost of fixing the problem. The Administration stated repeatedly in letters and testimony that we could not say precisely which or how many institutions would fail, the nature and quality of their assets, what it would take to resolve them, how the performance of the economy and the real estate market would affect costs, or where interest rates would

be -- all key variables in estimating the cost. Those same difficulties exist today.

To further illustrate this point, let me quote from a letter which I sent to the Chairman of the Senate Banking Committee, dated June 23, 1989, in response to his question about the adequacy of funds to be provided in FIRREA:

> "Let me emphasize ... that this level of resources, no matter how thoroughly researched or widely agreed upon, is still based only on estimates. Uncertainties include the level of interest rates, the strength of the economy, as well as many other factors that could have a significant impact on the size of the problem. As a result, the actual cost of case resolutions could be higher or lower, depending on the actual circumstances."

As of June 8, there have been a total of 443 thrifts with $222 billion in assets placed in conservatorship. The RTC has resolved 148 cases for which the estimated loss totals about $18 billion. In other words, the RTC has incurred losses equal to about 36 percent of the $50 billion provided in FIRREA.

If the RTC were to resolve all 141 institutions planned for the third quarter of fiscal year 1990, estimated losses would accumulate to $28.3 billion by June 30. At that point, there would be roughly 250 institutions left in conservatorship, plus additional thrifts which come under the RTC's control.

When we appeared before you in January, we stated "when we became convinced that additional resources are necessary to

continue the program, we will request them in a timely manner." It is now clear that the amounts projected and authorized for the RTC in FIRREA will fall short of what is required.

The causes of these increased RTC losses appear to fall in three different categories: the losses in individual thrifts are larger than expected; marginal thrifts are likely to fail sooner than expected (becoming the responsibility of the RTC, not SAIF); and the total number of projected thrift failures has increased.

Why has this happened? We believe the answer lies in a combination of the factors causing uncertainty. The fact is that we now have what we simply could not have had at the time FIRREA was considered and enacted -- actual experience with the cost of marketing insolvent thrifts and their assets. This experience with 148 resolutions has made us more pessimistic about losses embedded in thrifts both inside and outside the RTC's current caseload.

A number of factors have contributed to these higher projections, including ones with which this Committee is very familiar. The first is a general decline in regional real estate markets, particularly commercial real estate. This has been true not only in the southwest, but in the northeast, southeast, and other parts of the country. Unfortunately, thrift assets are heavily concentrated in real estate, whether through direct investments, foreclosed property, or real estate loans. FIRREA sharply curtailed the amount of commercial real estate activities that thrifts can engage in going forward, but obviously, it could

not address the losses already embedded in troubled thrifts.

A related concern involves the institutions that we expected would be the primary purchasers of thrift deposits and thrift assets -- other depository institutions. It's no secret that healthy banks and thrifts have become much more leery about taking real estate assets onto their balance sheets in view of current market conditions. Unfortunately, that is exactly what the RTC is trying to sell to them. The result has been few "whole thrift" transactions, where both good and bad assets pass to an acquirer, and few transactions where the acquirer takes any bad assets. This means more bad assets piling up at the RTC with lower expectations of the ultimate revenues they will produce.

A third factor is interest rates, which are now higher than we had projected. That translates directly into increased operating losses for thrifts in conservatorships and indirectly into softer real estate markets, since interest rates always play a key role in that sector of the economy.

A fourth factor is unexpected losses in below-investment grade bonds, sometimes referred to as "high yield" or "junk" bonds. As you know, FIRREA required thrifts both to divest these bonds and to carry them on their books at market value. The market for these bonds has dropped off substantially in recent months, and virtually all of the major thrift holders of these bonds have been taken over by the RTC. The result is that the RTC is now one of the largest owners of junk bonds, with some $4 billion in its portfolio, and it could end up with substantially

more. At the same time, we just don't know exactly how much these bonds will be worth when they are finally sold.

A fifth factor is that, at least for some purchasers, thrifts just are not as attractive a franchise relative to banks as they once were. This is true in part because it is no longer possible either to run a thrift with low capital or to invest insured deposits in risky activities like direct real estate investment. That is as it should be, since it was activities like these that helped cause the problem.

But other restrictions imposed by FIRREA that are unrelated to safety and soundness, like the tighter qualified thrift lender test, may have also reduced the value of the thrift charter. However, it is too soon to say by how much.

Again, all of these factors have produced not only higher than expected losses, but also an increase in the population of savings and loans that will require attention. To some extent, this results from the fact that cases which we expected to be handled in the future by SAIF -- and for which FIRREA provided $32 billion -- will in fact be handled by the RTC. These cases are merely moving forward in time.

When will more funding be needed? Even though the RTC has committed only about a third of the $50 billion, it could, with an aggressive schedule of case resolutions, run out of funds by the end of this calendar year or early next year. If progress occurs at a slower pace than we would hope, RTC resources will last longer.

Of course it would be possible to slow the pace on the hope that market conditions will improve in the future. We believe that there has been too much speculation already. Our job is to be steady, do the work, and take no further gambles with the taxpayers' money.

How much more will be needed? As we have discussed, there are too many variables to pin a single number on it -- again, number of cases, losses on assets, interest rates, and market conditions, to name a few. The most responsible course, we believe, is to consider a range of possible outcomes.

OTS has indicated that there are some 299 institutions with assets totalling $193 billion which are likely candidates for transfer to the RTC. It should be noted that the OTS figures are as of April 27, 1990 and include 30 institutions (as of June 8) which have since come under the control of the RTC. We cannot say for sure how many more of this group will have to be resolved by the RTC.

There are another 315 thrifts with $152 billion in assets for which the future is uncertain but which currently have positive tangible net worth and do not require assistance. We simply do not know which and how many of these institutions will come to the RTC and what condition they will be in when they get there.

In short, at this point in time, the number of institutions which the RTC will have to resolve is simply unknowable. Yet this number drives the cost estimate.

Another source of uncertainty is the level of loss incurred by the RTC on institutions which come under its control. Losses in turn depend on a variety of factors which are difficult to predict. What will be the condition of institutions taken over by the RTC? How many will be resolved on a whole thrift basis and how many clean?

The more liquidations and clean thrift resolutions that the RTC does, the more assets it must sell and the more uncertainty there is about losses. The discount which the market places on assets will vary by category. For example, performing mortgage loans generally can be sold for a higher percentage of their book value than can owned real estate. In the end, the loss rate on assets will depend on unpredictable factors such as market conditions, including the state of the real estate market, and interest rates.

This is clearly a formidable list of factors, each of which can substantially affect the total cost of resolving the RTC's caseload of institutions. For example, a reasonable lower limit on the number of institutions which will have to be resolved, together with small, medium, and high levels of losses on selling the assets of these thrifts, produce cost estimates (in present value terms) of $89 billion, $97 billion, and $114 billion.

For reference, the estimates in this statement should be compared with $73 billion provided in FIRREA. In other words, they include the $50 billion provided for the 1989-92 period and the $23 billion (in present value terms) provided for the

succeeding eight years.

The same loss factors applied to a reasonable upper limit on the number of institutions to be resolved yields cost estimates (in present value terms) of $99 billion, $113 billion, and $132 billion. Again, these figures should be compared with amounts already provided by FIRREA, not added to them.

Of course, one could make even bleaker assumptions and make an estimate based on even higher populations of failed thrifts and even higher loss factors. This would dramatically increase the top range of the cost estimate. While such an scenario is theoretically possible, we believe it to be quite unlikely under any reasonable set of economic conditions.

As has become the convention, all of these estimates are given in present value terms. Presenting estimates in constant dollars allows us to compare better, but admittedly does also produce a lower total than nominal dollar estimates.

Any attempt to convert these present value costs to yearly expenditures must incorporate an additional factor, the pace at which the RTC can resolve institutions. This greatly affects the amount of loss which the RTC must absorb on a yearly basis. A representative range of the resources the RTC may need in fiscal year 1991 would be about $30 billion to slightly over $50 billion, excluding working capital. FIRREA already provides some of these resources to fund losses through REFCORP.

The other major source of uncertainty in measuring the yearly effect of RTC spending is of course working capital. We

have provided the RTC access to working capital through the Federal Financing Bank. When the RTC uses these borrowed funds to acquire assets, it counts in the budget as an outlay; when assets are sold, it counts as a receipt. Thus RTC's short-term borrowing requirements will result in enormous budgetary swings and distort the true picture of the deficit.

All of this suggests that there are too many unknowns to provide a single estimate of the ultimate cost. Taking into account all of the uncertainty and all of the variables, it appears that the cost of resolving institutions which are likely to come under the control of the RTC will be in the approximate range of $90 billion to $130 billion. Once again, these figures are in present value terms and include the $73 billion provided in FIRREA ($50 billion for 1989-92 and $23 billion for future SAIF cases).

How should additional funds be raised? The Federal Home Loan Bank system simply does not have the capacity to back substantially more Resolution Funding Corporation (REFCORP) borrowing. Additional resources will have to come from the Treasury funds.

Finally, how should the funds be provided? There appear to be two basic choices: either provide a specified amount to cover some or all remaining losses or provide the RTC such sums as are necessary to complete the job. No matter how the funds are provided, it will not change the cost of resolving the savings and loan crisis. This is not a discretionary activity; the

government's deposit guarantees must be fulfilled.

There is precedent in the federal budget for providing indefinite authority to fund mandatory activities. Congress can choose to provide resources to the RTC in increments, but that means having to face the prospect of returning at relatively short intervals as markets changes and, along with them, the estimates.

The RTC faces another important constraint in the form of FIRREA's obligation limitation. This is the provision which limits obligations -- most notably, working capital borrowings -- to the amount of unused REFCORP authority, cash on hand, and 85 percent of the fair market value of assets held by the Corporation.

The RTC is likely to run up against the obligation limit as soon as or even sooner than it reaches $50 billion in losses. If the RTC cannot raise additional working capital and the cost of acquiring assets exceeds the amount generated from sales, it cannot proceed with resolutions.

The Oversight Board intends to work with the Congress and the Administration to develop an approach which will provide the RTC the resources necessary to finish the job, while maintaining adequate controls. Given the enormous significance of this issue for the federal budget, we believe that this is a matter which should be considered in the current budget discussions between the Administration and the Congressional leadership.

In closing, we would echo a view expressed recently by Chairman Seidman. This is a long, hard job and it will take an extended period of time to finish it. However, we stand behind the commitment made by President Bush in his first weeks in office: protect depositors; clean up the industry at the least cost to the taxpayers; and punish the criminals.

ATTACHMENT 1

Among the requirements established in FIRREA for this appearance, Oversight Board must:

-- "provide an estimate of the short-term and long-term cost to the United States Government of obligations issued or incurred during such period;" and

-- "describe the costs incurred by the Corporation in issuing obligations, managing and selling assets acquired by the Corporation."

As of March 31, the RTC had issued about $2.5 billion in obligations in the form of short-term working capital borrowings from the Federal Financing Bank. No significant costs were incurred in connection with the issuance of these obligations. As required by FIRREA, these borrowings are backed by assets having an estimated fair market value substantially in excess of $2.5 Billion, in order to comply with the 85 percent test. Based on current projections of market value, we expect that the U.S. Government ultimately will not incur any cost in connection with these short-term obligations.

At the present time, virtually all of the assets under the RTC's control are managed either by institutions in conservatorship or, with respect to receivership assets, by acquirers pursuant to short-term contracts. Thus, for the reporting period, the costs of managing and selling RTC assets has been borne at the conservatorship and receivership level, and about $30 million was paid to private contractors for this

purpose. It should be noted, however, that the RTC's operating plan for the third quarter of fiscal year 1990 contemplates an expenditure of $70 million for payment of fees to asset management contractors, reflecting the anticipated widespread use of asset management agreements.

AFFORDABLE HOUSING SALES FROM 100 Units Demonstration

EASTERN REGIONAL OFFICE - (ATLANTA)

		PROPERTY TYPE	TIME ON MARKET (Days)	Appraised Value	List Price	Sales Price	Family Size	Buyer's Income	# of Offers	INCOME ELIGIBILITY LIMIT	BUYER'S INCOME As % of ELIGIBILITY	OFFEROR's INCOME < 80%	OFFEROR's INCOME 80%+	FINANCE SOURCE	RTC Repair Cost
1	AL	CONDO	51	$33,000	$34,500							0	0		
2	AL	CONDO	51	$34,000	$37,900							0	0		
3	AL	CONDO	51	$35,500	$37,000							0	0		
4	AL	CONDO	51	$35,500	$37,000							0	0		
5	FL	SF	51	$35,000	$38,000							0	0		
6	FL	SF-2	51	$26,500	$29,150							0	0		
7	FL	SF-4	51	$35,000	$68,200							0	0		
8	FL	CONDO	51	$44,000	$44,000							0	0		
9	SC	CONDO	51	$31,000	$31,000							0	0		
10	SC	CONDO	51	$30,000	$30,000							0	0		
11	SC	CONDO	51	$29,000	$31,900							0	0		
12	SC	CONDO	51	$30,000	$30,000							0	0		
13	SC	CONDO	51	$31,000	$31,000							0	0		
14	PA	SF	51	$35,000	$38,000							0	0		
15	PA	SF	51	$15,000	$16,500							0	0		
16	LA	CONDO	60	$8,800	$8,800							0	0		
17	LA	SF	60	$36,900	$36,900							0	0		
18	LA	SF	60	$23,900	$23,900							0	0		
19	LA	SF	60	$52,800	$52,800							0	0		
20	LA	CONDO	60	$5,500	$5,500							0	0		
21	LA	SF	60	$55,900	$55,900							0	0		
22	LA	CONDO	60	$8,800	$8,800							0	0		
23	LA	SF	60	$29,500	$37,950	$30,000	2	$8,000	1	$30,700	26.06%	1	0		
24	LA	CONDO	60	$8,000	$8,000							0	0		
25	LA	SF-3	60	$33,500	$33,500							0	0		
26	LA	SF	60	$48,900	$48,900							0	0		
27	LA	SF	60	$25,000	$27,500	$26,250	3	$17,727	1	$34,550	51.31%	1	0		
28	LA	SF	60	$50,900	$50,900							0	0		
29	LA	SF	60	$67,100	$67,100	$67,000	2	$17,367	1	$30,700	56.57%	1	0		
30	LA	SF	60	$47,900	$47,900							0	0		
31	LA	SF	60	$30,900	$30,900							0	0		
32	LA	SF-4	60	$42,000	$42,000							0	0		
33	LA	SF	60	$30,500	$37,950	$34,000	3	$11,326	1	$34,550	32.78%	1	0		
34	LA	SF-4	60	$51,900	$51,900							0	0		
35	LA	SF	60	$67,500	$67,500							0	0		
36	LA	SF	60	$49,500	$49,500							0	0		
37	LA	SF	60	$57,900	$57,900							0	0		
38	LA	SF-2	60	$64,900	$64,900							0	0		
39	LA	SF	60	$17,500	$17,500							0	0		
40	LA	SF-4	60	$51,900	$51,900							0	0		
SUBTOTAL\AVERAGE				$36,185	$36,714	$39,313	3		4	$32,625	46.89%	4	0		

TOTAL SALES\ERO - 4

Attachment 2

AFFORDABLE HB SALES FROM 100 Units Demonstration

SOUTHWEST REGIONAL OFFICE - (DALLAS)

		PROPERTY TYPE		TIME ON MARKET (Days)	Appraised Value	List Price	Sales Price	Family Size	Buyer's Income	# of Offers	INCOME ELIGIBILITY LIMIT	BUYER'S INCOME As % of ELIGIBILITY	OFFEROR's INCOME < 80%	OFFEROR's INCOME 80%+	INANCE SOURCE	RTC Repair Cost
1		TX	SF	14	$48,500	$48,500	$48,500	1	$28,279	2	$33,000	85.69%	1	1		$42
2		TX	SF	74	$45,500	$45,500	$45,500	1	$27,450	1	$33,000	83.18%	0	1		$3,21
3		TX	SF	9	$49,500	$46,000	$46,000	4	$37,000	4	$47,150	78.47%	0	4		
4		TX	SF	9	$48,500	$48,500	$48,500	2	$16,005	1	$37,700	42.45%	1	0	CONV	$3,21
5		TX	SF	32	$65,400	$66,000	$66,000	5	$31,611	1	$50,900	62.10%	1	0	FHAB	$69
6		TX	SF	74	$59,000	$59,000							0	0		$4
7		TX	SF	43	$57,500	$59,000	$59,000	4	$30,322	1	$47,150	64.31%	1	0	FHAB	$1,62
8		TX	SF	74	$52,000	$57,000							0	0		$4
9		TX	SF	9	$38,000	$39,000	$39,000	2	$23,940	1	$37,700	63.50%	1	0	FHAB	$3,4
10		TX	SF	10	$54,200	$54,200	$54,200	3	$33,290	2	$42,450	78.42%	0	2	FHA	$3,7
11		TX	SF	9	$27,000	$26,500		1	$15,660	3	$33,000	47.45%	1	2	FHA	$3,51
12		TX	SF	15	$12,000	$12,000	$12,000	3	$19,920	3	$42,450	46.93%	2	1	UNAV	$8
13		TX	SF	33	$23,000	$23,000	$23,000	3	$38,467	2	$42,450	90.62%	0	2		$49
14		TX	SF	30	$27,600	$27,600	$27,600	1	$25,946	1	$33,000	78.62%	0	1	FHA	$2,61
15		TX	SF	74	$47,000	$47,000	$47,000						0	0		$1,01
16		TX	SF	9	$55,000	$55,000	$55,000	3	$34,650	2	$42,450	81.63%	1	1		
17		TX	SF	14	$50,000	$50,000	$50,000	2	$17,391	3	$37,700	46.13%	1	2	UNAV	
18		TX	SF	17	$50,000	$50,000	$50,000	1	$30,720	3	$33,000	93.09%	0	3	FHA	
19		TX	SF	74	$39,000	$39,000	$39,000						0	0		$4
20		TX	CONDO	16	$44,000	$44,000	$44,000	1	$25,038	2	$33,000	75.87%	1	1	CONV	$4
21		TX	SF	9	$49,500	$49,500	$49,500	3	$40,064	1	$42,450	94.38%	0	1	CONV	$2,43
22		TX	CONDO	14	$43,000	$43,000	$43,000	1	$26,420	2	$33,000	80.06%	0	2	UNAV	$1,6
23		TX	SF	9	$46,000	$46,000	$46,000	1	$22,073	1	$33,000	66.89%	1	0	CONV	
24		TX	CONDO	9	$44,000	$44,000	$44,000	1	$30,008	1	$33,000	90.93%	0	1	UNAV	$6
25		TX	SF	37	$34,000	$34,000	$34,000	1	$31,950	1	$33,000	96.82%	0	1	FHAB	$71
26		TX	SF	14	$49,300	$49,300	$49,300	3	$40,064	2	$42,450	94.38%	0	2		
27		TX	SF	32	$33,000	$33,000	$33,000	1	$20,000	1	$33,000	60.61%	1	0	FHA	$4
28		TX	SF	9	$44,000	$44,000	$44,000	4	$34,939	4	$47,150	74.10%	1	3	FHAB	$5
29		TX	SF	16	$44,000	$44,000	$44,000	1	$28,687	1	$33,000	86.93%	0	1	CONV	$7
30		TX	SF	74	$47,000	$47,000	$47,000					-	0	0		$1,01
31		TX	CONDO	9	$30,000	$30,000	$30,000	1	$29,610	2	$33,000	89.73%	1	1	CONV	$2,6
32		TX	SF	17	$66,000	$66,000	$66,000	3	$39,690	3	$42,450	93.50%	1	2		
SUBTOTAL\AVERAGE					$44,453	$44,581	$40,128	2	$24,350	51	$38,207	63.73%	16	35		$1,1

TOTAL SALES\SWRO - 27

AFFORDABLE HOUSING SALES FROM 100 Units Demonstration

	State	PROPERTY TYPE	TIME ON MARKET (Days)	Appraised Value	List Price	Sales Price	Family Size	Buyer's Income	# of Offers	INCOME ELIGIBILITY LIMIT	BUYER'S INCOME As % of ELIGIBILITY	OFFEROR's INCOME < 80%	OFFEROR's INCOME 80%+	FINANCE SOURCE	RTC Repair Cost
CENTRAL REGIONAL OFFICE - (KANSAS)															
1	AR	SF	67	$15,000	$15,000							0	0		
2	AR	SF	67	$26,300	$26,300							0	0		
3	AR	SF	22	$52,500	$59,850	$52,500	2	$25,000	1	$29,800	83.89%	0	1	FHAB	
4	AR	SF	67	$22,100	$22,100							0	0		
5	AR	SF	67	$23,600	$23,600							0	0		
6	AR	SF	67	$32,100	$32,000							0	0		
7	NE	SF	59	$21,000	$21,000							0	0		
8	NE	SF	79	$11,500	$11,500							0	0		
9	IA	SF	59	$10,000	$10,000										
10	IA	SF	59	$9,300	$9,300										
11	IA	SF	59	$16,000	$16,000										
12	IA	SF	59	$4,800	$4,800										
13	IA	SF	59	$14,700	$14,700										
14	IA	SF		$7,875	$7,875	$7,250	1	$9,000	1	$24,850	36.22%	1	0	Cash	
15	IA	SF	62	$40,950	$40,950	$39,000	4	$28,000	1	$35,500	78.87%	1	0		
16	KS	SF	67	$21,000	$21,000							0	0		
17	KS	SF	67	$5,775	$5,775							0	0		
18	KS	SF	67	$13,650	$13,650							0	0		
19	KS	SF	67	$15,000	$15,000							0	0		
20	KS	SF	67	$24,150	$24,150							0	0		
SUBTOTAL\AVERAGE				$19,365	$19,728	$32,917	2		3	$30,050	66.33%	2	1		
TOTAL SALES\CRO - 3															
WESTERN REGIONAL OFFICE - (DENVER)															
1	CO	CONDO	59	$32,500	$32,500							0	0		
2	CO	SF	14	$37,000	$37,000	$35,000	2	$30,000	1	$30,350	98.85%	0	1	FHA	
3	CA	SF	59	$65,000	$65,000							0	0		
4	CA	CONDO	59	$20,000	$20,000							0	0		
5	CA	CONDO	21	$38,000	$38,000	$38,000	1	$17,000	1	$35,500	47.89%	1	0	FHA	
6	CA	SF	30	$53,000	$53,000	$51,000	2	$26,925	1	$27,000	99.72%	0	1	FHA	
7	CA	SF	59	$59,000	$59,000							0	0		
8	CA	CONDO	59	$51,000	$51,000							0	0		
						[illegible]			[illegible]	[illegible]	[illegible]	1	2		

AFFORDABLE HOUSING SALES FROM 100 Units Demonstration

PROPERTY TYPE	TIME ON MARKET (Days)	Appraised Value	List Price	Sales Price	Family Size	Buyer's Income	# of Offers	INCOME ELIGIBILITY LIMIT	BUYER'S INCOME As % of ELIGIBILITY	OFFEROR's INCOME < 80%	OFFEROR's INCOME 80%+	FINANCE SOURCE	RTC Repair Cost

NOTES:

1) SW Region received full market value offers and multiple offers. When multiple offers were received, the system of selection was based on time preference, reflecting date of first offer; in cases of substantially similar offer, preference was also given to the purchasers in the lower income range when purchasers met other qualifying ratios. In instances when an offer fell through a backup offer was presented by the broker for consideration and acceptance.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
July 11, 1990

CONTACT: Office of Financing
202/376-4350

RESULTS OF AUCTION OF 7-YEAR NOTES

The Department of the Treasury has accepted $8,000 million of $47,015 million of tenders received from the public for the 7-year notes, Series F-1997, auctioned today. The notes will be issued July 16, 1990, and mature July 15, 1997.

The interest rate on the notes will be 8-1/2%. The range of accepted competitive bids, and the corresponding prices at the 8-1/2% interest rate are as follows:

	Yield	Price
Low	8.55%*	99.741
High	8.58%	99.586
Average	8.57%	99.637

*Excepting $5,000 at lower yields.

Tenders at the high yield were allotted 100%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 10,681	$ 10,681
New York	45,501,773	7,452,773
Philadelphia	6,903	6,903
Cleveland	14,380	14,380
Richmond	34,438	34,438
Atlanta	11,586	11,586
Chicago	1,060,609	350,609
St. Louis	24,572	20,572
Minneapolis	23,268	22,768
Kansas City	19,605	19,605
Dallas	7,439	7,439
San Francisco	296,261	44,561
Treasury	3,883	3,873
Totals	$47,015,398	$8,000,188

The $8,000 million of accepted tenders includes $524 million of noncompetitive tenders and $7,476 million of competitive tenders from the public.

In addition to the $8,000 million of tenders accepted in the auction process, $100 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $271 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-870

THE WHITE HOUSE

Office of the Press Secretary
(Houston, Texas)

For Immediate Release July 10, 1990

PRESS BRIEFING BY
SECRETARY OF THE TREASURY NICHOLAS BRADY

George R. Brown Convention Center
Houston, Texas

6:13 P.M. CDT

MR. HART: Good evening. Secretary of Treasury Nicholas Brady is here to brief on summit economic issues. This briefing will be on the record for sound and camera. The Secretary will have a brief opening statement and then take your questions.

Mr. Secretary.

SECRETARY BRADY: Thank you, Steve.

Good afternoon. The Houston Economic Summit meeting of the leaders of the major industrialized nations comes at a time of positive change and great opportunity in the world economy. The outlook for extending the eight-year-old economic expansion and the G-7 economies remains good, creating the prospect for new jobs and rising living standards. At the same time, dramatic political and economic reform efforts are underway in Eastern Europe and, equally important, commitment to market-based economies is transforming Latin America as well.

The central challenges facing leaders of the industrialized democracies are to encourage continued growth in their own economies and continued progress toward economic reform in developing countries.

Although work on the economic communique will continue this evening, there will be further discussions among the leaders tomorrow morning. But there is solid consensus on several points. The leaders will reaffirm the economic policy coordination process that has contributed importantly to economic stability and to sustained growth. They will also reaffirm their commitment to reduce trade and current account balances, as well as structural impediments to growth.

There is consensus among the leaders that the Uruguay Round of trade negotiations must proceed to a successful conclusion. It is essential to eliminate trade barriers and extend GATT disciplines to new areas including services, trade-related investment measures and intellectual property in order to strengthen the trading system and promote economic growth worldwide.

There is general agreement on the need to reduce expensive and inefficient barriers to trade and agriculture, although vigorous discussion continues on the specific elements of a multilateral solution.

The leaders are agreed that they will continue to provide economic assistance in Eastern Europe and Latin America. The aid is structured to encourage continued economic reforms.

The question of how to encourage economic reform in the Soviet Union will be studied by the IMF, the World Bank, the OECD, and the EBRD. The IMF will convene these organizations for the

MORE

purpose of making the study, and it will be made in close consultation with the EC.

The leaders have noticed the progress that has occurred in the past year in reducing commercial bank debt burdens under the strengthened debt strategy, and they have discussed President Bush's Enterprise for the Americas, which involves measures to liberalize trade and investment regimes in Latin America and the Caribbean as well as reduction of official debt in that region.

The leaders are also discussing environmental issues, and we expect that their communique will include a strong commitment to cooperate on global environmental problems. The U.S. has been a leader in addressing these issues in our own economy, as well as encouraging greater economic environmental emphasis in the international financial institutions.

I'd be glad to take your questions.

Q Mr. Secretary, precisely what do you expect this mission to study the Soviet Union to analyze? What is its purpose? And what types of recommendations is it empowered to make in terms of Western assistance?

SECRETARY BRADY: Well, it's empowered -- I'm not going to prejudge the study, and nobody tried to today. The instructions to the group will be to study the Soviet economy, try to come up with a quantification and quality study of what exactly the conditions are in the Soviet Union; how the reform efforts that Chairman Gorbachev has talked about are going to be put into place; and what kind of technical assistance might be involved in aiding those reform movements.

So what precisely the study will say nobody even brought up.

Q Well, you say what kind of technical assistance to provide -- are you suggesting that if this group suggests direct Western economic aid, the U.S. would still oppose that?

SECRETARY BRADY: I'm not suggesting anything. I'm suggesting what we'll do is wait and see how the study comes out first.

Q What about the question of other countries like West Germany and France providing direct economic aid at this time? Has that been addressed?

SECRETARY BRADY: Well, President Bush, of course, noted the fact that Germany has indicated that they're going to provide support for the Soviet Union, and indicated that every country has to do what they think on a bilateral basis is in their own best interest.

Q Mr. Secretary, it's common for a government to deal with a difficult problem by studying it. Why should we believe that this study will amount to anything that will lead to anything worthwhile?

SECRETARY BRADY: I don't know of any financial problem that you can make your mind up on what you ought to do until you have some facts. I think the central element that you hear from everybody who's been to Russia, who discusses the problem is they don't know exactly what the circumstances are. So the IMF is going to convene this group, including the World Bank, the OECD, and the EBRD, and they're going to produce something. And it's supposed to be produced in six months. And I think that will be the basis on which people can make their mind up.

Q Do you think this will lead to finanical aid to the

Soviet Union?

SECRETARY BRADY: I don't know where it will lead. If I knew the answer to that, we wouldn't have put the study together.

Q What exactly was decided on farm subsidies?

SECRETARY BRADY: Are you talking about the agricultural problem in the Uruguay Round? Well, I can say this about the Uruguay Round and the discussion that took place today: I think substantial progress has been made. There hasn't been so much progress made at this particular moment that any conclusive language has been decided upon. That will take place tonight, and the Sherpas will be working way into the late hours to come up with that. But the intention of the heads was to try and move forward the status of the Uruguay Round from where it was after the OECD meeting when, I'm sure you're aware, there were two widely-divergent points of view.

Q Mr. Secretary, can you tell us what or who is the hang-up then on agricultural subsidies?

SECRETARY BRADY: Well, I don't think you can point to any one person because the problem has been described any number of times. The EC has a fairly well-defined position; the United States has a well-defined position; the so-called Cairns group, which includes Australia, New Zealand and several other agricultural nations, and Canada all have a different kind of way of looking at it. So those positions basically haven't changed in essence. But in terms of moving the problem forward, I think you'll see in communique language a different way of looking at this.

Q Mr. Secretary, in aiding the Soviet Union, is there any commitment from West Germany, France, the others -- Italy -- to curtail, slow down, in any way inhibit their own intentions to proceed with aid until the study is completed?

SECRETARY BRADY: Well, the only specific offer of aid that I know about is the one that has been put forward by West Germany. And there was no discussion on their part of slowing down.

Q Mr. Secretary, you say the exact language on agriculture has not been worked out -- I understand that. But how about sketching the outline of what has been agreed to on agriculture?

SECRETARY BRADY: You know, if I could do that I could give you the precise language. What I'm trying to say is I think there was movement from the place that we were lodged at after the OECD. And that will produce language, hopefully late tonight, which will be revealed by the heads of state tomorrow. But I can't give you that language now because it hasn't been agreed to.

Q But what is the movement?

SECRETARY BRADY: The movement is off the position that existed at the OECD.

Q Well, who moved?

SECRETARY BRADY: Both sides moved.

Q Is it correct that the U.S. has rejected Mrs. Thatcher's proposal that the language embrace an aggregate measure of support covering the entire negotiations in agriculture? And is it the case that the U.S. is still insisting that the agriculture negotiation be divided into chapters covering the three main areas?

SECRETARY BRADY: Those subjects were discussed. Not in detail because the heads didn't get into them in that detail. But that certainly is one of the matters that has to be resolved before

too much more progress is made.

Q The French feel that, just like at the Dublin EC Summit, there was the call for a study and analysis of Soviet requirements, but at the same time, an implicit call for action for aid at the end of the study -- that this has the same effect. Namely, that the G-7 now have committed themselves not only to analysis, but then to action following the report. Is that your understanding?

SECRETARY BRADY: No. My understanding is that these four organizations which will be convened by the IMF will make a study. What the elements are in that study we will leave up to those organizations. I would only point out to you that with regard to the IMF, at least, this is their business -- trying to tranform economies from command societies into free market organizations. So I think it's particularly important that they are convening the movement. The World Bank and the OECD and the EBRD are also involved in that business.

Q Mr. Secretary, there's a report by Reuters this afternoon that the West Germans claim that there was a compromise on the agricultural issue. That it dealt with an objective measure to gauge the reduction of subsidies, which is something the EC has wanted. Is there any truth to that?

SECRETARY BRADY: I heard that report and I don't think it's correct. I mean, I think there are all manner of things discussed in the Sherpa discussions, but that never reached the room that I was in with the heads. So I don't believe that's accurate. But I will say that people are trying to come up with solutions and this may have been one that's offered. I don't personally know that for a fact, but I think there will be some movement because the heads want movement.

Q Mr. Secretary, throughout the day there have been rumors of deals, trade for agriculture, agriculture for environment and something to be named later. Are there deals in this, or are you taking this one piece at a time?

SECRETARY BRADY: One piece at a time. In the sense that you're talking about it, that's not accurate.

Q Those have been the rumors.

SECRETARY BRADY: I'm not saying they aren't rumors; I think they're unfounded.

Q Mr. Secretary, is the agreement on the Soviet study being relayed to President Gorbachev this evening? And if so, how?

SECRETARY BRADY: That's a good question. The question was, has the recommendation on the Soviet study been relayed to Chairman Gorbachev? I don't believe so, but I came straight from the meeting here. I don't even know that the four organizations that are making the study have been actually informed. (Laughter.)

Q Is the Soviet study to come up with recommendations for the Soviets, and are they then required to implement them in order to receive Western aid?

SECRETARY BRADY: I want to point out that this is not a typical IMF study where the nation dealing with the IMF agrees to a program and then funds ensue. This is simply a taking advantage of the know-how in the IMF. And I want to make clear that it will also include as equal partners to the study the World Bank, the OECD and the EBRD to the extent that it's got it's organization forming as part of that study. So as I said at the beginning, there was no letter of instructions given to these banks, and as I mentioned a minute ago, they haven't even been talked to yet.

MORE

Back there. The woman with the heart on. Heart -- no, it's tulips.

Q Whatever. Throughout all of this it's been said that the United States and the other countries wouldn't be negotiating GATT here, that they would be looking for a political statement. Is what's going on now to negotiate specifics or to change the approach to dealing with agriculture, or are we still just arguing over a political statement in support of the negotiations?

SECRETARY BRADY: I guess when you get the heads of seven countries together, leading countries of the world, pluse the EC, to some large extent, that's a political meeting. But I would have to say that what's being strived for now by the Sherpas is language that can be re-presented to the heads probably tomorrow morning that they can agree on. To some extent, the extent that it moves away from it where it was at the OECD, there's certainly a political input to that; otherwise it wouldn't have moved.

Q Will the communique say specifically that nations that want to have immediate aid to the Soviet Union -- that the G-7 blesses that or has no objections to it?

SECRETARY BRADY: No, it won't be specific in the manner that you've stated. I mean, I'm not trying to be cute about answering your question.

Q Mr. Secretary, one U.S. official called this agreement with the Soviets -- on the Soviet study a victory for the United States. In what sense is it a victory?

SECRETARY BRADY: Well, I don't think it is. I don't know who would say that. (Laughter.) In my mind, there wasn't any big battle going on on this particular point. We will try to arrive at a position where we could provide energy for these organizations to go forward and come up with something definitive. You know, I'm sure that every time you've talked about this problem everybody says, well, things are tough in the Soviet Union. But nobody has tried to quantify what the problem is, where the problem is, how much money might be needed, if any is needed, when it might be needed, who needs it. It needs a professional assessment, and that's what was called for.

Q Mr. Secretary, did the subject of reducing the official debts of middle income countries come up at all in this discussion? And if so, what actions were taken?

SECRETARY BRADY: You're talking about the official debt? There was a review of the debt strategy, the strengthened debt strategy, so-called, and President Bush's new initiative for Latin America, both of which received strong support from the heads. And as always, there was discussions about official debt in other countries around the world, but there wasn't any definitive statement on the matter.

Q Mr. Secretary, just for clarification. When this group comes up with whatever they come up with -- findings, whatever you want to call them -- what happens then? I mean, is there another study to determine what to do with the results of this study? Is that how it works?

SECRETARY BRADY: No. But I mean, I don't want to be captious in answering your question. But until the study quantifies the problem, tries to lay out where, in what sectors of the Soviet Union the problem exists, how deep it is, how serious it is, what the status is of trying to fix that problem, then I don't see how that question could be answered. I mean, at every -- when I was in the private sector, some guy came in and said, we need a lot of money, we're not doing so well, that goes nowhere. I mean, people get

specific about how much money, where it's needed, how it's needed, when it's needed, and that's what we're asking for.

Q So you're not looking for this group to come up with any specific recommendations on what steps should be taken.

SECRETARY BRADY: Well, they're entitled to come up with whatever they think moves the problem forward. The President has said at almost every opportunity he supports President Gorbachev in his reform efforts. We want to be of help. Other countries want to be of help. They may do it in different ways, but this study will try to line out what I've just said any number of times. I'm sure you don't want to hear it again.

Q Secretary Brady, you're emphasizing you don't want to go ahead with aid now because you don't know the depth of the problem or how to approach the problem. President Bush has said all along he objects to aid now because of Soviet aid for a Marxist Cuba and other economies. Has he changed, or is there any resolution of those objections in this meeting?

SECRETARY BRADY: Nobody asked me that question. President Bush's answer with regard to the study would be the same as mine. If you're asking at this point what President Bush thinks about providing aid if the Soviet Union called him up on the telephone, I think his answers have been quite clear. While the Soviet Union is providing $5 billion of aid to Cuba, while their missiles are trained on our city, while 18 percent of their GNP is dedicated to defense, it would be very hard for the American people to understand a loan.

Q Cuban missiles or Soviet missiles?

SECRETARY BRADY: Soviet missiles, I'm sorry. Excuse me.

Q The Prime Minister of Poland sent a letter to participants of the summit asking them to reduce Poland's debt burden. Was this letter discussed, and were some conclusions reached?

SECRETARY BRADY: I believe the letter has been discussed by the Sherpas. It was not discussed at today's heads meeting. As you know, the problem of official debt is a very, very complex one. Poland, at March last year, was given by the Paris Club a debt rescheduling whereby all payments on principal and interests were suspended for a year.

Q But the President's Latin American initiative -- did you get a firm commitment of contribution to your proposed Latin American investment plan?

SECRETARY BRADY: We have asked for support from other nations. All of them have asked for the details of how it might be put together, particularly the Japanese Foreign Minister said he would like to have the matter studied and he'd like to send people over here to study it; and, of course, we'd be glad to help on that.

Q Do you have any agreement thus far on the exchange rate language in the communique, and specifically will there again be mention of the need for the Japanese yen to strengthen it?

SECRETARY BRADY: The matter of exchange rate language did not come up today. I think that will be -- I don't believe there will be much change, but it hasn't been talked about by the heads.

All the way back.

Q You mentioned that all manner of things were discussed on the farm subsidies issue, but not the Thatcher formula; at least not in the room that you were in. Could you go into some

more detail about what manner of things were discussed on this issue that we can say that substantial progress was made?

Q Farm subsidies.

Q What was discussed on farm subsidies, if the Thatcher proposal was not?

Q You mention that all manner of things were discussed on the farm subsidies issue, but not the Thatcher formula. What were some of the manner of things that were discussed that lead you to say substantial progress was made?

SECRETARY BRADY: Well, I'm not going to be precise about that because those discussions are going on right this minute. So we'll just have to wait and see how that comes out. Somebody up front so I can hear the question.

Q The economic study of the Soviet Union -- is that the only response the U.S. is going to give to Gorbachev's letter?

SECRETARY BRADY: The U.S. isn't called to give any response. Mr. Gorbachev wrote a letter; obviously the communique will be reported to Mr. Gorbachev when it's finally written on the matter of Soviet aid. I'm sure President Bush will be talking to him as he does from time to time. The letter obviously will have to be answered in due course, but that was not settled today.

Q Are the summit partners going to commit themselves in any way to helping Mr. Gorbachev? I mean, that's sort of a general statement of, we are committing ourselves to aid in some fashion, and we're waiting for results of this study to determine how we will proceed?

SECRETARY BRADY: If I've heard your question correctly, the only aid in terms of loans that I know about is the German proposal to bank loan that will be guaranteed by the German government in part.

Q But -- consider aid in the larger sense. I'm not talking just about direct aid. I mean, aid in --

SECRETARY BRADY: I mean, that's going on all the time. Chairman of the Council of Economic Advisers, Mike Boskin has been to Russia for a week. The Soviet Finance Minister has been to the United States. The head of the Soviet Central has been to the United States, they've come and talked with the Treasury. We've tried to provide whatever information they wanted. It was quite clear from listening to the discussion today that all of the countries at the table had had missions to Moscow and had missions from Moscow. So there are, I'm sure, all sorts of technical assistance going on.

Q Just to clarify. Can we say that the summit nations are committing themselves to a coordinated effort to help the Soviet Union in this time? Economic --

SECRETARY BRADY: When we talk about coordinated effort to help the Soviet Union -- I don't want to go back to the same answer I gave to the gentleman over here -- but the first thing you have to do is find out what the problem is. How deep it is, how wide it is, where it is. So that's the commitment, I think, that will be different tomorrow morning when you read the Communique is that these four organizations have been charged with coming up with that kind of study, and they've been given until the end of the year -- six months. So that puts a time frame on it which I think will be, since this is such an important problem, will be very seriously adhered to.

Q Will there be an endorsement in the Communique of technical assistance to the Soviet Union ongoing and then maybe expanded? Will there be any reference to technical assistance,

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pending the study?

SECRETARY BRADY: Well, I can't read through it just that quickly. I'm sure that there will -- technical assistance was talked about all through the Communique language, so that I think there will certainly be some mention of that that's specific.

Q In Dublin, the European Community decided to have two studies of the same kind. Will they go on with those studies or will there be only just one?

SECRETARY BRADY: No, no, no. The EC will continue their study. The four horses in this study are the ones that I've mentioned a couple times now. The EC is conducting their own study. But frankly, I remember in the announcement of their study that they also were calling on some staff from the OECD and the EBRD as well. So I think they will be drawing from any number of places, but the words, I believe, are in close consultation with the EC. So they will be doing the study at the same time, but they'll be doing their own study.

Q You said Enterprise for Latin American Initiative received strong support from leaders. Have leaders agreed to form $300 million a year to develop the private sector in Latin America, and what will be the next steps in Latin American initiative?

SECRETARY BRADY: Well, as you're well aware the President's initiative was just announced three weeks ago. The Treasury is already working with the IDB to try and flesh out their role in making this proposal effective. And the investment fund that you're talking about is part of it. We've talked about that with some of our G-7 colleagues today and, as I said, at least two or three of them are sending people to the United States to learn more about the details of that.

Q Mr. Secretary, did Kohl and Mitterrand go quietly, or was it a fight?

SECRETARY BRADY: There was no -- there's no fight. I don't know really exactly what you mean. The great thing about President Bush's leadership -- that these meetings are conducted in an atmosphere of constructive help. And when there are differences of opinion, they are stated largely without emotion. And as far as I could see, there were no fights. There were some disagreements, but that's what the meetings are all about.

Thank you very much.

THE PRESS: Thank you.

END 6:39 P.M. CDT

TREASURY NEWS

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STATEMENT OF KENNETH W. GIDEON,
ASSISTANT SECRETARY (TAX POLICY),
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.
JULY 12, 1990

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to discuss tax compliance issues presented by the operation of foreign-owned businesses in the United States. We understand that this Subcommittee is particularly interested in whether U.S. subsidiaries of foreign companies are paying their fair share of U.S. tax. This is part of the broader issue of related-company transfer pricing problems that may arise for both inbound and outbound transactions.

I. OVERVIEW OF THE ISSUE

The focus of this hearing is generally on compliance issues presented by Internal Revenue Code ("Code") section 482. This inquiry involves a review of the Internal Revenue Service's ability to obtain adequate information relevant to intercompany transfers of goods and services and to conduct effective audits of such transactions.

As you know, Code section 482 gives the Internal Revenue Service the authority to distribute, apportion, or allocate gross income, deductions, credits, or allowances between related entities in order to prevent evasion of taxes or clearly to reflect their income. This authority is necessary to prevent taxpayers from structuring transactions in a manner which artificially shifts items of income or deductions to those affiliates that can benefit most from such items. In particular, section 482 is necessary to block the artificial transfer of taxable income to foreign affiliates outside of the U.S. tax jurisdiction.

As Commissioner Goldberg has testified in detail, there are a number of possible scenarios for such artificial transfers of income. Examples include manipulation of the transfer prices at which goods are sold between related parties, provision of services which would not be offered between unrelated parties in comparable transactions, and payment of excessive deductible payments. Current regulations under section 482 test such transactions by applying the internationally accepted "arm's length" standard. Thus the regulations authorize an adjustment of intercompany transactions to the extent they differ from the results which would have been negotiated by unrelated parties. Such adjustments are generally made by reference to comparable transactions between unrelated parties. Where comparable transactions are not available, the regulations use other methods to approximate arm's length results.

In the Tax Reform Act of 1986, Congress amended section 482 to address particular difficulties presented by the transfers of intangible property.[1] This change in the statute applies to all transfers of intangibles. In the legislative history describing the change, however, Congress indicated its particular concern with cases involving transfers of highly profitable intangibles to offshore affiliates where the payments returned to the U.S. were insufficient in comparison to the income earned from the intangible by the foreign transferee. In addition, Congress suggested that a comprehensive study of intercompany pricing rules should be conducted and that consideration should be given to possible modification of the regulations under section 482.

In October of 1988, the Treasury and the Internal Revenue Service published a joint discussion draft of this issue, "A Study of Intercompany Pricing" (the "White Paper"). That study emphasized the need to maintain the current "arm's length" standard under the section 482 regulations, but proposed new methods for applying that standard in cases of transfers of intangible property. We have received voluminous comments from taxpayers, academics, and foreign governments in response to the White Paper and we are participating in ongoing dialogues with interested parties to develop acceptable approaches. The Treasury Department is also working closely with the Internal Revenue Service in developing proposed regulations to implement certain of the suggestions made in the White Paper.

The focus of this Subcommittee today, whether foreign-owned U.S. subsidiaries are paying their fair share of tax, is of course the reverse of the problem presented by outbound transfers of intangibles which Congress addressed in 1986. Yet this contrast illustrates an important principle -- any changes to our

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[1] Section 482 was amended by adding the sentence, "In the case of any transfer (or license) of intangible property (within the meaning of section 936(h)(3)(B)), the income with respect to such transfer or license shall be commensurate with the income attributable to the intangible."

methods for determining the "fair" distribution of income among affiliated entities must be balanced and reasonable. Over-extension of our rules to prevent perceived abuses in cases of outbound transfers by U.S. companies would seriously jeopardize our tax collections from the inbound investments of foreign companies. For example, if new methods for determining transfer prices in the section 482 regulations overcompensate U.S. parent companies for transfers of property to their offshore subsidiaries, these methods when applied to foreign parents of U.S. subsidiaries would exacerbate the very problem which this Subcommittee is examining today. Indeed, given the magnitude of United States investment abroad, all of us concerned with transfer pricing questions must keep in mind that United States actions with respect to cross-border transactions must be viewed as being fair and in accordance with international norms. Otherwise, foreign governments can be expected to respond to protect their interests against unilateral United States actions which those governments deem inappropriate.

It is important to recognize, therefore, that there are no quick statutory or regulatory solutions which would make section 482 cases easy to resolve. It is also important to remember that transfer pricing is an issue with respect to outbound as well as inbound investment. Nevertheless we believe that important developments at the audit level and new compliance rules which were introduced last year will make substantial positive improvements in the IRS's ability to process transfer pricing cases in the context of foreign-owned companies. Before discussing those initiatives, I will review some of the available statistics relating to the performance of these companies and consider their implications in the area of tax compliance.

II. STATISTICAL REVIEW OF COMPLIANCE BY FOREIGN-OWNED COMPANIES

Total foreign direct investment in the U.S. has increased rapidly over the last decade, whether measured by the equity and debt provided by foreign direct investors to their U.S. affiliates (the balance of payments measure of foreign direct investment) or by the total assets owned by these affiliates. More specifically, the assets of foreign-owned U.S. corporations have grown from $205 billion in 1979 to $959 billion in 1987, or about 6 percent of the total assets of all U.S. corporations.[2]

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[2] The nearly $960 billion 1987 level of assets of these foreign-controlled U.S. corporations was financed by about $235 billion in equity and loans from their foreign parent corporations, with the balance provided by minority equity owners (about $50 billion) and unrelated creditors (about $675 billion). The $235 billion balance of payment measure, together with another $35 billion in equity and debt invested by foreign parent corporations in unincorporated U.S. affiliates, accounts for the total $271 billion in foreign direct investment reported for 1987. This balance of payments measure of foreign direct investment has grown to $329 billion in 1988 and to $401 billion in 1989.

Concern has been expressed over the fact that despite the corresponding growth in the revenues received by these companies -- from $242 billion in 1979 to about $687 billion in 1987 (or about 7 percent of the total receipts of all U.S. corporations)-- their income as reported for tax purposes has not shown similar growth. Indeed, over the 1979-1987 period, their net income (as measured by the excess of their total revenues over total deductions, increased by certain items of constructive taxable income and reduced by tax-exempt income) has fluctuated from a high of $6 billion in 1979 to a low of -$1.5 billion in 1986.

In this section, statistics based on the 1987 tax return data as compiled by the Statistics of Income Division (SOI) of the Internal Revenue Service are used to examine the extent to which aggressive transfer pricing and other tax accounting practices may have been used by these firms to reduce their corporate tax payments. While the SOI data can be particularly helpful in suggesting magnitudes, the limitations of using the data for this purpose should be recognized. The extent to which any specific company may have engaged in such practices can only be determined from a detailed audit examination of the tax and other accounting records of the company, including a detailed review of its transactions with related parties.

A comparison of the return earned by multinational corporations with the returns earned by their related suppliers might provide the most direct indication of the presence of potential transfer pricing problems. Although the SOI data allow such comparison for U.S. multinationals, the required information is not available for foreign multinationals. The statistics for foreign-controlled U.S. corporations are instead compared to the corresponding statistics for U.S.-controlled firms. To the extent aggressive transfer pricing practices are used by U.S.-controlled corporations, such comparative analysis may be less helpful in gauging the extent to which such practices are also used by foreign-controlled firms.

A. Low Overall Profitability

As noted, one of the most striking aspects of the rapid increase in direct foreign investment is the rather low net income reported by foreign-controlled U.S. corporations. Exhibit 1 presents information on the gains and losses of foreign and U.S. controlled corporations (as measured by total receipts less total deductions). It also presents information on the assets of these companies and on the tax accounting rate of return (as measured by the ratio of the gains or losses to the assets) for each of the industries in which this Subcommittee has expressed an interest. The statistics presented in Exhibit 1 generally indicate that the low overall profitability does not reflect uniformly poor performance by all foreign-controlled U.S. corporations. Rather, some foreign-controlled U.S. corporations are as profitable as many U.S.-owned firms. However the proportion of firms that incur losses is higher for

foreign-controlled firms. Exhibit 1 also shows that this overall tendency is present in most (but not all) separate industries. Except for motor vehicles (retail) and sporting goods (wholesale), foreign-controlled U.S. corporations have, on average, lower rates of return on assets than their U.S.-controlled counterparts.

It might be tempting to infer from these data that foreign-controlled U.S. firms are practicing aggressive transfer pricing. Why, otherwise, would they accept such apparently unattractive rates of return on their invested capital? However, the interpretation of data such as that included in Exhibit 1 must be done with extreme caution. While aggressive transfer pricing may be one explanation, other factors such as start-up expenses, acquisition indebtedness, the age of the investment, the experience and skills of the management, the specific type of product being produced, and the nature of the manufacturing process also affect the observed returns. In short, careful analysis of more detailed firm-specific data is needed to understand the precise significance of the industry aggregates presented in Exhibit 1. This caveat also applies to all of the other data presented in this section.

B. Lower Gross Profit Ratios

In Exhibit 2, the ratios of gross profit (i.e., gross receipts less cost of sales and operations) to gross receipts (or sales) are noted. If foreign-controlled corporations pay their related foreign suppliers more for the goods acquired than would be paid in an "arm's length" transaction, this would be consistent with a lower gross profit ratio. Exhibit 2 shows that the gross profit ratios for foreign-controlled corporations are indeed much lower than those for U.S.-controlled corporations. On average, the gross profit ratio for foreign-controlled corporations is about 69 percent that for U.S.-controlled corporations, and for firms engaged in the motor vehicle wholesale trade (SOI industry code 5010) it is half that for U.S.-controlled firms.

C. Comparable Interest And Depreciation Expense Ratios

To explore whether foreign-controlled corporations might engage in greater "earnings stripping" (i.e., the reduction in taxable income through the use of leverage, especially that provided by related creditors), the ratio of their interest expense to their net income before interest (total receipts plus interest paid less total deductions) and to their assets are noted in Exhibit 3. Because the interest expense used in these calculations is that paid to all creditors, and not just that paid to related creditors, these ratios suggest, but do not confirm, utilization of "earnings stripping". The results are ambiguous. When measured with respect to the income before interest expense, the statistics indicate that on average foreign-controlled corporations operate with somewhat greater

leverage than U.S.-controlled corporations. For firms in some industries, particularly consumer electronics and electronic components manufacturing (SOI industry codes 3665 and 3670, respectively), this difference is particularly noticeable.

However, when measured against the assets employed, with certain exceptions the foreign-controlled corporations appear to use less leverage. By this measure, which may be more reflective of the financial structure of the firms, the degree of leverage used by foreign-controlled firms engaged in consumer electronics manufacturing (SOI industry code 3665) does not appear to be very different from that used by U.S.-controlled firms, although foreign-controlled firms in the motor vehicle wholesale trade do appear to use a greater degree of leverage than their U.S.-controlled counterparts.

The potentially higher depreciation expenses associated with the start-up of their U.S. operations has been suggested as a possible reason for the lower profitability of foreign-controlled U.S. corporations. These higher charges are assumed to arise either from the more recent acquisition of their depreciable assets or the step-up in basis allowed in certain take-overs. To investigate this possibility, the ratios of the reported depreciation expense to total assets of the U.S.- and foreign-controlled corporations are also noted in Exhibit 3. As may be seen, with the possible exception of firms engaged in motor vehicle manufacturing (SOI industry code 3710), the foreign-controlled corporations do not appear to have appreciably higher depreciation expenses per dollar of assets.

D. Lower Taxes Paid Per Dollar of Receipts

Exhibit 4 provides information on the total receipts, the tax liabilities (after credits), and the ratios of the tax liabilities to total receipts reported by foreign-and U.S.-controlled corporations. On average, foreign-controlled corporations paid less taxes per dollar of receipts than did U.S.-controlled corporations. However, profitable foreign-controlled corporations paid about $4.6 billion in taxes in 1987. Moreover, in two industries -- the motor vehicle wholesale and retail trades (SOI industry codes 5010 and 5515, respectively) -- foreign-controlled corporations paid more per dollar of total receipts than did U.S.-controlled corporations.

E. Conclusion

While aggressive transfer pricing practices may be one explanation for the data presented in Exhibits 1-4, the evidence is not conclusive because firm-specific factors other than transfer pricing may account for the results noted. Nevertheless, on the basis of these aggregate figures, it would seem appropriate to scrutinize carefully the transfer pricing practices of foreign-controlled U.S. firms.

III. INITIATIVES TO ADDRESS THE PROBLEM

Each comparison of related party transactions to the "arm's length" norm requires a thorough analysis of all the relevant facts and circumstances. Two factors are essential in order to process these cases in a manner which is fair to both the government and the taxpayer: a significant commitment of personnel and broad access to the relevant data. We believe that major progress has been made in recent years with respect to both of these factors in the context of foreign-owned corporations operating within the United States.

A. Increased Audit Activity

As Commissioner Goldberg explained, the Internal Revenue Service has for several years been increasing its review of foreign-owned companies, with particular emphasis on the transfer pricing practices between U.S. companies and their foreign affiliates. We are encouraged by the heightened audit activity which has resulted from these efforts and expect that such scrutiny will encourage compliance with international transfer-pricing standards.

The Internal Revenue Service's continued expansion of its Industry Specialization Program should also have a positive impact on audits in the international area. That program has successfully created groups of attorneys and agents to serve as focal points within the Service where issues involving specific industries or transaction types can be developed and analyzed. Attorneys from Chief Counsel (International) and international examiners participate in any of these groups when international tax issues arise.

One factor which makes the audit of cross-border transactions difficult is the need for cooperation among the tax administrators of the different governments. For example, a parent company that manufactures products in a high tax jurisdiction for distribution and sale by its United States subsidiary might route its transactions through a corporation in a low-tax jurisdiction. In this case, both the country of manufacture and the United States have an interest in preventing the shifting of profits into the low-tax country affiliate. For this reason, the Internal Revenue Service is actively pursuing simultaneous examinations where both countries cooperate in the audit of a single group of related taxpayers. Such intergovernmental cooperation should be encouraged and expanded to reach more taxpayers and involve more countries.

B. Legislative Changes to Tax Compliance Rules

Recent legislation has made substantial changes to the rules affecting tax compliance of foreign-owned companies. With respect to access to information, the Revenue Reconciliation Act of 1989 ("the 1989 Act") included, with our support, important

amendments to the reporting and record-keeping requirements applicable to transactions between foreign-owned corporations and their overseas affiliates.

One of the principal problems in reviewing transactions between U.S. subsidiaries and their foreign affiliates is providing the international examiners with access to all relevant data. Adequate information with respect to such transactions is required at each stage of the process: information reporting with the tax return facilitates audit screening; record maintenance requirements ensure that documents related to inter-company transactions are retained for review; and effective summons authority makes such documents available where the taxpayer fails to comply with initial requests.

In many cases involving related party transactions of foreign-owned U.S. corporations, adequate information has been difficult to obtain. Proper allocation of income among such related companies often requires the review of documents which are in the sole custody of the foreign owner. Moreover, the extent to which courts will uphold the IRS's summons power over foreign-based documents depends on the particular facts presented and can be unclear under current case law, at least prior to recent legislation.[3] Even where a summons is legally enforceable, records may not be available due to the foreign owner's having not maintained relevant documents.

Information reporting for audit screening purposes has also been insufficient in certain cases. Under pre-1989 law, Code section 6038A required reporting of information with respect to related party transactions only in the case of U.S. subsidiaries (or foreign corporations engaged in a U.S. business) that were controlled by a foreign person. For this purpose, "control" was defined as at least 50 percent stock ownership by a single foreign person. This ownership test, however, omitted cases where actual control was exercised by substantial foreign owners but 50 percent of the stock was not held by a single foreign person.

Congress determined last year that these compliance and record-keeping provisions were inadequate to provide the information needed in this area. As a result, the 1989 Act substantially amended Code section 6038A to strengthen the record-keeping and compliance provisions applicable to foreign-owned entities.

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[3] United States v. Toyota Motor Corp., 561 F. Supp. 354 (C.D. Cal.), 569 F. Supp. 1158 (C.D. Cal. 1983).

Under the 1989 Act, the threshold for application of Code section 6038A is reduced to 25 percent stock ownership by a single foreign person. In addition, foreign-owned corporations are now required to maintain such records prescribed in regulations which are appropriate to determine the correct tax treatment of related party transactions. To ensure access to relevant documents, foreign affiliates are required to designate the U.S. taxpayer as their limited agent solely for purposes of service of any IRS summons relating to intercompany transaction records.

The 1989 Act also increases the monetary penalties for noncompliance with information reporting and record maintenance requirements. In addition, where a summons is not substantially complied with (or the related party fails to authorize its U.S. agent to receive a summons) the 1989 Act gives the Secretary of the Treasury the discretion to determine the deductions allowed and costs of any property attributable to transactions with that foreign related party.

Several significant procedural protections are incorporated into these new provisions. Taxpayers are granted expedited access to federal court to quash a summons and to challenge the government's determination that they have not substantially complied with a summons. The appointment of the U.S. corporation as an agent will not subject documents or witnesses to legal process for any purpose other than determining the correct tax treatment of intercompany transactions. Moreover, where information exchange provisions under our bilateral tax treaties are adequate to protect the government's interest, the legislative history notes that the IRS will be expected to use the treaty procedure before the expanded summons power.

We believe that these provisions, as finally enacted, reflect the United States' legitimate interests in monitoring and adjusting the tax effects of intercompany transactions between U.S. corporations and their foreign owners. Foreign subsidiaries of U.S. corporations are required to supply similar information and are subject to comparable penalties for noncompliance. We intend to implement these recent statutory changes so that the overall effect of these compliance measures is to treat foreign-owned U.S. companies in a manner which is comparable to the treatment of U.S.-owned companies, recognizing that some differences in method may be necessary where information pertinent to a U.S. tax examination is controlled by a non-U.S. person.

In addition, the 1989 Act provides significant new "earnings stripping" rules which limit the ability of domestic tax-exempt and foreign owners to reduce the taxable income of their U.S. subsidiaries through payments of "interest" where such cash flows are more properly characterized under arm's length principles as nondeductible returns on equity. We believe that such measures

to enforce reasonable thin capitalization principles are consistent with international norms and the United States' obligations under its bilateral tax treaties.

We are currently reviewing public comments with respect to the amendments to section 6038A and the new "earnings stripping" provision. Regulations to implement these provisions have been given a high priority by both the Treasury Department and the Internal Revenue Service.

C. New Compliance Proposals

Additional legislation has recently been proposed to enhance the compliance rules applicable to foreign-owned companies. H.R. 4308 and S. 2410. With respect to the proposed change to apply the amendments to section 6038A to all open tax years, we note that similar effective date provisions have been used for other amendments to procedural requirements. Further, the proposed change to apply similar rules to foreign-owned U.S. branches is designed to conform the rules for foreign branches and foreign subsidiaries. The Administration does not oppose these two suggested changes to the current tax compliance rules. We stand ready to work with the Congress on these proposals to assure that they apply fairly and that taxpayers can reasonably comply. It is important that the burden on U.S. branches not be materially different from that on U.S. subsdidiaries of foreign corporations. Also, the focus should be on maintaining information, rather than increasing the reporting burden.

For each new change to our compliance rules, however, our obligations under bilateral treaties and the basic requirements of fair play require that we maintain comparable treatment between foreign-owned entities and U.S.-owned entities. In addition, the U.S. should not be advocating new rules to be imposed on foreign multinationals which we would find objectionable if applied to our own companies by another government. We recognize of course that the difficulties encountered in audits of foreign-owned entities prohibit absolute identity of our procedural rules. Nevertheless, the overall record-keeping and compliance requirements applicable to foreign-owned companies must remain comparable with the standards we impose in the context of U.S.-owned companies.

For this reason, we oppose new proposals which would impose additional requirements in a discriminatory manner in violation of our treaty obligations.[4] For example, one proposal in H.R.

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[4] We also oppose the proposal in the same pending bills to tax capital gains of certain foreign shareholders; however, this is a substantive change in law which we view as beyond the scope of this hearing.

4308 would extend the statute of limitations where taxpayer delay has impeded a timely assessment of tax, but only in the case of foreign-owned companies. If such a change to the statute of limitations makes sense, it should be applied for both domestic and foreign-owned companies. We must note, however, that competent authority proceedings to adjust double taxation questions between the IRS and foreign revenue authorities are already hampered in some cases by expired statutes of limitations in the foreign jurisdiction, and a longer U.S. statute may exacerbate this problem. On the other hand, before the enactment of section 6038A last year, taxpayers appeared to be increasingly unwilling to extend the statute voluntarily in circumstances where, because of less than full cooperation in document production, such an extension would be appropriate. Given the procedural complications which could arise from a change in the statute of limitations, Congress could appropriately defer action on the proposed extension to allow time to assess the impact of last year's changes in section 6038A. This seems particularly appropriate if those changes are made applicable to open years.

In sum, we believe that the ongoing efforts at the audit level and the new compliance measures enacted in 1989 should produce positive results in terms of tax compliance. We would urge that these new developments be given adequate time to work before introduction of major new initiatives. In addition, we must keep in mind that cross-border transactions, by definition, affect the taxing authority and interests of at least one other country. Our actions in this area -- which affect both U.S. investment abroad and foreign investment in the U.S. -- must withstand the test of fairness and must adhere to international standards if U.S. businesses are to continue to enjoy the benefits of cooperative relationships between the fiscal authorities of other countries.

Exhibit 1

1987 Income, Assets, and Rates of Return for Foreign- and U.S.-Controlled U.S. Corporations, by Industry and Profitability

Industry	Foreign-Controlled			U.S.- Controlled[1]		
	Gain Cos.	Loss Cos.	Total	Gain Cos.	Loss. Cos.	Total
I. Income (in $ millions):[2]						
Motor vehicles (manufac.)	47	(428)	(381)	6,466	(2,005)	4,461
Motor vehicles (wholesale)	1,475	(973)	502	933	(262)	671
Motor vehicles (retail)	46	(5)	41	1,457	(733)	724
Household appliances (manufac.)	69	(6)	63	626	(63)	563
Consumer electronics (manufac.)	380	(181)	200	1,134	(407)	726
Electronic component (manufac.)	202	(337)	(135)	4,197	(1,595)	2,601
Sporting goods (wholesale)	110	(119)	(9)	289	(376)	(87)
Electrical goods (wholesale)	472	(399)	72	1,242	(385)	857
All other	16,586	(11,504)	5,083	349,511	(91,403)	258,108
Total	19,388	(13,952)	5,436	365,855	(97,229)	268,626
II. Assets (in $ millions):						
Motor vehicles (manufac.)	2,023	4,720	6,743	196,832	174,925	371,756
Motor vehicles (wholesale)	14,646	13,156	27,802	12,855	3,470	16,325
Motor vehicles (retail)	1,004	100	1,104	31,930	15,855	47,785
Household appliances (manufac.)	1,863	125	1,989	7,133	2,611	9,744
Consumer electronics (manufac.)	6,790	2,901	9,691	14,255	3,884	18,139
Electronic component (manufac.)	2,979	2,258	5,237	55,835	16,101	71,936
Sporting goods (wholesale)	2,483	843	3,326	2,903	1,277	4,179
Electrical goods (wholesale)	10,025	3,877	13,903	16,040	3,146	19,186
All other	508,850	380,750	889,600	9,551,812	2,723,970	12,275,782
Total	550,664	408,730	959,394	9,889,594	2,945,239	12,834,833

Exhibit 1 (continued)

1987 Income, Assets, and Rates of Return for Foreign- and U.S.-Controlled U.S. Corporations, by Industry and Profitability

Industry	Foreign-Controlled			U.S.-Controlled[1]		
	Gain Cos.	Loss Cos.	Total	Gain Cos.	Loss. Cos.	Total
III. Rate of Return (in percent):						
Motor vehicles (manufac.)	2.35	(9.07)	(5.65)	3.29	(1.15)	1.20
Motor vehicles (wholesale)	10.07	(7.40)	1.80	7.26	(7.54)	4.11
Motor vehicles (retail)	4.62	(5.04)	3.74	4.56	(4.62)	1.51
Household appliancess (manufac.)	3.70	(4.67)	3.18	8.78	(2.41)	5.78
Consumer electronics (manufac.)	5.60	(6.23)	2.06	7.95	(10.49)	4.00
Electronic components (manufac.)	6.77	(14.91)	(2.58)	7.52	(9.91)	3.62
Sporting goods (wholesale)	4.44	(14.12)	(0.26)	9.97	(29.46)	(2.08)
Electrical goods (wholesale)	4.70	(10.30)	0.52	7.74	(12.23)	4.47
All other	3.26	(3.02)	0.57	3.66	(3.36)	2.10
Total	3.52	(3.41)	0.57	3.70	(3.30)	2.09

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[1] Only data for U.S.-controlled corporations filing a form 1120, 1120A, 1120L, and 1120PC (for industry code 6359) are included in these Exhibits. Data for corporations filing a Form 1120S, 1120F, 1120-IC-DISC, 1120-FSC, 1120-RIC, 1120-REIT, and 1120PC (for industry code 6356) are excluded.

[2] Income is measured by total receipts less total deductions.

Exhibit 2

1987 Gross Profit Ratios for Foreign- and U.S.-Controlled U.S. Corporations, by Industry (in percent)[1]

Industry	Foreign-Controlled	U.S.-Controlled
Motor vehicles (manufac.)	15.78	19.98
Motor vehicles (wholesale)	11.06	22.10
Motor vehicles (retail)	13.95	12.85
Household appliances (manufac.)	25.54	29.61
Consumer electronics (manufac.)	40.50	36.51
Electronic component (manufac.)	21.90	34.26
Sporting goods (wholesale)	24.05	25.61
Electrical goods (wholesale)	19.82	25.00
All other	25.68	36.38
Total	23.88	34.76

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[1] Ratio of gross profit (gross receipts less cost of goods and operations) to sales (gross receipts).

Exhibit 3

1987 Ratios of Interest Expense to Earnings Before Interest and Assets and Depreciation Expense to Assets, for Foreign- and U.S.-Controlled U.S. Corporations, by Industry (in percent)

Industry	Interest to Earnings[1]		Interest to Assets		Depreciation to Assets	
	Foreign-Controlled	U.S.-Controlled	Foreign-Controlled	U.S.-Controlled	Foreign-Controlled	U.S.-Controlled
Motor vehicles (manufac.)	82.06	69.97	3.27	4.37	5.78	4.62
Motor vehicles (wholesale)	46.44	36.28	4.58	3.21	4.54	4.11
Motor vehicles (retail)	48.48	58.33	3.92	4.25	3.92	4.66
Household appliances (manufac.)	36.53	32.49	2.05	3.07	4.38	3.72
Consumer electronics (manufac.)	38.21	24.58	2.38	2.10	4.63	5.80
Electronic component (manufac.)	51.93	25.94	4.19	2.18	4.47	4.83
Sporting goods (wholesale)	48.28	35.47	3.09	3.79	1.76	2.94
Electrical goods (wholesale)	46.42	34.75	2.98	3.44	2.00	2.83
All other	67.49	60.42	3.71	3.80	1.89	1.97
Total	65.54	60.21	3.71	3.81	2.04	2.08

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[1] Earnings before interest measured by total receipts plus interest paid less total deductions.

Exhibit 4

1987 Tax After Credit, Total Receipts, and Ratios of Tax After Credit to Total Receipts for Foreign- and U.S.-Controlled U.S. Corporations, by Industry

Industry	Tax After Credits		Total Receipts		Tax A.C. to Receipts	
	Foreign-Controlled	U.S.-Controlled	Foreign-Controlled	U.S.-Controlled	Foreign-Controlled	U.S.-Controlled
	(in $ millions)				(percent)	
Motor vehicles (manufac.)	10	1,961	6,325	351,073	0.16	0.56
Motor vehicles (wholesale)	586	295	68,328	41,196	0.86	0.72
Motor vehicles (retail)	12	371	3,070	181,739	0.38	0.20
Household appliances (manufac.)	14	217	3,452	10,714	0.41	2.03
Consumer electronics (manufac.)	72	250	8,542	22,924	0.84	1.09
Electronic component (manufac.)	63	973	8,898	83,119	0.71	1.17
Sporting goods (wholesale)	33	82	6,684	8,802	0.50	0.94
Electrical goods (wholesale)	135	389	24,925	43,065	0.54	0.90
All other	3,636	75,319	556,560	6,930,335	0.65	1.09
Total	4,561	79,858	686,786	7,672,966	0.66	1.04

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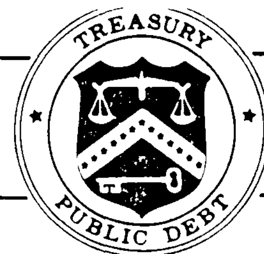
PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

IMMEDIATE RELEASE
July 12, 1990

CONTACT: Office of Financing
202/376-4350

TREASURY SETS BID LIMITS ON MARKETABLE SECURITY AUCTIONS

The Treasury announced today that it has set a limit on the amount a single bidder in securities auctions can tender at a single yield. A bidder may tender for a Treasury bill, note, or bond at multiple yields, but, at any one yield, the Treasury will not recognize amounts tendered in excess of 35 percent of the public offering. Tenders that exceed the 35 percent limit at any one yield will be reduced to the 35 percent amount. For bills, the public offering is the announced offering amount excluding securities allotted to the Federal Reserve and to foreign official institutions. For notes and bonds, the public offering is the announced offering amount.

Prior to the change, bidders could tender for amounts in excess of the 35 percent limitation at any particular yield in order to maximize their award should this yield prove to be the highest yield accepted in the auction. This modification of Treasury auction bidding procedures is designed to improve the competitiveness of Treasury securities auctions and reduce the cost of financing the public debt.

The maximum amount that any one bidder may purchase in a bill, note, or bond auction (at all yields) continues to be 35 percent of the public offering, a restriction that has been in effect since September 1981.

PA-16

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
EXPECTED 2:00 P.M.

Statement of the Honorable
Nicholas F. Brady
Secretary of the Treasury
Before the
Senate Committee on Banking, Housing, and Urban Affairs

July 12, 1990

Chairman Riegle, Senator Garn, Senator Dodd, Senator Heinz, and members of the Committee:

Thank you for this opportunity to present the Administration's legislative proposal affecting the stock and stock index futures markets, S.2814, "The Capital Markets Competition, Stability, and Fairness Act of 1990." I believe this legislation is important, and I urge its immediate passage.

Why do we need change? There are a number of reasons. We have experienced repeated, violent drops in the stock market in the absence of any significant news events. We have done little to respond, and as a result, we are taking a chance with the very essence of the system, the clearance and settlement process. Perhaps most important, we have damaged the confidence of individual investors -- I strongly believe that any market system that disillusions and disenfranchises the individual investor will lose its political standing, and in the end its greatest strength.

Let me be specific.

Three weeks ago on Friday, June 22, 1990, in the last few minutes of trading, the stock market plunged 64 points on no significant news. Sell programs kicked in shortly after 3 p.m., and in the last half hour of trading accounted for more than half of S&P 500 trading volume.

On Friday, October 13, 1989, the Dow Jones Industrial Average fell 191 points. Almost 90 percent of the drop occurred in the last 90 minutes of trading, supposedly triggered by news of a failed takeover attempt for a single company. The following Monday, October 16, the market lost 63 points in the first 40 minutes of trading, then sharply rebounded to close 88 points up on the day. A week later, on October 24, 1989, the

S&P 500 index dropped 2.7 percent (roughly 90 Dow points) and the price of the S&P index futures contract dropped 3.2 percent in slightly over one hour of trading.

And in October of 1987 the Dow Jones Industrial Average lost almost a third of its value -- $1.0 trillion -- in just four days. This included the one-day drop of 508 points, or 22.5 percent, the largest recorded amount since Dow Jones started computing index numbers in 1885. Moreover, the very real prospect of clearinghouse failures in the wake of this crash led to a crisis of confidence that brought the system to the brink of breakdown. While we all remember these consequences, few can remember what caused them.

Indeed, in each of these episodes, minor, even untraceable, events appear to have triggered precipitous, violent market declines. Each episode occurred in the last three years, when stock index futures have been actively trading in large volumes. And each episode constituted a major market disruption, a period when the markets for stocks and stock index futures disconnect with prices spiraling down.

These major market disruptions create clear and obvious risks to the system. But they also turn off individual investors, who feel the whole system is stacked against them. Those who are in the best position to judge the mood of the individual investor -- the stock exchanges and the large retail brokerage houses like those who testified yesterday -- report a growing disillusionment with the stock market by such investors.

This trend is disturbing. Individuals bring to the market a diversity of views, which are a source of stability -- indeed, individuals were net buyers during last October's downdraft and appeared to stop the market from plunging even further. More importantly, political support for our free market system rests on the foundation of broad-based individual ownership. As I said before, when markets operate to disenfranchise the individual investor, they lose that political standing and in the end their greatest strength.

Let me emphasize that when I use the term "major market disruption," I am not talking about increased volatility, an issue so popular with economists. Critics charge that there is no compelling evidence of increased stock market volatility or average price swings. They may be right, but the focus on volatility is a red herring. Our concern is not average price changes, but the episodes of violent market freefalls. During these major market disruptions, pricing relationships between stocks and futures break down; markets in particular stocks experience difficulties in staying open; serious supply-demand imbalances develop; and very large market moves occur in the absence of underlying fundamental information.

These sudden declines unrelated to changes in underlying fundamental information are a new market phenomenon. In the past, large market moves were relatively infrequent and associated with news events that clearly affected fundamental values.

For example, in the 42 years between 1940 and 1982 (the year stock index futures began trading) the Dow Jones Industrial Average declined by more than 6 percent on only three occasions: when the Germans took the Netherlands in May of 1940 (6.8 percent); when they encircled the Allied forces at Dunkirk just days later in the same month (6.8 percent); and when President Eisenhower suffered a heart attack in September of 1955 (6.5 percent).

By contrast, with the growth of stock index futures trading, such massive one-day selloffs have occurred four times in the last three years:

October 19, 1987 -- 22.6 percent
October 26, 1987 -- 8.0 percent
January 8, 1988 -- 6.9 percent
October 13, 1989 -- 6.9 percent

Not one of these days corresponded with any major news events like the ones before 1982. But they all shared the characteristic of enormous selling pressure from the stock index futures markets flowing over to the stock market.

My point is this. Stocks and stock index futures are "one market," linked together by electronics. Movements in the price of stock index futures are translated almost immediately to stock prices through index arbitrage, and vice versa. This is what we concluded in the President's 1987 Task Force on Market Mechanisms, and essentially no one -- not academics, not people on Wall Street, not politicians -- has disputed that conclusion. The Task Force also concluded that the interaction of trading in stock and stock index futures in the "one market" is a major cause of market disruptions. Yet the Nation's disjointed regulatory system has not kept pace with this reality, preventing us from putting the "one market" tools in place to deal with these market disruptions.

The single most important step Congress can take to reduce both the likelihood of major market disruptions and the severity of their consequences is to unify regulation for the "one market." A single regulator would be able to coordinate the key intermarket mechanisms that disconnect to create or exacerbate major market disruptions. While the problem of major market disruptions would not be magically cured overnight, unified regulation could at least begin to develop and apply the

regulatory tools to control what is too often out of control -- the interaction between stock index futures and stocks.

Moreover, I strongly believe that if we fail to come to grips with regulatory fragmentation, the government will have done precious little in the face of clear evidence that we face a problem. As I have said before, minor events are likely to continue to cause major market disruptions -- and major events could cause even worse results. Simply stated, we are accepting too much systemic risk for too little benefit.

The Administration believes that Congress should act by addressing the regulatory structure for stocks and stock index futures. We have proposed legislation with three key provisions. First, the bill transfers the authority to regulate stock index futures from the Commodity Futures Trading Commission (CFTC) to the Securities and Exchange Commission (SEC), but in a manner specifically designed to create the least disruption to market participants. Second, it provides federal oversight authority over the ability of futures markets to set margins on stock index futures -- not to prevent volatility, but to safeguard the financial system. Third, the bill modifies the "exclusivity clause" of the Commodity Exchange Act to end costly and anticompetitive legal disputes over what constitutes a "futures contract."

Before I describe the bill in more detail, let me briefly explain the specific problems that I believe require this legislative remedy.

<u>Uncoordinated Intermarket Mechanisms</u>

The first of these is the failure to coordinate key intermarket mechanisms, which would not happen if the "one market" were regulated as one market. These mechanisms, which we have described at length in previous testimony, include unharmonized margins, disjointed clearance and settlement systems, evasion of short selling restrictions, and uncoordinated circuit breakers.

<u>Unharmonized Margins</u>. As you know, while there is federal oversight of margins on stock, there is virtually none over margins on stock index futures. The futures exchanges and their clearinghouses set these futures margins themselves. The result is a tremendous disparity in margin levels on stocks and stock index futures, even though they are part of one market where margin levels on one instrument can have a direct impact on the trading and price of the other.

The result has been that futures margins, which have no federal oversight, have often dipped to dangerously low levels. Indeed, Chairman Greenspan of the Federal Reserve Board -- the

guardian against excessive risk to the financial system -- recently expressed his strong concerns to this Committee about the low level of stock index futures margins prior to the mini-crash last year.

Again, those who try to dismiss our proposal by claiming that margins are unrelated to volatility are simply missing the point. We have never said that average volatility has increased. Our concern is major market disruptions and how to slow them down when the tidal wave starts to form -- not volatility.

The Federal Reserve Board agrees with the need for federal oversight of margins on stock index futures to limit systemic risk. Indeed, no credible argument has been advanced against federal oversight -- we must have it where the actions of private market participants in a narrow segment of the market create risks for the financial system as a whole. It is a dangerous practice that's not in the public interest. We ought to address this unjustified anomaly.

Let me elaborate on the link between margins and systemic risk. The fact is that futures traders can control large amounts of stock with little of their own money. Relatively small amounts of capital can concentrate enormous selling pressure on the stock market. For example, just prior to the October 13, 1989 break, a professional trader in the futures market with $50,000 in cash could control roughly $2,000,000 in stock, which is nearly 10 times more than the $200,000 that a professional trader in the stock market can control with the same amount of cash.

Many observers were astounded that, while stock index futures margins were increased temporarily in the wake of the October 1987 break, they were soon again lowered, so that margins were lower in October of 1989 than they were in October of 1987. Futures margins were 3.6 percent at the opening on Monday, October 19, 1987. The futures markets raised them to above 12 percent the following week, but then allowed them to drift back down so that at the opening on October 13, 1989 -- the day the market dropped 190 points -- they were only 2.2 percent.

Today margins on the S&P 500 futures contract are only about 4 percent, which means that a decline of just 4 percent (about 120 Dow Jones points) faces a futures trader with a choice: he either has to double his original margin simply to hold an existing position or sell out, which could put more pressure on a falling market.

A consequence of low futures margins is that during market downdrafts, when the system is most in need of liquidity, futures exchanges are forced to restrict liquidity through increased margin requirements because margins have been set so low. This

is precisely the opposite of what should occur: during emergencies it is critical to pump liquidity into the system. Indeed, Chairman Greenspan testified before this Committee that during last October's mini-crash he was "shaken" at the prospect of increasing margins at a time when liquidity was critical.

Let me mention one related point. Our 1987 Task Force Report showed conclusively that a mere handful of firms created enormous selling pressure in Chicago that swept back to New York markets. For example, on October 19 three firms in the futures market accounted for the equivalent of $2.8 billion in stock sales. In the futures market the top 10 sellers accounted for sales equivalent to $5 billion, roughly 50 percent of the non-market maker total volume.

Low futures margins contribute to this ability of a small number of traders to concentrate enormous buying and selling pressure on the stock market.

Disjointed Clearance and Settlement Systems. The most disturbing consequence of major market disruptions is the risk they pose to the entire financial system, especially through the clearance and settlement process. For example, after the October 1987 break, the clearance and settlement system fell over six hours behind its normal payment times, with over $1.5 billion owed to investment houses. Had these funds been missing for any significantly longer time, it could have unleashed a chain reaction of events spreading losses through the payments system.

The Presidential Task Force concluded that the prospect of clearinghouse failures reduced the willingness of lenders to finance market participants, leading to "a crisis of confidence [that] raised the specter of a full-scale financial system breakdown." To reduce the possibility of financial gridlock, we need to have a single regulator for the "one market" who can facilitate coordination of intermarket clearance and settlement systems. Little effective coordination has occurred in the almost three years since the 1987 market break. While legislation is pending in both the Senate and House to help address these systems, a single regulator would obviously help accelerate the coordination process.

Evasion of Short Selling Restrictions. For over 50 years the securities laws have restricted bear raiders like the 1920s' Jessie Livermore from selling short in declining markets. The purpose of these restrictions is to prevent "gunning" the market, which drives down the market and leaves the individual investor helpless. However, a concerted selling effort in the futures market can completely undermine the short selling restriction -- and in fact, because of low futures margins, can accelerate the stock market downdraft. Again, it is critical to harmonize these

intermarket rules to prevent traders from using one market to evade restrictions in another market.

Uncoordinated Circuit Breakers. Some progress has been made to coordinate circuit breakers in stock and stock index futures markets, and discussions are continuing within the President's Working Group on Financial Markets. Nevertheless, more can and should be done. Fundamental disagreements continue to exist between markets and their regulators over the appropriate kinds of circuit breakers.

In short, fragmented regulation has impeded progress on the coordination of these fundamental intermarket mechanisms. We believe one regulator with appropriate authority could accelerate progress substantially towards the harmonized regulation we need to address the problem of major market disruptions. One regulator is what every other country with important trading in these instruments has -- the United Kingdom, Japan, and France.

Ineffective Intermarket Enforcement

Another problem created by regulatory fragmentation involves intermarket enforcement.

With two different regulators, it is sometimes hard to prevent manipulation and fraud in transactions between the stock and futures markets. In particular, it is extremely difficult to detect intermarket "frontrunning," where a trader trades ahead of his client in one market knowing that the client's trade will drive a linked market in a particular direction. In fact, at this time there is not even a universally accepted definition of illegal frontrunning in the cross-market context. The current fragmented regulatory system is an open invitation for intermarket manipulation.

Barriers to Innovation

Apart from major market disruptions and intermarket enforcement, regulatory fragmentation also is creating a serious impediment to innovation. This was not always true -- in the past, fragmented regulation sometimes promoted innovation. Competition between Chicago and New York markets spurred new product development, while the practices of different regulators often promoted diversity, experimentation, and creativity.

But regulatory competition can also cause jurisdictional squabbles that can strangle innovation. This is precisely what happened to Index Participation Certificates, which litigation, prompted by the "exclusivity clause" of the Commodity Exchange Act, has prevented from trading in the United States.

With the globalization of financial markets, other countries have provided us all the regulatory competition we need. We can no longer afford jurisdictional conflicts that stifle innovation at home and drive important business away from U.S. markets.

The Administration's Proposal

To remedy these problems the Administration has proposed the "Capital Markets Competition, Stability, and Fairness Act of 1990." The bill contains three key provisions. First, it transfers the authority to regulate stock index futures from the CFTC to the SEC. In order to minimize disruptions to market participants, the SEC will operate under the basic framework of the Commodity Exchange Act, augmented with key enforcement and antifraud provisions from the securities laws. In addition, the SEC would have to consider the sufficiency of any existing CFTC rules as well as the views of the CFTC before adopting its own rules regarding stock index futures. Moreover, in designating contract markets for stock index futures, the SEC would have to consider the fair and efficient operation of the stock index futures market and the maintenance of fair and orderly markets in underlying securities.

Taken as a whole, these provisions will unify SEC regulation of the "one market" of stocks, stock options, and stock index futures in the least disruptive manner. This will enhance coordination of key intermarket issues such as margins, circuit breakers, enforcement, and clearance and settlement.

Second, to enhance the safety and soundness of the financial system, the bill gives the SEC oversight authority over the futures exchanges' ability to set margins on stock index futures. The exchanges would still have the flexibility to initiate margin changes, and the statute would not require minimum margins levels, which would be left to regulatory discretion. This is similar to the SEC's current margin authority over stock options.

The result would be that, for the first time since stock index futures began trading in 1982, the federal government would have prudential oversight authority over margins on all stock and stock derivative products. This is crucial to the protection of the integrity of the nation's financial system.

Third, the bill modifies the "exclusivity clause" of the Commodity Exchange Act to end costly and anticompetitive legal disputes over what constitutes a "futures contract." Hybrid equity securities like Index Participation Certificates could trade in both the futures markets (under the framework of the Commodity Exchange Act) and the securities markets (under the securities laws). Institutional swaps would similarly be excepted from exclusive CFTC jurisdiction under limited

circumstances. The bill would also allow the CFTC to exempt other financial instruments under certain conditions.

To facilitate transition, the bill does not take effect until 90 days after enactment, leaving time for the SEC, CFTC, and stock index futures markets to adjust. Persons, contract markets and futures associations registered under the Commodity Exchange Act would be deemed to be registered with the SEC on the effective date, and rules and interpretations of the Commodity Exchange Act would continue in effect. To take advantage of economies of scale, the SEC could enter into cooperative agreements with the CFTC to administer reparations proceedings under the Commodity Exchange Act.

Finally, the bill requires the SEC to report to Congress within 18 months on any additional modifications that are necessary for the efficient regulation of the "one market" of stocks, stock options, and stock index futures.

Conclusion

In sum, we believe the Administration's proposal will accomplish the two major purposes we have in mind. The first is to reduce both the likelihood of major market disruptions and the severity of their consequences. The second is to create a market environment that rekindles the interest of the individual investor.

Furthermore, the Administration's proposal is not the proverbial "camel's nose under the tent." The way markets are now functioning makes no further shifts in regulatory jurisdiction necessary -- not Treasury bond futures to the SEC, not a full merger of the SEC and CFTC. I will oppose more sweeping changes to CFTC authority if the Administration's bill passes in its present form.

Would the CFTC be rendered a less effective regulatory body if the bill passes? No. The CFTC would be able to concentrate its expertise on the more traditional agricultural and financial futures products that have long been the core of its jurisdiction. Indeed, our proposal would have minimal effect on the CFTC because stock index futures represent less than 10 percent of the futures volume under CFTC jurisdiction.

In fact, I believe moving jurisdiction over stock index futures to the SEC makes it more likely the CFTC will survive as an independent agency. Further episodes of severe market disruptions could build pressure to merge the CFTC and SEC, as proposed in the recently introduced Glickman-Eckart bill in the House of Representatives.

Concerns that our bill would strangle stock index futures also are unfounded. I expect the changes we propose would increase investor confidence in the stock index futures markets and would attract the interest of investors who currently do not use these instruments.

What impact would our proposal have on the individual farmer and the agricultural community in general? None whatsoever. Stock index futures simply have no relation to agricultural products or agricultural futures.

Finally, opponents of the bill have tried to characterize these issues as nothing more than a turf fight between government agencies or congressional committees, or a regional battle between financial centers. Turf is not the issue. Nor is it a geographical battle between Chicago and New York. In fact, some of the largest traders on the futures exchanges are New York investment houses. The Treasury Department comes to this issue with no particular parochial perspective. Our sole objective is sound public policy -- how best to reduce the likelihood of violent market disruptions and position our markets for continued leadership in the face of mounting competition around the world.

Moreover, let me emphasize that the problems I have described do not come from the CFTC or SEC. These regulators are doing a good job under impossible circumstances -- trying to administer a system of regulation that simply is not in concert with the "one market" reality that exists today. It is unfair to expect them to regulate markets effectively without the proper tools to do so. Our concern, as I have explained, is the few but critical intermarket issues that are slipping through the regulatory cracks. Unless properly coordinated through a coherent regulatory structure, these few issues pose a serious risk to the financial system.

For the reasons I have outlined, I believe the need to adopt the legislation we have proposed is urgent.

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

* * * * *

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
JULY 13, 1990

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PROJECT NORTH STAR TO STRENGTHEN U.S.-CANADIAN BORDER

Buffalo, New York - Peter K. Nunez, Assistant Secretary of the Treasury for Enforcement, today announced Project North Star, a multi-agency effort to facilitate trade, stop commercial fraud, and prevent the smuggling of money, drugs, guns, technology and aliens along the U.S.-Canada border.

While the U.S. and Canada consider their mutual border to be relatively "clean", they want to it to stay that way. North Star is a preventative project, one that is designed to stay in front of potential problems.

One of North Star's chief goals is to greatly improve the ability of law enforcement agencies on the border to recognize and react to any significant shift in trans-border criminal activities. Federal, State, and local agencies will share their expertise to strengthen law enforcement along the 4,000 mile U.S.-Canada border.

The Northern Border, with its many unguarded roads, inactive airstrips and unpatrolled waterways, poses a significant challenge. North Star, which will enhance international and interagency cooperation, and ensure appropriate attention to criminal activity, will help in addressing the challenge.

Coordinating information and utilizing technology and all available historical data through North Star will help identify vulnerable areas along the border. The Project will also make new uses of currently available resources.

Establishing a forum, where importers, exporters, business leaders, and Customs officials may discuss and get action on border issues, is the primary objective of the Project's commercial program. Issues raised will be addressed quickly, accurately and uniformly, and, when necessary, will be elevated

to Washington, D.C. for resolution. The forum is modeled, in part after the Southwest Border Trade Alliance, which has been effective in obtaining funding for improvements along the U.S.-Mexico border.

Additional support for law enforcement initiatives will be provided by the Department of Defense, which has colocated its Regional Logistics Support Center with the Buffalo North Star facility.

FACT SHEET - PROJECT NORTH STAR

BACKGROUND

- o North Star is being established as a mechanism for coordination and cooperation along the U.S.-Canada Border to facilitate trade and to ensure that we are able to identify and help prevent illegal activity.

- o Along the 4,000 mile U.S.-Canada Border there are hundreds or ungraded roads, scores of inactive airstrips, and long stretches of unpatrolled waterways which invite the smuggling of people and contraband in both directions.

- o The border between the U.S. and Canada is considered relatively clean. We want to keep it this way. We are prepared to address any potential shift in the threat, or change in the existing situation.

- o Increased trade is a boon to our economies; yet criminal elements often take advantage of new economic opportunities.

GOALS

- o Expand and enhance liaison channels and information gathering efforts across the entire 4,000 mile U.S. Northern border.

- o Incorporate a commercial Customs-to-Customs coordination effort to expand our information gathering efforts.

- o Expand communication efforts between Customs and the trade community along the Northern Border.

- o Identify the areas where we are most vulnerable to existing and possible future increases in illegal activities.

- o Address these areas of vulnerability with increased coordination and cooperation including

  - Technology enhancements.
  - Innovative use of existing resources.
  - Selective infusion of additional personnel and equipment on a short term basis.

TREASURY NEWS

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DEPT. OF THE TREASURY

For Release Upon Delivery
July 16, 1990

Statement of Nicholas F. Brady
Secretary of the Treasury
Mid-Session Budget Review Press Conference

This morning the Administration will announce the results of its annual Mid-Session Budget Review. This analysis provides an updating of budget outlay, revenue, and deficit estimates for the current and next fiscal year and a tentative look at budget prospects through FY 1995. Director Darman is here to present the results of the Administration's review. It also provides a new set of economic forecasts reflecting actual results and policies since the official estimates published last January. Chairman Boskin is here to review the economic forecast.

This year's review is particularly important because it sets forth the present budget situation at a time of budget summit discussions. The increase in projected budget deficits reflects the fact that revenues are falling below anticipated levels and outlays are running ahead of our January forecast.

This review emphasizes the importance of acting now to reduce the deficit. The budget summit discussion should focus on three objectives:

-- First, an immediate deficit reduction consistent with sustained economic growth. This will enable monetary policy to become more flexible.

-- Second, budget reform, to increase the efficiency and effectiveness of the budget process.

-- And, third, credible deficit reductions over the next five years that are large enough to bring the budget into balance.

NB-874

Looking at the economy, we are now well into the eighth year of the economic expansion. We expect moderate growth to continue and an unwinding of the temporary inflationary surge that occurred at the beginning of this year, but there remain concerns about the future that require coordinated fiscal and monetary policy responses.

In last year's Mid-Session Review, the Administration adjusted its economic forecasts to reflect changing conditions and those estimates turned out to be accurate. This year, we again are revising our earlier forecasts by lowering the estimated growth rate of real GNP in 1990 to 2.2 percent from the 2.6 percent figure reported last January, measured from fourth-to-fourth quarters.

Finally, I must emphasize the fundamental importance of coordinated fiscal and monetary actions to sustain moderate, non-inflationary economic growth. Now, I'd like to ask Mike Boskin to comment on the economic forecast.

PRESS RELEASE

OVERSIGHT BOARD
Resolution Trust Corporation

FOR IMMEDIATE RELEASE
July 16, 1990
OB 90-41

CONTACT: Diane Casey
Felisa Neuringer
(202)786-9672

OVERSIGHT BOARD APPROVES BULK SALES OF RTC ASSETS

The Oversight Board approved a plan that will allow the Resolution Trust Corporation (RTC) to provide, on a trial basis, financing for up to $2 billion of bulk sales transactions of RTC assets.

To facilitate sales of assets, the RTC will identify blocks of assets, including groups of commercial loans (both performing and nonperforming), commercial properties, multi-family residential properties, and multi-family residential loans (both performing and nonperforming). These groups of assets will then be sold in bulk packages.

The Oversight Board expects the bulk sales technique to expedite the movement of large blocks of commercial loan and real estate assets into private hands with sufficient private capital at risk. The terms of the transactions will shift to the private sector the responsibility for and cost of managing, maintaining and selling the assets, and will provide significant incentives for the maximization of asset recoveries. In addition, the government will share in the profits.

"The Board is supportive of the RTC using the private sector in bulk sales transactions, particularly when the RTC can share in the upside gains in asset collections," said Peter H. Monroe, president of the Oversight Board. "This pilot program will provide us with a good opportunity to test the market for bulk sales of commercial properties and loans, which are among the RTC's most difficult assets to manage and sell."

In approving the RTC's proposal, the Oversight Board provided limited exceptions from certain provisions of its seller financing policy. To permit the RTC to experiment with the bulk sales technique, the Oversight Board exempted the trial transactions from the provision of the Strategic Plan that limits the use of seller financing to real estate assets.

- more -

The bulk sales technique may be used during the trial period for affordable housing and multi-family properties under the applicable provisions of FIRREA.

During the trial period, the bulk sales transactions also are exempt from the seller financing policy requirement that all loans be sold within one year after date of origination. However, the RTC is to report to the Oversight Board on the options for sale into the secondary market of loans originated from the bulk sales.

Also, during the trial period the $1 billion limitation on the amount of seller financing loans held by the RTC would not apply.

The Oversight Board is encouraging the RTC, where appropriate, to use private sector firms in the origination and underwriting of seller financing loans provided for the trial transactions.

The trial transactions will be closely monitored by the Oversight Board on an ongoing basis. An evaluation and review of the transactions will be provided to the Oversight Board by the RTC upon completion.

Any seller financing provided by the RTC for bulk sales transactions will require a minimum down payment of 15 percent, which is consistent with the existing seller financing policy.

The Oversight Board, established by the Financial Institutions Reform, Recovery and Enforcement of 1989 (FIRREA), formulates the policy, approves the funding, and provides the general oversight for the RTC, the agency responsible for resolving the nation's failed thrifts.

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PRESS RELEASE

OVERSIGHT BOARD
Resolution Trust Corporation

FOR IMMEDIATE RELEASE
July 16, 1990
OB 90-42

Contact: Diane Casey
Felisa Neuringer
(202) 786-9672

OVERSIGHT BOARD ADOPTS GUIDELINES FOR THE DISPOSITION OF PROPERTY THAT MAY ASSIST PUBLIC USES SUCH AS HOMELESS, DAY CARE

The Oversight Board approved guidelines for the Resolution Trust Corporation (RTC) to offer real estate to public agencies and nonprofit organizations which have their applications endorsed by local governmental bodies to be used for public purposes such as day care and housing for the homeless.

The guidelines allow the RTC to evaluate properties to determine their recovery value. A property may become eligible for the program if the net estimated recovery value does not justify paying the holding and marketing costs for that property.

As intended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), some of the public purposes that the RTC can consider for these properties are housing for lower-income families; housing for the homeless; day care centers for children of low- and moderate-income families; and other public uses designated by the Secretary of Housing and Urban Development.

"We believe that these guidelines will allow the RTC to develop a program that truly benefits the nation by adding a tool in our efforts to end homelessness, expand affordable housing opportunities, and even provide new day care opportunities for low- and moderate income persons," said Jack Kemp, Secretary of Housing and Urban Development and a member of the Oversight Board.

The Oversight Board anticipates that the RTC will recover funds from the sale of most properties, maximizing the return to the taxpayer. However, in a very few cases the RTC may determine that the real estate asset has no reasonable recovery value because of one or more of the following characteristics: the estimated market value of the property is very low in absolute terms; the property has physically deteriorated; the holding costs are too high when compared to estimated recovery value; or no offers are received after marketing the property for an extended period of time. Under these circumstances, the RTC may transfer title to a designated public agency or a nonprofit organization which has its application for the property endorsed by a local governmental body.

- more -

The guidelines only apply to properties that the RTC owns in its receivership or its corporate capacity.

Under the guidelines, the RTC would provide notice to public agencies, indicating properties are available for public use. Public agencies and nonprofit organizations that have their applications approved by local governmental bodies could then submit a proposal to the RTC to obtain the property.

Permitting nonprofit organizations that have been endorsed by a local governmental unit to apply directly to the RTC for such property ensures that local officials are aware of and involved in the process of determining the future uses of these properties.

Eligible public agencies under the guidelines would be any federal agency, any state, county, local or other governmental entity, including any public housing agency or local urban homesteading agency.

The Oversight Board, established by FIRREA, formulates the policy, approves the funding, and provides the general oversight for the Resolution Trust Corporation, the agency responsible for resolving the nation's failed thrifts.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MID-SESSION REVIEW OF THE BUDGET

NOTICE:

Embargoed: There should be no release of this document until 9:00 a.m. (E.D.T.) Monday, July 16, 1990

July 16, 1990

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GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. All totals in the text and tables include on-budget and off-budget spending and receipts unless otherwise noted.
3. Details in the tables and text may not add to totals because of rounding.

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Text of the letter transmitting the Mid-Session Review of the Budget

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

THE DIRECTOR

July 16, 1990

Honorable Thomas S. Foley
Speaker of the House of Representatives
Washington, D.C. 20510

Dear Mr. Speaker:

Section 221 of the Legislative Reorganization Act of 1970 requires that the President transmit to the Congress a supplemental summary of the budget that was transmitted to the Congress earlier in the year. This supplemental summary of the budget, commonly known as the Mid-Session Review, contains:

- revised estimates of the budget receipts, outlays and budget authority for fiscal years 1990–1995;
- revised estimates of the baseline used under the Balanced Budget and Emergency Deficit Control Act to determine if automatic spending reductions are to be triggered;
- economic assumptions underlying the data;
- a summary of estimated outlays in each of the first four years after fiscal year 1991 that will be required under continuing programs that have a legal commitment for future years or are considered mandatory under existing law; and
- a summary of estimated outlays in future years from balances carried over from fiscal year 1991.

At the President's direction, I have the honor to transmit the required Mid-Session Review of the budget.

Respectfully yours,

Richard G. Darman
Director

Enclosure

IDENTICAL LETTER SENT TO THE HONORABLE DAN QUAYLE

INTRODUCTION

An annual Mid-Session Review of the Federal budget has been required since the Legislative Reorganization Act of 1970. Later legislation has expanded the information required to be included in the Mid-Session Review, most recently the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (commonly known as the Gramm-Rudman-Hollings Act, or G-R-H).

Consistent with the amended law, this document, prepared by the Office of Management and Budget, updates budget baseline estimates for:

- changes in economic assumptions (described at page 2);
- changes in technical estimates of receipts and outlays (discussed at pages 4 and 6);
- enacted legislation (discussed at page 8); and
- changes in Presidential policy, which seeks major multi-year deficit reduction through prompt and responsible conclusion of the current Bipartisan Summit Negotiations on the Budget.

As required by law, the Mid-Session Review also updates the G-R-H baseline outlays, receipts, and deficit—in light of changed economic assumptions, technical reestimates, enacted legislation, promulgated regulations, and other policy actions (page 11).

The law also requires the Office of Management and Budget to calculate required sequester amounts—across-the-board cuts—as may be necessary to achieve the G-R-H targets. The initial report on required sequester amounts must be published officially on August 25. Because the likely sequester requirements are extraordinary this year, and because they are highly relevant to the current Budget Summit Negotiations, a preliminary view of possible sequester requirements is published here, in advance. The sequester outlook is at pages 17–38.

Clearly, the sequester alternative is unattractive. It is, therefore, all the more reason to seek to reach prompt agreement on a responsible, multi-year deficit reduction program.

I. ECONOMIC ASSUMPTIONS

The economy has now completed 7½ years of continuous growth, extending the longest peacetime expansion on record. For the past 20 months the total unemployment rate has remained on a plateau of around 5¼ percent, the lowest level since early 1974. There are few signs that inflation is accelerating. Short-term interest rates are lower than they were a year ago, but long-term rates are slightly higher.

Although economic performance this year has been positive, the January budget assumed a more favorable outcome. Real growth has proved to be a little slower than forecast and inflation somewhat higher; interest rates moved up in the beginning months of the year. The economic assumptions underlying the Mid-Session Review incorporate this new information. The assumptions then move back toward the Administration's long-term, growth-oriented target path. These new assumptions have been developed jointly by the Council of Economic Advisers, the Treasury, and the Office of Management and Budget. They are presented at Table 1.

The Mid-Session Review projects a 2.2 percent increase in real GNP over the four quarters of 1990, compared with 2.6 percent projected in the January budget. Real growth in the first quarter was at a 1.9 percent annual rate.

The Mid-Session Review assumes growth in the second half of the year will be at a faster pace than during the first half. In the following five years, average real growth is assumed to be slightly above 3 percent annually, similar to the January budget assumption. This compares with a 40–year average real growth rate of 3.3 percent. The total unemployment rate is projected to average 5.6 percent in 1991, declining in subsequent years to 5.2 percent by 1995.

Prices rose more rapidly in the first quarter than anticipated in the January budget as unusual weather patterns drove up food and energy prices. The Consumer Price Index increased at an 8.2 percent annual rate and the GNP implicit price deflator at a 5.4 percent rate. Inflation in the second quarter was much more subdued: energy prices fell, food prices eased, and other prices rose slowly. As a result of higher inflation earlier this year, however, the Mid-Session Review projects a slightly faster rise in prices during 1990 than the January budget. The Consumer Price Index is now expected to increase 4.8 percent over the four quarters of 1990, compared with 4.1 percent in the January budget; the deflator is now projected to rise 4.5 percent in 1990 instead of 4.2 percent. Inflation in 1991 and beyond is expected to decline gradually. This projected reduction assumes that the Federal deficit is substantially reduced and that the Federal Reserve pursues a monetary policy that fosters economic growth while promoting its long-term objective of price stability.

The January budget had assumed that interest rates would start to decline steadily this year. Instead, rates rose through early spring. Even though they have declined in recent months, short-and long-term rates in the second quarter averaged about three-quarters of a percentage point above the levels projected in the Budget. The Mid-Session Review assumes interest rates will remain around current levels during the second half of this year and then move progressively lower during the following five years as inflation and the Federal deficit are reduced.

The effects of the changes in economic assumptions on receipts and outlays are discussed in Sections II and III, respectively.

Table 1. MID-SESSION REVIEW: ECONOMIC ASSUMPTIONS

(Calendar years; dollar amounts in billions)

	Actual 1989	Estimates					
		1990	1991	1992	1993	1994	1995
Major economic indicators:							
Gross national product (percent change, fourth quarter over fourth quarter):							
Current dollars	6.4	6.8	7.2	7.3	6.9	6.5	6.0
Constant (1982) dollars	2.6	2.2	2.9	3.3	3.2	3.1	3.0
GNP deflator (percent change, fourth quarter over fourth quarter)	3.8	4.5	4.2	3.9	3.6	3.3	2.9
Consumer Price Index (percent change, fourth quarter over fourth quarter) [1]	4.5	4.8	4.2	3.9	3.6	3.3	2.9
Unemployment rate (percent, fourth quarter) [2]	5.3	5.6	5.6	5.5	5.4	5.3	5.2
Annual economic assumptions:							
Gross national product:							
Current dollars:							
Amount	5,234	5,563	5,957	6,392	6,844	7,300	7,750
Percent change, year over year	7.2	6.3	7.1	7.3	7.1	6.7	6.2
Constant (1982) dollars:							
Amount	4,144	4,226	4,343	4,482	4,627	4,772	4,917
Percent change, year over year	3.0	2.0	2.8	3.2	3.2	3.1	3.0
Incomes:							
Personal income	4,420	4,749	5,053	5,377	5,744	6,109	6,444
Wages and salaries	2,631	2,814	3,020	3,245	3,478	3,705	3,930
Corporate profits before tax	291	306	356	415	448	490	527
Price level:							
GNP deflator:							
Level (1982=100), annual average	126.3	131.6	137.2	142.6	147.9	153.0	157.6
Percent change, year over year	4.1	4.2	4.2	4.0	3.7	3.4	3.1
Consumer Price Index: [1]							
Level (1982-84=100), annual average	122.6	128.4	133.7	139.0	144.2	149.1	153.6
Percent change, year over year	4.8	4.8	4.1	4.0	3.7	3.4	3.0
Unemployment rates:							
Total, annual average [2]	5.2	5.4	5.6	5.5	5.4	5.3	5.2
Insured, annual average [3]	2.1	2.3	2.4	2.2	2.2	2.1	2.0
Federal pay raise, January (percent)	4.1	3.6	3.5	4.0	3.7	3.4	3.1
Interest rate, 91-day Treasury bills (percent) [4]	8.1	7.7	6.8	5.8	5.1	4.8	4.4
Interest rate, 10-year Treasury notes (percent)	8.5	8.5	7.9	7.0	6.1	5.8	5.4

[1] CPI for urban wage earners and clerical workers. Two versions of the CPI are published. The index shown here is that currently used, as required by law, to calculate automatic cost-of-living increases for indexed Federal programs.

[2] Percent of total labor force, including armed forces residing in the U.S.

[3] This indicator measures unemployment under state regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

[4] Average rate on new issues within period, on a bank discount basis.

II. RECEIPTS

The current estimates of baseline receipts for both 1990 and 1991 are lower than the January estimates. Actual collections to date, new data regarding the distribution of wages relative to the social security taxable maximum, and adjustments to Treasury estimating models are the major reasons for the lower estimates of receipts.

Table 2. MID-SESSION REVIEW: CHANGE IN BASELINE RECEIPTS

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
January estimate	1,072.8	1,156.3	1,234.9	1,323.5	1,401.9	1,480.8
Changes due to:						
Technical reestimates	–24.2	–27.0	–31.0	–38.2	–35.7	–39.4
Economic assumptions	–4.5	–7.2	–8.7	–5.8	–2.5	0.5
Administrative action	–0.1	–0.4	–0.8	–0.8	–0.7	–0.8
Total changes	–28.8	–34.6	–40.4	–44.8	–38.9	–39.6
Mid-session estimate	1,044.0	1,121.7	1,194.5	1,278.7	1,363.1	1,441.1

Technical reestimates, which primarily reflect adjustments to income and employment taxes, are estimated to lower baseline receipts by $24.2 billion in 1990 and $27.0 billion in 1991. Technical adjustments in estimates of individual income tax receipts account for $13.5 billion of the downward revision to 1990 receipts. Most of this adjustment is attributable to lower than estimated final settlements of 1989 liabilities. Reestimates of the effect of the Tax Reform Act of 1986 on corporate income taxes and greater than anticipated use of Subchapter S filings by corporations account for an additional $7.5 billion of the downward revision in 1990 receipts. The remaining technical adjustment in 1990 receipts is in large part attributable to lower than previously estimated payroll taxes, reflecting a larger proportion of wages above the social security taxable maximum than previously assumed. The estimates for 1991-1995 have been revised to take these factors into account.

Economic assumptions are estimated to lower total receipts by $4.5 billion in 1990 and $7.2 billion in 1991 compared with the January budget. This is due primarily to a lower than anticipated corporate profits taxable base, reflecting weaker economic activity.

Because 1990 IRS staffing will fall short of anticipated levels, estimated tax receipts from direct enforcement initiatives are reduced by small amounts in each year.

III. SPENDING: OUTLAYS, BUDGET AUTHORITY, AND CREDIT PROGRAMS

Outlays

The current estimate for adjusted baseline outlays for 1990 is $1,262.5 billion, $67.7 billion more than the January estimate of $1,194.8 billion. The adjusted baseline estimate for 1991 is $1,353.1 billion, $96.3 billion more than the January estimate of $1,256.8 billion. The changes from January to July are due to revised economic assumptions, new estimates for the Resolution Trust Corporation, other technical reestimates, and policy changes resulting in part from enactment of the Dire Emergency Supplemental Appropriations Act of 1990. The estimates are shown in Table 3.

Economic Changes

The adjusted baseline estimate for 1991 outlays has increased by $17.0 billion since January due to changes in economic conditions. The increase is primarily due to higher interest rates than those assumed in January. These revisions increase net interest outlays for 1991 by $10.2 billion. Other increases include $1.3 billion for unemployment insurance due to higher total unemployment rates and $1.5 billion for higher social security cost-of-living allowances as a result of higher inflation than was assumed in January.

Resolution Trust Corporation (RTC)

Estimated outlays for RTC for 1991 have increased by about $55 billion since January. This is a highly uncertain estimate. It assumes the enactment of new spending authority—necessary to continue to resolve failing thrifts and to honor commitments to cover federally-insured deposits.

Although the RTC, through the third quarter of 1990, has resolved 207 thrifts with $65 billion in assets and estimated losses of approximately $25 billion, the S&L problem has worsened since the enactment of FIRREA last August. Treasury Secretary Brady testified in May and June that several factors have caused the significant increase in cost estimates: these include the decline in regional real estate markets, higher interest rates, and low demand for thrifts as a franchise. Estimates of the cost remain highly uncertain, but it is now clear that the $50 billion authorized by FIRREA will be insufficient to deal with failed, or failing, thrifts.

The Administration has produced estimates of the budget impact of RTC spending over the budget planning period under three different scenarios: a lower bound including 712 thrifts, with small losses on assets and with $25 billion in assets resolved per quarter; and two additional estimates with 1,027 thrifts, $40 billion in assets resolved per quarter and using either a medium or high loss rate—the upper bound. Estimated RTC net outlays in 1991, for both losses and working capital, range from $32 billion to $63 billion. Both the policy and adjusted baseline estimates in this document assume the larger group of failed thrifts with a medium loss rate, which results in outlays of $63 billion in 1991, compared to $7.3 billion assumed in January. There are, as Secretary Brady has stressed in recent testimony, too many significant variables to have confidence in any single estimate of the size of the problem. There is a great deal of uncertainty concerning the number of institutions that will ultimately fail, the rate at which the RTC can resolve insolvent institutions, the size of losses to be taken on assets acquired, the impact of changes in interest rates and economic conditions, and the market for thrift institutions.

Discussion continues on the appropriate budgetary treatment of RTC transactions. The Congressional Budget Office (CBO) has proposed that all RTC transactions, with the exception of administrative costs and interest payments to the Federal Financing Bank (FFB), be exempted from calculation of the G-R-H deficit (although not excluded from Federal budget totals). (The Chairmen of the Senate Budget and Banking Committees have supported a similar proposal to exempt all RTC outlays from the G-R-H calculation.) The effect of this budgetary treatment is displayed in Table 8 in Part 5.

Table 3. MID-SESSION REVIEW: CHANGE IN BASELINE OUTLAYS

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
January baseline estimate	1,194.8	1,256.8	1,307.8	1,362.6	1,415.0	1,467.4
Changes:						
Economic assumptions:						
Earned income tax credit	0.3	0.4	0.6	0.8	1.1	1.4
Food stamps	—	0.8	1.0	1.1	1.1	1.2
Social security	-*	1.5	2.5	3.0	3.1	3.5
Unemployment compensation	-0.3	1.3	0.8	0.9	0.9	0.5
Other	—	1.1	1.3	1.4	1.5	1.4
Net interest:						
Interest rate effect	1.7	10.2	11.9	8.9	6.6	4.9
Debt service [1]	0.2	1.6	3.6	5.3	6.7	7.7
Subtotal, economic	1.9	17.0	21.7	21.4	21.1	20.6
Resolution Trust Corporation [2]	54.8	55.2	41.3	-5.4	-41.7	-20.0
Technical reestimates:						
CCC fund	-1.4	-4.1	-3.6	-2.0	-1.1	-1.2
DOD—Military	3.5	0.8	0.6	-0.4	3.2	-0.8
FDIC: Bank insurance fund	1.9	3.8	3.3	2.7	1.9	1.4
FDIC: FSLIC resolution fund	-*	1.4	0.8	1.4	0.5	0.6
FDIC: Savings Association Insurance Fund	—	—	-1.5	-1.9	-0.8	-0.8
Federal buildings fund	0.1	0.8	1.1	1.5	1.7	1.8
Food stamps	0.7	0.9	1.0	1.1	1.0	0.8
Foreign military financing	2.0	-0.3	-0.4	-*	-0.1	-0.1
Medicaid	0.7	2.6	4.4	5.8	7.0	8.0
Medicare	0.3	1.3	1.8	2.0	2.6	3.4
Social security	0.2	0.6	0.6	0.5	0.3	0.1
Supplemental security income	0.1	2.0	0.8	1.0	1.2	1.0
Unemployment compensation	1.0	0.7	1.0	0.9	1.0	1.3
Veterans compensation	0.1	0.2	0.3	-1.0	1.3	1.7
Other	-3.4	2.3	1.5	1.4	1.8	1.9
Net interest [1]	3.8	9.2	15.5	20.6	24.9	29.2
Subtotal, technical	9.6	22.3	27.3	33.7	46.5	48.1
Policy:						
Dire Emergency Supplemental	0.3	0.6	0.3	0.4	0.4	0.5
Other	0.9	0.9	0.7	0.7	0.6	0.6
Debt service [1]	0.1	0.2	0.4	0.5	0.6	0.7
Subtotal, policy	1.3	1.8	1.4	1.5	1.7	1.8
Subtotal, changes	67.7	96.3	91.6	51.2	27.7	50.5
Mid-Session baseline estimate	1,262.5	1,353.1	1,399.5	1,413.9	1,442.7	1,517.9

*$50 million or less.

[1] Includes the debt service effects of changes to both receipts and outlays.

[2] RTC estimates are highly uncertain and would better be viewed as a range that could be $30 billion wide.

Technical Changes

Technical changes result from factors such as revised crop forecasts affecting farm price support costs, changes in estimated caseloads for entitlement programs, changes in the estimated rate at which outlays result from commitments—and other non-economic, non-policy conditions different from those previously assumed.

Estimated outlays for the adjusted baseline increased $22.3 billion for 1991 from January to July due to technical factors.

- The current estimate of Commodity Credit Corporation (CCC) outlays is $4.1 billion lower than the January estimate for 1991. Current feed grain prices, in particular, corn, are significantly above levels projected in January due to a stronger than estimated domestic demand and a

higher than estimated share of the export market. While strength in the price will call forth additional production resulting in an eventual decline in prices and higher subsidy payments, subsidies are not now expected to reach previously estimated levels for the five year period.

- Estimated outlays for the Department of Defense-Military increased $0.8 billion due to technical factors. This is primarily due to faster spendout of obligations than assumed in January.
- The current estimate of the Federal Deposit Insurance Corporation (FDIC) outlays for the bank insurance fund in 1991 is $3.8 billion above the January estimate due to the continued uncertainty regarding the health of the banking industry. Actual outlays may vary significantly from current estimates.
- The current estimate of FDIC's Federal Savings and Loan Insurance Corporation (FSLIC) resolution fund outlays for 1991 is $1.4 billion above the January estimate. (These outlays involve pre-FIRREA case resolutions.) Factors leading to these increased costs include higher interest payments on FSLIC notes, higher assistance agreement payments and decreased collections from asset sales.
- Estimated outlays for the FDIC savings association insurance fund have declined in later years because some of the insolvent thrifts it was expected to resolve are now assumed to be resolved sooner by the Resolution Trust Corporation.
- The increase in outlay estimates for the Federal buildings fund results from the decision to revise the scoring for new lease purchases.
- Estimated outlays for food stamps increased in 1991 by $0.9 billion for technical reasons, largely due to more participation than anticipated in January. Pursuant to the Dire Emergency Supplemental Appropriations Act of 1990 (P.L. 101–302), the Administration is requesting the additional $1.2 billion in budget authority for food stamps for 1990 included in that Act.
- Estimated 1990 outlays for foreign military financing are $2.0 billion above the January estimate primarily because fewer countries refinanced their loans than assumed in the January estimate. The increase in 1990 is offset by decreases in later years.
- Estimated outlays for Medicaid have increased $2.6 billion for 1991, due primarily to more participation than previously estimated and higher average outlays per participant
- Estimated outlays for Medicare have increased for 1991 by $1.3 billion due to technical reasons. Medicare hospital insurance outlays are estimated to increase by about $2.5 billion primarily because of higher inpatient utilization than previously expected, and more recent hospice service data. Medicare supplementary medical insurance (SMI) outlays, net of premium receipts, are estimated to decrease by a net $1.2 billion because of revised actuarial estimates of physician and outpatient services, lower rates of growth in SMI enrollment, and one-time payments to certain providers required by the court decision in *Cosgrove v. Bowen*.
- Estimated outlays for social security increase $0.6 billion in 1991 due to higher average benefit payments that more than offset declines in the estimated number of beneficiaries.
- Estimated outlays for supplemental security income (SSI) for 1991 are $2.0 billion above the budget estimate due to higher than expected benefits and participation and the effect of the court decision in the Zebley case. The decision requires that disabled children under SSI who do not meet listed disability criteria be evaluated on the basis of functional ability, as adults are. Costs may change when the court decides the period of retroactivity. No funds for administration are included in these estimates.
- Estimated outlays for unemployment compensation for 1991 are $0.7 billion more than the January estimate because a larger portion of the unemployed is actually claiming benefits and because of higher administrative costs to process the additional claims.
- Estimated outlays for veterans compensation are $0.2 billion more than the January estimate because of a higher than anticipated number of beneficiaries and higher average benefits.
- Net interest estimates increased an estimated $9.2 billion in 1991 for technical reasons, largely for debt service costs.

Policy Changes

The major legislation enacted since January is the Dire Emergency Supplemental Appropriations Act of 1990, which increased 1990 and 1991 net outlays for discretionary programs by an estimated $0.3 billion and $0.6 billion respectively. In accordance with rules specified in the G-R-H Act, the baseline is calculated on a basis that assumes discretionary changes enacted in the Supplemental Appropriations Act will continue in real terms through 1995.

The other policy changes are primarily the result of 1990 transfers within the Department of Defense to fund CHAMPUS medical programs.

Budget Authority

The current estimate for budget authority for 1991 for the adjusted baseline is $1,469.6 billion, an increase of $59.4 billion from the January estimate of $1,410.2 billion. These estimates are shown on Table 4.

Table 4. MID-SESSION REVIEW: CHANGE IN BASELINE BUDGET AUTHORITY

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
January baseline estimate	1,333.6	1,410.2	1,478.2	1,555.1	1,629.3	1,697.3
Changes:						
Economic assumptions:						
Earned income tax credit	0.3	0.4	0.6	0.8	1.1	1.4
Federal employee retirement	—	0.5	1.2	1.6	1.7	1.9
Food stamps	—	0.9	1.0	1.1	1.1	1.2
Social security	0.2	0.8	1.0	2.1	3.0	4.2
Unemployment compensation	*	0.1	0.6	1.3	1.9	2.4
Other	–*	1.4	1.3	1.5	1.6	1.6
Net interest [1]	1.9	11.8	15.5	14.3	13.3	12.6
Subtotal, economic	2.5	15.9	21.2	22.7	23.8	25.2
Resolution Trust Corporation [2]	—	28.6	31.5	17.7	3.2	0.9
Technical reestimates:						
CCC fund	−3.6	−3.2	−3.6	−2.0	−1.1	−1.2
FDIC: Bank insurance fund	1.0	2.8	1.8	1.8	1.2	1.1
FDIC: Savings Association Insurance Fund	—	—	−2.0	−0.7	—	—
Federal buildings fund	1.6	1.7	1.8	1.8	1.9	1.9
Food stamps	1.2	0.9	1.0	1.1	1.0	0.8
Medicaid	0.7	2.6	4.4	5.8	7.0	8.0
Medicare	−2.3	−2.5	−4.1	−4.6	−5.6	−6.8
Social security	−4.2	−2.5	−4.6	−5.7	−6.8	−8.0
Supplemental security income	0.1	2.0	0.8	1.0	1.2	1.0
Unemployment compensation	−0.3	−0.1	0.2	0.5	1.1	1.7
Other	3.5	3.5	4.4	2.2	3.6	1.6
Net interest [1]	3.8	9.2	15.5	20.6	24.9	29.2
Subtotal, technical	1.4	14.3	15.6	21.9	28.6	29.4
Policy:						
Dire Emergency Supplemental	0.3	0.3	0.3	0.3	0.3	0.3
Other	−0.2	0.1	0.1	0.1	0.1	0.2
Debt service [1]	0.1	0.2	0.4	0.5	0.6	0.7
Subtotal, policy	0.2	0.6	0.8	0.9	1.1	1.2
Subtotal, changes	4.0	59.4	69.1	63.2	56.7	56.8
Mid-Session baseline estimate	1,337.6	1,469.6	1,547.3	1,618.3	1,686.0	1,754.1

*$50 million or less.

[1] Includes the debt service effects of changes to both receipts and outlays.

[2] RTC estimates are highly uncertain and would better be viewed as a range that could be $30 billion wide.

Budget authority changes are primarily for the same programs and for the same reasons as are described in the outlay section above. The major exceptions are trust funds, for which changes in budget authority generally reflect changes in income to the funds. For example, revisions in projected wages and salaries have increased estimates of social security tax receipts, thereby raising budget authority for the social security trust funds. These increases, however, are more than offset by downward technical reestimates of social security trust fund income.

Credit Programs

The Federal credit budget supplements the unified budget as a separate system for measuring the volume of new direct loans and loan guarantees extended to borrowers. Unlike the unified budget, the credit budget measures new credit at the point where the Government contracts to provide a direct loan or loan guarantee. Guaranteed loan commitments are recorded as the full principal of the loan even if the Government's contingent liability is less than the principal amount. The credit budget focuses on the volume of Federal loans and guarantees, not their impact on budget outlays or their subsidy to assisted borrowers.

Outlays for credit programs in the unified budget include direct loan disbursements net of repayments and sales, and loan guarantee fees net of defaults. The Administration has proposed to revise the treatment of credit programs within the unified budget. Its credit reform proposal would show appropriated subsidies for all new direct loans and loan guarantees in order to measure and control the subsidy component of credit activity on an expenditure basis equivalent to other Federal spending. However, the subsidy amounts are not included in the agency or function totals in the present Mid-Session Review.

As Table 5 shows, the credit budget baseline totals are now estimated to be $134.2 billion in 1990 and $150.8 billion in 1991. The current estimate is $2.2 billion below the January baseline estimate for 1990, and $1.4 billion above the January baseline estimate for 1991. These changes are due entirely to technical reestimates that reflect revised estimates of the demand for various loan programs.

Direct Loan Obligations

New direct loan obligations in 1990 are now estimated to be $16.6 billion, $1.7 billion below the January baseline estimate. For 1991, the current estimate is $16.6 billion, $1.1 billion below than the January baseline estimate.

Estimated commodity price support and related loans are $0.7 and $1.5 billion below January for 1990 and 1991, respectively. These technical reestimates reflect reduced demand.

The current estimates for rural electrification and telephone loans are $0.7 billion below January for 1990 because of a lower estimate of demand for loans to power supply borrowers.

The current estimates for VA housing vendee loans are $0.2 billion above the January estimate for both 1990 and 1991. These reestimates reflect an increase in the number of properties sold on terms (vendee financing) as opposed to selling them for cash, which reflects the current program trend.

Guaranteed Loan Commitments

New guaranteed loan commitments are now estimated to be $117.7 billion for 1990 and $134.2 billion for 1991. These levels reflect a decline of $0.4 billion from the January estimate for 1990 and an increase of $2.5 billion for 1991.

The current estimate for the agricultural credit insurance program is $1.8 billion below the January estimate for 1990 because program participation has been less than expected.

The level of VA-guaranteed loans is estimated to be $1.4 billion above the January estimate for 1990 and $2.0 billion above for 1991. These reestimates reflect an increase in actual loan originations in 1990; increases in recourse loan sales, which are scored as new guaranteed loans; and the out-year impact of recent housing trends.

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Secondary Guaranteed Loans

New GNMA guarantees of mortgage-backed securities are now estimated to be $2.0 billion above the January estimate for 1991. This increase is the result of the higher level of VA-guaranteed loan activity.

Table 5. MID-SESSION REVIEW: CHANGE IN BASELINE CREDIT BUDGET TOTALS

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
Direct loan obligations:						
January estimate	18.3	17.8	17.8	17.9	17.9	18.0
Technical reestimates:						
CCC commodity loans	–0.7	–1.5	–1.3	–0.8	–0.4	–0.5
Rural Electrification Administration	–0.7	*	*	*	*	*
VA loan guaranty & guaranty and indemnity funds	0.2	0.2	0.3	0.5	0.4	0.4
Other	–0.5	0.1	–*	–0.1	0.1	–0.1
Subtotal, technical reestimates	–1.7	–1.1	–0.9	–0.5	—	–0.3
Mid-Session estimate, direct loan obligations	16.6	16.6	16.9	17.4	17.9	17.8
Guaranteed loan commitments:						
January estimate	118.1	131.7	135.5	138.9	143.3	147.5
Technical reestimates:						
FmHA-Agricultural credit insurance fund	–1.8	—	—	—	—	—
VA loan guaranty & guaranty and indemnity funds	1.4	2.0	2.1	1.0	–0.1	0.1
Other	–0.1	0.4	–0.2	*	–0.1	–0.1
Subtotal, technical reestimates	–0.4	2.5	1.9	1.0	–0.1	–*
Mid-Session estimate, guarantee loan commitments	117.7	134.2	137.4	139.9	143.2	147.5
Total credit budget:						
January baseline estimate	136.4	149.5	153.3	156.8	161.2	165.6
Total changes	–2.2	1.4	1.0	0.5	–0.1	–0.3
Mid-Session estimate, total credit budget	134.2	150.8	154.3	157.4	161.1	165.3
ADDENDUM						
Secondary guaranteed loans:						
January estimate	81.7	85.1	88.5	91.7	94.9	97.8
Technical reestimates:						
GNMA-Guarantees of mortgage-backed securities	—	2.0	2.2	1.0	—	—
Mid-Session estimate, secondary guaranteed loans	81.7	87.1	90.7	92.7	94.9	97.8

*$50 million or less.

IV. GRAMM-RUDMAN-HOLLINGS BASELINE

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, requires that the Mid-Session Review present an updated estimate of the Gramm-Rudman-Hollings (G-R-H) baseline deficit as defined in the Act. This section provides a brief discussion of the current G-R-H baseline estimates, how the current baseline differs from the January estimates, and sequester estimates for the current G-R-H baseline.

The Director of OMB is required by the Act to use the Mid-Session economic assumptions (presented in Part I above) and the Mid-Session technical assumptions (presented in Parts II and III above) in developing estimates for the initial sequester report, to be submitted on August 25, 1990, and for the final report, to be submitted on October 15, 1990.

The current baseline estimates must be based on current law, and incorporate all laws enacted and regulations promulgated as final by July 10, 1990. The estimates follow the specifications set forth in the Act for developing the baseline and, therefore, include no adjustments for anomalies that result from the requirements of the Act. For instance, the G-R-H estimates assume that in 1991 the authorization for the food stamp program will expire and that the 1990 decennial census will be repeated in 1991. (The latter certainly will not occur, and the former is highly unlikely. Nonetheless, the G-R-H Act requires that the baseline be calculated as if these unlikely events were reality.)

In addition, the Act requires that G-R-H estimates of the Resolution Trust Corporation (RTC) net outlays be constrained by the current law limit on the availability of RTC funding as provided by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 (Public Law 101-73). It now appears that the RTC may reach the $50 billion limit in early 1991. For G-R-H baseline purposes, therefore, the RTC must be treated as if it were to run out of funds. Using the scenarios described earlier, but assuming no additional funding, RTC outlays could range from $-14 billion to $14 billion. The Mid-Session G-R-H estimates—based on the larger group of failed thrifts but with a medium loss rate on asset sales—use a figure in the middle of this range, producing RTC outlays for 1991 of about $0.1 billion. (In reality, as noted above, RTC net outlays for 1991 are likely to exceed $50 billion—but, since this requires a change of law, the G-R-H baseline does not reflect this fact.)

Using these assumptions, total G-R-H baseline outlays are estimated to be $1,270.1 billion and receipts are estimated to be $1,121.7 billion. The resulting G-R-H baseline deficit of $148.4 billion is $84.4 billion above the $64 billion target specified by the Act for 1991 and $74.4 billion above the level that would require automatic reductions, referred to as a sequester. (The law provides a $10 billion margin or "cushion" beyond the deficit target before a sequester is triggered.) The uniform percentage reductions required under a $84.4 billion sequester would be 31.9 percent for nondefense programs subject to an across-the-board sequester and 21.2 percent for defense programs, assuming no Presidential exemption of military personnel accounts. The defense sequester would be 34.9 percent if the President decides to exempt the military personnel accounts.

Part VI provides descriptions of the potential effects on specific programs of a $100 billion sequester, roughly the reduction required after the baseline has been adjusted for the food stamp anomaly. The actual reductions by program for a $100 billion sequester are provided in Appendices C and D.

Changes Since January

As detailed in Table 6, the G-R-H baseline deficit estimate increased by $63.8 billion since January. The changes are for the same economic and technical reasons as discussed in Parts I, II, and III, with the exception of adjustments associated with the food stamp program (which, by law, must be assumed to expire in the G-R-H baseline), the Census Bureau, and RTC.

Table 6. MID-SESSION REVIEW: CHANGE IN G-R-H BASELINE FOR 1991

(In billions of dollars)

	Receipts	Outlays	Deficit
January estimates	1,156.3	1,241.0	-84.7
Changes:			
Policy:			
1990 supplemental appropriations	—	0.7	-0.7
Other (including debt service)	-0.4	1.1	-1.6
Economic (including debt service)	-7.2	16.0	-23.2
Technical (including debt service)	-27.0	11.3	-38.2
Subtotal, changes	-34.6	29.1	-63.8
Mid-Session estimates	1,121.7	1,270.1	-148.4

Revised economic assumptions increase the G-R-H baseline deficit by a net of $23.2 billion compared to the January estimates, and technical reestimates have increased the deficit by an additional $38.2 billion. The baseline estimates in the initial and final G-R-H sequester reports, to be published in August and October, respectively, are required by the Act to be based on the same economic and technical assumptions used in the Mid-Session Review. Because OMB is precluded by the Act from changing these baseline assumptions after the issuance of the Mid-Session Review, new economic and technical information that may be available prior to the August and October reports will not be reflected in those reports.

The law requires a report on deficit reduction achieved since January. The G-R-H baseline deficit based on laws in effect on January 1, 1990, is $146.1 billion, $2.3 billion lower than the current estimate. Thus, no net deficit reduction has been achieved since January 1st as a result of legislation and regulations. The recently enacted Dire Emergency Supplemental Appropriations Act of 1990 (P.L. 101–302) increased the 1991 baseline deficit by $0.7 billion. Other policy actions, primarily defense transfers, increased the deficit another $1.4 billion.

V. THE DEFICIT OUTLOOK

In January the President submitted to Congress a budget that proposed deficit reduction measures that, in aggregate, would have reduced the baseline deficit estimated for 1991 by $38 billion (as estimated in January—$41 billion as estimated with Mid-Session assumptions). For reasons discussed above, developments since January now indicate substantially higher baseline deficit levels for 1991 and subsequent years.

The adjusted baseline deficit has increased from $100.5 billion estimated in January to $168.8 billion in this Review—without including the likely S&L costs (i.e., outlays of the Resolution Trust Corporation). With full funding of the likely 1991 S&L case resolution costs, the adjusted consolidated baseline deficit estimate rises to $231.4 billion. This makes it imperative that the Congress enact substantially larger deficit reductions than were proposed in January or reflected in subsequent Congressional action and budget resolutions.

Table 7. MID-SESSION REVIEW: CHANGE IN ADJUSTED BASELINE

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
Adjusted January baseline deficit	122.0	100.5	72.9	39.2	13.1	−13.4
Remove RTC	−2.3	−7.3	−*	—	—	—
Adjusted January baseline deficit without RTC	119.7	93.2	72.9	39.2	13.1	−13.4
Changes due to:						
Laws and regulations [1]	1.5	2.2	2.2	2.3	2.4	2.6
Economics	6.4	24.2	30.4	27.1	23.6	20.1
Technicals	33.8	49.3	58.3	72.0	82.2	87.4
Subtotal, changes	41.7	75.7	90.8	101.4	108.2	110.1
Adjusted baseline deficit without RTC (Mid-Session estimate) [2]	161.3	168.8	163.7	140.6	121.3	96.8
Include RTC (as if unconstrained)	57.1	62.6	41.3	−5.4	−41.7	−20.0
Adjusted consolidated deficit, (Mid-Session estimate—including RTC)	218.5	231.4	205.0	135.2	79.6	76.8

[1] Includes administrative actions.

[2] Adjusted baseline assumes the continuation of the food stamp program and a return to normal operating levels for the Census Bureau.

Table 8. MID-SESSION REVIEW: ALTERNATIVE BASELINE DEFICITS

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
(1) G-R-H Baseline Deficit (as defined by current law)	218.5	148.4	118.0	103.1	88.4	65.5
Adjust for outlay anomalies:						
Food stamps	—	18.0	19.1	20.1	20.9	21.6
Census	—	-1.1	-1.4	-1.5	-1.6	-1.6
RTC (and related FFB, SAIF)	—	62.3	59.4	0.2	-41.5	-21.8
Debt service	—	3.7	9.8	13.2	13.5	13.1
Adjusted Consolidated Baseline Deficit	218.5	231.4	205.0	135.2	79.6	76.8
Exclude RTC working capital and net losses (CBO method)	-55.5	-52.5	-28.8	17.3	47.7	21.9
(2) Adjusted Baseline Deficit (CBO method for RTC)	162.9	178.9	176.1	152.5	127.3	98.7
Exclude RTC administrative expenses and interest	-1.6	-10.0	-12.5	-11.9	-6.0	-1.9
(3) Adjusted Baseline Deficit (excluding all RTC)	161.3	168.8	163.7	140.6	121.3	96.8
Exclude Social Security annual operating (cash) surplus	42.1	52.4	55.9	66.8	76.0	82.6
(4) Adjusted Baseline Deficit (excluding all RTC and Social Security operating surplus) [1]	203.5	221.2	219.5	207.4	197.4	179.3

[1] If Social Security non-cash interest transactions were entirely off-budget, line (4) would apply. If non-cash interest were charged as an on-budget outlay, line (4) would be higher by:

	1990	1991	1992	1993	1994	1995
	15.8	21.3	26.8	32.3	37.6	43.5

Table 9. MID-SESSION REVIEW: FY'91 DEFICIT—PRE-SUMMIT CONGRESSIONAL PATH

(In billions of dollars)

	1991
Adjusted consolidated baseline (including RTC and food stamps)	231.4
House Budget Resolution savings (OMB estimate) [1]	-29.6
Senate Budget Committee savings (OMB estimate) [1]	-41.8
Split-the-difference savings	-35.7
Pre-Summit Congressional Path Deficit	195.7

NOTE: If such limited deficit reduction were likely, economic performance might falter. If a "normal" recession occurred, results would be as follows:

Deficit effect of recession	33.7
Pre-Summit Path with Recession	229.4

[1] OMB estimates exclude savings assumed in the resolution for which the appropriate enforcement mechanism was not provided.

Presidential Policy

By early May, the deficit outlook for 1991 appeared to be increasingly troublesome. This was the case for several reasons: economic performance was less favorable than forecast; receipt estimates were less than forecast; S&L expenditures were rising significantly; pending Congressional budget resolutions were inadequate; sequester estimates were reaching extremely high levels; and the prospect of unproductive legislative stalemate loomed large—if matters were left to business as usual.

Accordingly, the President sought to advance Congressional movement toward more ambitious and more timely deficit reduction—by calling for special deficit reduction negotiations. In calling for

such negotiations, the President stated: "We are fortunate that the economy continues to grow. But it is important to act while the economy is still growing, for growth is not as strong or secure as it should be." After a series of meetings with Congressional leaders, the President and the Bipartisan Congressional Leadership agreed, on May 9, to commence deficit reduction negotiations through a "summit" negotiating group. The leaders agreed to meet without preconditions in order to:

- reduce the deficit substantially on a multi-year basis;
- allow the economy to continue to grow; and
- avoid the adverse economic and programmatic effects of a stalemate that might otherwise ensue.

On June 20, in the context of the Summit negotiations, the Administration proposed new deficit reduction measures—in addition to those proposed in the January budget. The combination of the Administration's January and June deficit reduction proposals, if enacted, would reduce the deficit by the following amounts:

1991	1992	1993	1994	1995	1991–95
52.9	69.7	84.5	109.2	129.8	446.0

For purposes of this Mid-Session Review, these January and June deficit reduction measures (displayed at Table 10) represent the latest official formulation of "Presidential Policy"—subject to further negotiation in the context of the Bipartisan Summit.

Table 10. MID-SESSION REVIEW: BUDGET SAVINGS FROM BASELINE

(In billions of dollars)

	1991	1992	1993	1994	1995	1991–95
Adjusted Consolidated Baseline Deficit (including RTC)	**–231.4**	**–205.0**	**–135.2**	**–79.6**	**–76.8**	**–727.9**
Updated Budget Policy recommendations (excluding asset sales):						
International discretionary	–*	0.3	0.6	0.5	0.7	2.2
Domestic discretionary	1.2	0.2	1.7	3.3	5.9	12.4
Defense	3.5	8.0	14.8	22.6	29.6	78.5
Entitlements/mandatory	14.8	20.1	24.7	29.2	33.3	122.2
User Fees	5.5	3.8	5.1	3.3	4.8	22.6
Additional revenues measures	13.7	11.5	4.3	6.9	5.9	42.3
Undistributed offsetting receipts	0.6	0.5	0.4	0.7	0.4	2.7
Net interest	1.9	5.5	9.1	12.9	17.2	46.6
Subtotal, Budget savings	41.1	50.0	60.9	79.5	97.9	329.3
Additional 6/20 Proposals:						
Domestic discretionary	4.2	6.0	8.0	9.1	9.5	36.8
Defense	3.6	5.3	6.4	7.0	7.6	29.9
Entitlements:						
Medicare	0.9	1.2	1.6	2.0	2.3	7.9
Medicaid	0.8	1.6	1.9	2.2	2.5	9.0
Other entitlements	1.1	1.5	1.7	2.0	2.4	8.7
User Fees	0.6	2.4	1.0	2.9	1.4	8.3
Additional interest savings	0.5	1.7	3.1	4.6	6.2	16.0
Subtotal, additional savings	11.7	19.7	23.7	29.7	31.9	116.7
Total, deficit reductions proposed	**52.9**	**69.7**	**84.5**	**109.2**	**129.8**	**446.0**
Adjustments for G-R-H exclusions:						
Include asset sales	1.9	1.4	1.5	1.4	1.4	7.7
Include Postal Service	0.3	–0.1	–*	0.5	0.9	1.6
Remove nondefense spendout adjustment	*	—	—	—	—	—
Consolidated Budget Deficit/Surplus (including RTC)	**–176.3**	**–133.9**	**–49.2**	**31.5**	**55.4**	**–272.6**

*$50 million or less.

The Administration's proposals of June 20th, although accepted in part, were not accepted in full by the Summit negotiators. On June 26, the President and the bipartisan leadership agreed that both the size of the deficit problem and the need for a package that can be enacted require all of the following: entitlement and mandatory program reform; tax revenue increases; growth incentives; discretionary spending reduction; orderly reductions in defense expenditures; and budget process reform—to assure that any bipartisan agreement is enforceable and that the deficit problem is brought under responsible control.

An informal consensus (or near-consensus) has developed within the Summit that 1991 deficit reduction measures should be approximately the same size as those proposed by the Administration ($50–55 billion). A lesser amount of savings would not likely be viewed as a credible attack on the deficit problem; but a larger amount of savings could be counter-productive with respect to economic growth. There is, in addition, general agreement that deficit reduction measures should grow in the out-years, and that a specific and enforceable multi-year deficit reduction program should be negotiated and enacted as soon as possible—preferably before the August recess. The Administration is fully committed to the achievement of these objectives.

It is implicit in the numbers presented here that if a satisfactory multi-year Budget Summit agreement is achieved and enacted, there will have to be a corresponding adjustment of the G-R-H deficit targets. However, the Administration does not favor any such target adjustment independently of the enactment of a responsible, substantial, multi-year deficit reduction program. Indeed, if a responsible deficit reduction program is not negotiated and passed by Congress, a major sequester will be necessary. Such a sequester should not and is not to be construed as a first choice from a policy perspective. But it remains necessary as a fail-safe mechanism to force the successful negotiation and achievement of a responsible deficit reduction program.

VI. POTENTIAL EFFECTS OF $100 BILLION SEQUESTER

If the Budget Summit negotiations do not produce a satisfactory deficit reduction program, a large sequester will ensue. With that possibility in view, this section discusses the sequester calculations and the potential effects of a 1991 sequester of $100 billion.

For purposes of determining the sequester amount, it seems reasonable to assume the continuation of the food stamp program, and a return to normal operating levels for the Census Bureau. Spending from the Resolution Trust Corporation (RTC), however, including administrative expenses and interest payments to the Federal Financing Bank, is excluded from the baseline totals at this point—in part because current law limits total RTC spending and in part because many believe that RTC expenditures should be excluded from G-R-H sequester calculations. Under these assumptions, the adjusted baseline deficit would be $168.8 billion in 1991, $104.8 billion above the $64 billion deficit target required by the G-R-H law. Thus if no additional policy actions were taken to reduce this adjusted baseline deficit before the initial sequester report is issued on August 25th, the President must issue an order to withhold roughly $100 billion effective October 1st. If no policy actions were taken before the final sequester report is issued on October 15th, a sequester of roughly $100 billion would be required. (If RTC were authorized to spend more, and if such expenditures were included in the sequester calculation, the likely sequester would exceed $150 billion.)

Sequestration Calculations

Reductions associated with a $100 billion sequester would be determined using the following steps, as shown in Table 11.

Table 11. MID-SESSION REVIEW: SEQUESTRATION CALCULATIONS FOR 1991

(Outlays in billions of dollars)

	Outlays
Required deficit reduction (assumed as of July 15, 1990)..	100.0
Defense (military personnel sequestered): [1]	
Total required reductions	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources	198.8
Uniform reduction percentage	25.1%
Nondefense:	
Total required reductions	50.0
Estimated savings from automatic spending	0.1
Estimated savings from special rules	1.8
Amount remaining to be obtained from uniform percentage reductions of budgetary resources	48.1
Estimated outlays associated with across-the-board sequesterable budgetary resources [2]	125.3
Uniform reduction percentage	38.4%
MEMORANDUM	
Defense (military personnel exempt): [1]	
Total required reductions	50.0
Estimated outlays associated with across-the-board sequesterable budgetary resources	121.1
Uniform reduction percentage	41.3%

[1] Function 050, excluding FEMA programs.
[2] Includes $5.7 billion in estimated 1992 outlays for CCC.

First, one-half of the required deficit reduction, $50 billion, would be assigned to defense programs (budget accounts in the national defense function, 050, excluding the Federal Emergency Management Agency) and the other half to nondefense programs.

Second, savings from eliminating automatic spending increases in three specific programs (the National Wool Act, the special milk program, and vocational rehabilitation) would be applied to the required reduction in outlays for nondefense programs. Savings from eliminating these adjustments would be $58 million.

Third, the amount of outlay savings to be obtained by applying four special rules would be calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare and certain other health programs. The estimated savings from these special rules, $1.8 billion for 1991, would be applied toward the required spending reductions in nondefense programs.

The reductions in defense programs and remaining reductions in nondefense programs would be taken on a uniform percentage basis, computed separately for each category. Under the adjusted baseline estimates, the uniform percentage reductions would be 38.4 percent for nondefense programs. For defense programs, the uniform percentage reduction would be 25.1 percent if military personnel accounts were sequestered and 41.3 percent if these accounts were exempted by the President from sequestration.

In the event that a sequester is required, not all programs will be subject to reductions. For defense and nondefense programs combined, about 67 percent of total outlays are associated with budgetary resources exempt from sequestration. The burden of sequester falls on programs that comprise the remaining 33 percent of budget outlays. Of these outlays, defense programs account for 47 percent, special rule nondefense programs for 25 percent, and other nondefense programs account for 28 percent.

Programmatic Impact of a $100 Billion Sequester

In addition to the sequester effects described for individual programs that follow, most, if not all, Federal agencies would be forced to reduce staff costs through reductions-in-force, furloughs, and hiring freezes.

Reductions-in-force are required to be implemented in an orderly way, generally using the criteria, within Federal job classifications, of abolishing positions, thereby terminating the employment of the most junior and non-veteran employees first. Severe reductions-in-force (of the size necessary under this sequester) also can affect senior employees whose jobs are abolished. These employees may then "bump" more junior employees in other job classifications for which the senior employee is qualified.

Furloughs involve telling employees not to come to work for a certain length of time and then not paying them for that time period (e.g., involuntary leave without pay). By law, military personnel cannot be furloughed.

Hiring freezes result in the random loss of employees and frequently the loss of the most critical specialties and the creation of imbalances within an organization.

Legal requirements, the regulations of the Office of Personnel Management, and labor-management agreements must be followed in administering both reductions-in-force and furloughs. In order to yield any savings, the reduction-in-force process should begin at the time of the initial sequester report on August 25th or not later than the issuance of the final sequester report on October 15th. Termination expenses (payments for unused annual leave, return of retirement contributions, unemployment compensation payments, etc.) offset the savings made possible by discontinuing employment. Separating a person at the beginning of the year on average saves only $11,500 or 35-40 percent of compensation and benefits during the first year after a reduction-in-force. In subsequent years, the former employees' full compensation and benefits would normally be saved. On this basis, the separation of 100,000 employees through a reduction-in-force would save only $1.1 billion in 1991. Many thousands

of dependents, businesses, and creditors who depend upon the income and purchasing power of Federal employees would be hurt by these actions.

Agencies also would reduce travel, training, printing, contractual services, and supply and equipment purchases. Those employees who remained would be hampered in their efforts to enforce the law, carry out agency missions mandated by law, and supply previous levels of services not only because of the reduced number of personnel, but also because of organizational disruptions created by adverse personnel actions and by the lack of non-personnel resources.

While the description of the effect of the sequester by program that follows is extensive, it is not comprehensive and is *intended for illustrative purposes only.*

Department of Agriculture

Commodity Credit Corporation (CCC)

A sequester applies to CCC cash deficiency payments and commodity loan programs by crop year. Based on projected 1991 crop year cash deficiency payments of $7.1 billion, a sequester would require a reduction of $2.7 billion in deficiency payment outlays in fiscal years 1991 and 1992. The value of 1991 crop loans estimated in fiscal years 1991 and 1992 is $6.0 billion. Checks written during harvest time to farmers who place crops under loan would be reduced by about $2.3 billion in 1991 and 1992. Reductions in CCC outlays, net of loan repayments would be $3.9 billion during fiscal years 1991 and 1992.

To illustrate the wide-spread impact of a sequester, note that approximately 300,000 commodity loans and 9,000,000 deficiency payments are currently issued through the CCC. For 1989 crop programs, the following number of farms received cash deficiency payments for crops:

Cotton	100,000
Feed grains	1,100,000
Wheat	435,000
Rice	18,500

In addition, an estimated 175,000 dairy producers would face large assessments on their milk marketings (the assessment of 10.4 cents per hundredweight of milk markets would reduce cash receipts of dairy farmers by approximately $150 million), and 40,000 peanut farms and 424,000 tobacco farms would be affected through loan proceeds reductions.

The average deficiency payment for the 1989 feed grain crop was $4,363, and the average for all commodity loans was $13,771. A sequester would reduce the average deficiency payment by $1,658 and the average commodity loan by $5,233.

Conservation

The 1985 Food Security Act (FSA) established the Conservation Reserve Program. People who agree to retire highly erodible land for 10 years receive an annual rental payment and financial assistance in establishing a permanent cover on the land. Under a sequester, annual rental payments due under the nearly 334,000 conservation reserve program contracts with farmers could not be paid in full.

The FSA also established several new conservation initiatives that require Soil Conservation Service (SCS) technical assistance. Under the law, SCS is responsible for defining highly erodible lands (HEL) and wetlands and for helping farmers develop and install conservation plans that producers will need if they are to continue receiving program benefits from the Department of Agriculture. While conservation planning and HEL determinations have been completed, only about 30 percent of the measures have been installed. The law requires that producers install the approved conservation systems by December 31, 1994. The "swampbuster" provisions of the FSA require that SCS also conduct wetland determinations and inventories to help farmers recognize wetlands and prevent unintentional conversions. The target date for completing the wetland determinations is

December 31, 1991 with wetland inventories being scheduled for completion by the end of 1992. In addition to these efforts, SCS must provide technical assistance for the conservation reserve program, for any necessary revisions to FSA plans, and for compliance reviews to ensure that conservation plans are properly installed.

A sequester would require that SCS emphasize meeting the provisions and deadlines mandated by FSA at the expense of other conservation operations such as the water quality initiative, soil mapping, and plant center renovation, which are authorized but not subject to statutory deadlines. Even with best efforts to meet the highest priority needs, it is unlikely that many of the FSA conservation targets could be met. Continued assistance to the nearly 3,000 conservation districts would be jeopardized and service would be reduced at most SCS field offices. Watershed planning and construction would be delayed or terminated for many projects that address high priority national problem areas such as local flood control, emergency assistance, land treatment, and water quality. Cost sharing projects would be stopped or slowed down.

Cooperative State Research and Extension

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Across-the-board cuts would reduce USDA's National Research Initiative (designed to use competitive research grants to enhance production efficiency, food safety, and environmental quality). One important component of this initiative is an effort to map the genomes of plants to permit scientists to explore more fully the genetics of plants. Other research that would be cut could contribute to the design of more economical production practices and to dealing with pests and disease in ways that protect the environment. A large number of special interest research grants and construction projects would also be affected.

Farmers Home Administration (FmHA)

A sequester would impair efforts to service FmHA's portfolio of almost $59 billion in outstanding debt. This would reduce borrowers' chances of success in meeting their loan obligations and increase losses to the Government. In particular, efforts to restructure about $5 billion in delinquent farm loans would be delayed, causing borrowers undue hardship and reducing the recovery value of these loans.

Federal Crop Insurance Corporation

A sequester would reduce the funds available for commission payments on insurance policy sales made by private insurers, causing a suspension in sales when funds run out. The reduction in the amount of insurance sold would also reduce the premiums paid to the Government.

Federal Research (Including Buildings and Facilities)

Under a sequester (that must be applied uniformly), higher priority projects could not be preserved by applying larger reductions to (or canceling) lower priority projects. Such reductions would reduce USDA's Food Safety Initiative and the collection of food safety information. This information is expressly intended for further use in setting Federal food safety policies and regulations. Other research, such as water quality research projects included in the Water Quality Initiative and federally sponsored human nutrition studies, also would be constrained.

The layoff of Federal scientists and technicians would impede the delivery of new technologies to improve agricultural competitiveness and address environmental issues. Reductions in research programs at 59 agricultural experiment stations, as well as at other colleges and universities, would impair the ability of States to continue a full range of research to address local and regional concerns. Most adversely affected would be the historically black 1890 colleges and Tuskegee University that receive nearly 100 percent of their research funding from the Federal Government.

Foreign Agricultural Service

A sequester would compromise the execution of trade policy responsibilities, including those related to the Uruguay round during the most crucial stage of this multilateral trade negotiation. Reductions in our overseas presence, including attaches and counselors, would impair the collection and reporting of agricultural intelligence and the administration of export and market development programs. Some overseas cooperator offices would have to be closed and some smaller cooperator organizations would have to end participation in the program. Since agriculture is the one major "positive" in U.S. trade, these reductions would have a detrimental effect on the balance of trade.

Forest Service

A sequester would severely affect the ability of the Forest Service to maintain projected targets for recreation, wildlife and fish habitat management, and timber sales. Timber sales could decline to below eight million board feet. Timber preparation work would be greatly reduced, reducing 1991 and out year sales. Receipts to the Treasury and to States and counties would decline significantly. Economic effects, particularly in the West, would be substantial.

Certain campgrounds and other recreational facilities would be closed. Services at remaining sites would be significantly curtailed. Efforts to protect and improve habitat to achieve recovery goals for endangered and threatened species would be substantially reduced.

No seasonal hiring would occur, further inhibiting quick response to fire fighting emergencies and significantly curtailing services (e.g., garbage pickup and rest room cleaning) at the recreational facilities that remain open. Road maintenance and most other field work would all but cease, resulting in the deterioration of roads and facilities and ultimately road closures for safety concerns.

Meat and Poultry Inspection

The Federal Meat Inspection Act (P.L. 90–201) and the Poultry Products Inspection Act (P.L. 90–449) require carcass-by-carcass inspection by Federal inspectors in establishments slaughtering food animals. All plants engaged in further processing of meat and poultry must also be inspected by Federal inspectors. Since meat packing plants cannot operate without these Federal inspectors, the meat and poultry slaughter and processing industry would be forced to limit or curtail production by the same extent that inspectors are not available. The meat and poultry industry is one of the largest in the country. It employs over 400,000 people at 7,800 meat and poultry plants and has an annual retail value of more than $100 billion. Many thousands more people are employed in the breeding, raising, transportation, storage, and distribution of food animals. The economic loss from any shut down due to a sequester would result in the loss of billions of dollars to the American economy. In addition to the economic disruption, the limited inspection coverage would erode the high level of safety of the nation's meat and poultry products.

A sequester would result in the absence of inspection services (and the shutting down of meat and poultry slaughter and processing plants) for about 140 days.

Quarantine and Inspection Activities

A sequester would defeat recent progress by the Animal and Plant Health Inspection Service to eliminate pseudorabies, brucellosis, and the Russian wheat aphid. Emergency eradication of the Mediterranean fruit fly and grasshopper would be defeated. All 39 quarantine and inspection activities would be reduced. This would result in serious delays in import shipments of plants and animals as well as baggage inspection for international travel. Extensive delays or disruption of service could cause significant losses of plants and animals in quarantine or awaiting inspection. It would also drastically reduce the number of inspections and thus increase the risk of introducing serious animal and plant diseases and pests into the United States. Implementation of the pending regulations on animal welfare might not be possible.

The Federal Grain Inspection Service would totally eliminate contractual research including aflatoxin research outlined in the Administration's farm bill proposal. The Agricultural Cooperative

Service would not be able to conduct research studies in support of farmer cooperatives and the Office of Transportation would not be able to assist in solving transportation problems related to agriculture.

Department of Commerce

National Oceanic and Atmospheric Administration (NOAA)

A sequester would severely impair several high priority research programs, in particular, NOAA's contribution to the interagency U.S. Global Change Research program and the Coastal Ocean Science program. Several major system procurement actions supporting the modernization of the Weather Service would be canceled or deferred including such safety programs as the NEXRAD doppler radars (that detect severe weather patterns) and the next generation of geostationary weather satellites.

It would severely reduce fisheries stock assessments and research, thereby requiring an extremely conservative fisheries management regime including closure of certain grounds to commercial fishing. Operations of the NOAA research fleet and air wing would be reduced to the minimum required to support hurricane reconnaissance responsibilities. These actions would be required to ensure that NOAA would be able to provide weather warnings and, on a less frequent basis than normal, weather forecasts.

Department of Defense—Military

Military personnel exempted.–The President can exempt up to 100 percent of the military personnel accounts from sequester. If he chose to do this, force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by more than 50 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 10 hours per month (compared to the current 19.5 hours per month that is considered the minimum necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 25 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require reductions-in-force (RIFs) or furloughs of up to 80 percent of the requested level of 1.1 million civilian employees. Contractor personnel also would be reduced significantly. Roughly $8 billion of equipment maintenance and $3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 115 fighter aircraft could be cut from the 276 requested, six major combatant ships could be cut from the 15 requested, and about 250 Army fighting vehicles could be cut from the 600 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

Military personnel not exempted.–Not exempting military personnel could result in a reduction of up to 1.0 million military, about one-half of the force. A sudden force cut of this magnitude would severely weaken our ability to react to any major crisis. Morale and force readiness would be severely degraded. Force structure cuts would include up to eight Army divisions (16 requested in 1991 versus 18 in 1990), the equivalent of one Marine Corps division and air wing (3 divisions and wings requested), twelve Air Force tactical air wings (24 requested), and seven aircraft carrier battle groups (14 requested).

Force readiness would be severely degraded. Because a sizeable portion of operation and maintenance expenses are relatively fixed in the short term (e.g., hospitals and other required medical costs and bases that cannot be closed according to the G-R-H law), readiness related activities (training, flying, steaming, and maintenance) could be cut by over 30 percent. Substantial cuts in operating rates would result. For example, the flying time for Air Force pilots would be reduced to less than 14 hours per month (compared to the current 19.5 hours per month that is considered the minimum

necessary for adequate readiness). Navy steaming time for the deployed fleets could be reduced to less than 35 days per quarter from the normal rate of over 50 days per quarter and many ships would rarely leave their home ports. The force reductions in conjunction with the operating rate reductions would require substantial adjustments in naval deployments and operations, reducing the President's flexibility to deploy forces where needed, including drug interdiction missions. It would also require RIFs and furloughs of up to one-half of civilian employees (requested level is 1.1 million). Contractor personnel also would be reduced significantly. Roughly $6 billion of equipment maintenance and $3 billion of real property maintenance would have to be deferred.

Modernization programs would be delayed and quantities planned for purchase would be cut. For example, about 70 fighter aircraft could be cut from the 276 requested, four major combatant ships could be cut from the 15 requested, and about 150 Army fighting vehicles could be cut from the 600 requested. Similar cuts would be made in all other procurement programs. Unit production costs would increase. Research and development programs would be disrupted, resulting in delays in new weapon programs, including high priority strategic systems.

Department of Defense—Civil

Army Corps of Engineers

The effect of a sequester on the civil works program would be twofold: substantial reductions in personnel in labor-intensive activities, and contract delays and cutbacks in the construction and operation and maintenance of water resources development projects.

A sequester would require reductions-in-force (RIF) affecting some 3,300 positions. A RIF of some 980 work-years is likely for the Regulatory program and General expenses accounts. Such cuts would require delays in some, if not all, non-cost-shared preconstruction engineering and design studies; and handicap new partnership arrangements with non-Federal cost-sharing project sponsors.

A RIF of 450 staff years would be required in the Corps labor intensive Regulatory program under which the Corps administers Section 404 permits for dredge-and-fill activities in wetlands and other waters, and for section 10 permits construction and other activities in navigable waterways. These RIF's would adversely affect support for the environmental initiative to improve permit enforcement and compliance.

Construction contracts on non-cost-shared projects, including seven Inland Waterways lock and dam projects, would be delayed and in some cases terminated. Work would be postponed for previously funded, cost-shared new starts for which a local cooperative agreement had not been executed. Some continuing contracts for cost-shared construction projects would be terminated.

The Operation and maintenance program would experience reductions in service delivery and increased backlogs. Specifically, the use of seasonal labor would be minimized, the recreation season shortened, recreational and other dredging deferred, and the number of shifts employed for the operation of the locks on the Inland Waterways System constrained. Moreover, there would be insufficient funds available to retain the number of employees needed to safeguard public safety and health and to assure the integrity of project operations and work placement. Recreational facilities would be closed and maintenance for flood control and navigation projects would be cut. Revetment (repair of embankments) of the navigation channels of the Mississippi River and its tributaries would be reduced by over 60 percent. Reductions would be imposed on the supervision and inspection of work placement and the engineering and design of follow-on construction contracts. Additionally, new programmed maintenance would be deferred, including channel and harbor dredging, lock and dam repairs, and hydropower maintenance.

Department of Education

Pell Grants

In the major discretionary student aid program, Pell grants, the 1991 request would provide an average award of $1,443 to 3.4 million students. Under the Pell law, the reduction in the appropriation

is translated into award reductions in accord with a specified "linear reduction" schedule that protects awards to the poorest students. However, a sequester above 24 percent would reach the awards to the poorest Pell grant recipients (those with expected family contributions of $200 or less).

If these students are not protected, then a sequester would eliminate grants to 1.2 million students, at an average grant of $1,000, and reduce all remaining grants (2.2 million recipients) by $320 each, or 22 percent of the average grant under the 1991 request.

Department of Energy (DOE)

Atomic Energy Defense Activities

A sequester would require a delay in cleanup activities, deferral of operational safety improvements, a decimation of the ability of DOE to support future nuclear weapons production, and a serious detriment to our nuclear deterrent. As an illustration only, the cut would require:

- A 12-month delay in cleanup activities at contaminated sites.
- DOE would not be able to meet the terms of agreements with States for obtaining compliance with environmental requirements.
- Deferring the operating safety and environmental measures that are now being instituted for assured safe operation of the tritium production reactors.
- Deferring work on safety improvements at weapons production facilities and suspending production of new nuclear weapons.
- Placing all plutonium processing facilities on standby at the very time we are returning weapons to be reprocessed due to successful START negotiations.
- Deferring indefinitely all design and construction activities for new facilities, which include improvements for environment, safety, and health deficiencies found by the DOE Tiger Teams.
- Substantially reducing nuclear weapons testing, and cutting research and development by about 25 percent, which will severely imperil initiatives to enhance nuclear weapons safety.

To effect the savings, contractor employees at the shut-down and deferred facilities would have to be laid off. Significant numbers of personnel would have to remain, however, to ensure safety and security of facilities. The maintenance of facilities in safe and secure conditions (even with no production) could be somewhat compromised. Rehiring of employees after such a major disruption would take years.

This would, in essence, force the Defense Weapons complex to proceed expeditiously to shut down all operations, and place them in as safe a standby position as possible.

Energy Conservation Grants

A sequester would reduce the number of low-income homes weatherized through the Weatherization Assistance program from approximately 125,000 to approximately 85,000 homes. This decrease would place increased burdens on State and local governments in the colder winter months and would create a hardship for many poorer American families. The number of grants to schools and hospitals for weatherization activities would be reduced by 250. Grants to States for energy conservation planning and extension activities would also be reduced. Because a sequester must be applied uniformly, higher priority research and development projects could not be preserved by applying larger reductions to (or canceling) lower priority projects.

General Science Program

A sequester would force the cancellation or delay of facility upgrades at several sites by at least a year. Start up of the Continuous Electron Beam Accelerator Facility in Virginia as well as construction of the Relativistic Heavy Ion Collider facility at Brookhaven National Laboratory would also be delayed. Operating levels of high energy facilities (Fermilab, Stanford Linear Accelerator Center, and

the Los Alamos Meson Physics Facility) would be reduced by 50 percent or more. The impact of layoffs of highly skilled staff would take years to reverse.

It would severely reduce research productivity at all the major national laboratories (e.g., Fermilab, Brookhaven, and the Stanford Linear Accelerator Laboratory) and at one or more of the smaller accelerator and research facilities. University research programs would experience large cuts in funding.

Superconducting Super Collider (SSC)

A sequester would severely affect the basic ongoing research programs as well as the construction of the Superconducting Super Collider.

Virtually all site work, research and development on detector designs, and purchase of capital equipment for detector systems would cease. Design activities would have to be scaled back significantly from 1990, causing personnel layoffs.

Implementation of the magnet industrialization plan would be impossible. The magnet contract award would be delayed at least one year. This action would increase the total cost of the magnets and significantly delay the project.

Cuts of this size would send a strong negative signal to potential international collaborators about the commitment of the United States to the project and would jeopardize their participation. The sequester would almost certainly result in no foreign contributions to SSC construction. In this event, the United States would have to assume the full costs after the Texas contribution.

Department of Health and Human Services

Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) Drug Abuse Programs

Activities that address the demand side of the war on drugs—research, prevention, and treatment—would be reduced by over one-third. All new research, including medications development, would be eliminated. Prevention programs for high risk youth and pregnant women would be unable to support new grants, and the number of continuing grants could be reduced by approximately 20 percent.

The Alcohol, Drug Abuse, and Mental Health Block Grant would fall sharply, reducing the number of treatment slots far below Administration goals.

Centers for Disease Control

A sequester would cut the Preventive Health Care block grant, grants for sexually transmitted disease clinics, childhood immunization grants, research on occupational safety and health, health statistics, and HIV/AIDS grants.

A sequester would sharply reduce service to the public, including approximately 1,000,000 children who would not be vaccinated for polio, measles, mumps, rubella, haemophilus influenza b, diphtheria, tetanus, and pertussis. Other effects include: (1) decreased support for block grants could eliminate over 50 percent of States' prevention programs in tuberculosis, smoking, nutrition, and chronic diseases; (2) efforts to prevent the spread of sexually transmitted diseases would be hampered: 300,000 fewer persons would be examined for syphilis, 2,500,000 fewer persons would be tested for gonorrhea, and 1,000,000 fewer persons would be tested for chlamydia; (3) the number of births monitored for changes in the incidence of birth defects would decrease by 60,000; and (4) approximately 200 disease outbreaks would not be investigated.

Food and Drug Administration (FDA)

A sequester could (1) lengthen the drug review process, (2) suspend efforts to make experimental therapies available to patients with no therapeutic alternatives, and (3) reduce inspections of foods,

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drugs, devices, and imports. The expedited review proposed for AIDS drugs would be slowed and field inspections and product-related research would be reduced. The number of new orphan drug grants awarded, laboratory equipment, and automobiles necessary for field inspections would be substantially reduced. A sequester also would eliminate proposed enhancements for seafood and generic drug inspections.

HIV/AIDS

A sequester would seriously cripple the Public Health Service's (PHS) efforts to prevent HIV transmission and conduct research into therapies and vaccines, reducing funding below 1989. Fewer promising therapies could be tested, fewer education and prevention programs could be supported, and fewer research initiatives to develop cures and therapies could be pursued. Specifically, about 400 fewer AIDS research grants could be supported, and instead of hiring the 300 additional PHS staff requested in 1991 for fighting AIDS, staff levels probably would be reduced.

Maternal and Child Health Block Grant—Health Resources and Services Administration

A sequester would reduce these block grants $114 million below the 1986 level, and could require the States to reduce sharply perinatal health services for pregnant women and their infants. Perinatal services provided by the States and the ability of States to carry out new requirements contained in the Omnibus Budget Reconciliation Act of 1989 would be severely limited. Cutbacks in perinatal health care will have a direct effect on infant mortality and low birth weight, and will severely hamper State efforts to establish case-management and community-based services that are accessible to the most needy. The number of Special Projects of Regional and National Significance (SPRANS) could be cut by a minimum of 150 (from 445). SPRANS grants focus on improved services to high risk groups, promotion of early and continuous prenatal care, reduction in neonatal mortality, and reduced behavioral risk activities in pregnant women.

Research at the National Institutes of Health (NIH) and the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)

A sequester would threaten the Federal Government's substantial commitment to pursuing new scientific opportunities and searching for new cures and therapies and seriously curtail efforts to invest in the nation's future health. A sequester could reduce by over 9,000 the number of Public Health Service-supported research grants (from a total of 28,000) and cut by over 4,200 the number of scientists receiving Federal research training assistance.

Social Security Administration (SSA)

A sequester in SSA's Limitation on Administration Expense account would force SSA to postpone new hiring and training, defer most work not directly related to paying and processing benefits (such as issuance of Personal Earnings and Benefit Statements to young workers and reconciling discrepant wage records of young workers), slow down contract payments and other deferable payments, and postpone nearly all automation system upgrades. All of these steps would affect service over time, but not immediately.

After taking these initial cost savings steps, SSA would be forced to slow down or divert staff resources from non-payment related services. For instance, SSA might be forced to focus resources on taking initial applications for social security benefits and to close portions of the 800 number telephone service for a period during the year. SSA would also cut back significantly on monitoring of the benefit rolls (such as evaluations of continuing disability and eligibility for Supplemental Security Income—SSI) which would increase overpayment of benefits that may be difficult to collect.

Even with these cost savings steps, SSA would be forced to develop priorities for claims related work, perhaps trying to get benefits first to those most in need (SSI applicants) while deferring or slowing down claims by persons with other means (high income retirement applications).

Timely payment of Social Security and Supplemental Security Income benefits to some new applicants could be threatened. SSA would likely be able to continue to pay benefits to currently

entitled persons, although any post-entitlement changes, such as new addresses, would probably be deferred or significantly slowed. New applicants, however, might have to wait longer to get their first monthly checks.

In addition to reducing Federal staffing available to process work, a sequester of this size would force a significant reduction in the administrative budget available for State agencies determining disabilities for SSA. These agencies, which are budgeted to receive $800 million in 1991, make all initial disability determinations. A reduction in their resources could slow their processing of disability decisions.

Social Services

A sequester would result in: (1) a reduction of $715 million from the budget for Head Start (this would fund the enrollment of 208,400 fewer poor four-year-old children from the planned 548,400); (2) a reduction of $163 million from the budget in grants to support meals for the elderly (this would fund 106 million fewer meals from the planned 258,740,000); and (3) a reduction of $1,065 million from the budget for the Social Services block grant that would require States to decide whether to make across-the-board cuts, redistribute reductions among all service areas, or eliminate certain service categories and maintain others at current funding.

Department of Housing and Urban Development (HUD)

A sequester would:

- Reduce funds available for the extension of expiring housing contracts to a level that might cause some low-income families to lose their housing assistance and possibly become homeless.
- Cut the number of new subsidized households assisted from 82,000 in the budget to 45,000 after the sequester.
- Force some public housing agencies (PHA's) to discontinue their efforts to eliminate drugs in public housing, defer regular maintenance on the housing stock, increase future modernization costs, and possibly threaten the health and safety of residents.
- Delay and hamper efforts to help end homelessness. Funding would be below 1990 and far below the levels authorized in the McKinney Act. Long term solutions to aid the homeless would be prevented.
- Delay efforts to assist tenants adversely affected by prepayment of HUD subsidized mortgages.
- Eliminate proposed improvements in the oversight and monitoring of HUD funds and jeopardize recent improvements. These improvements are aimed at reducing waste, fraud, and abuse in multi-billion dollar HUD programs.
- Impair management of HUD's programs because of a lack of staff—instead of focusing on improvements in monitoring and internal control systems, HUD officials would need to manage staff furloughs to stay within constrained funding. Such furloughs would increase further the risk of waste, fraud and abuse in these multi-billion dollar programs.
- Delay the approval of housing construction projects due to insufficient staff.

Department of the Interior

Bureau of Indian Affairs (BIA)

A sequester would reduce funds from the 1991 request for BIA elementary and secondary school operations by $2,200 per Indian student. At least half (about 80) of BIA's schools would close and the school year would have to be shortened for the remaining schools.

One of BIA's two post-secondary schools would close entirely. The remaining school would have to operate with a shortened school year. All capital expenditures on facilities improvements would be deferred. Aid for post-secondary education would be unavailable for 6,100 Indian students (a 44

percent reduction from the 1991 request). Vocational education training would be denied to 1,300 Indian students.

Funding for the BIA general assistance (welfare) program would be reduced by $20 million below the request. This would prevent the BIA from making assistance payments for almost five months during the year to an estimated 50,000 needy individual Indians.

Bureau of Land Management (BLM)

A sequester would curtail on-the-ground management of public lands, including inspection and enforcement of mining and mineral leasing operations, grazing, timber, recreation, wilderness, and wildlife programs. Reduced inspection of mineral leases would result in reduced revenues from Indian and Federal leases. A major automation initiative, the Automated Land and Mineral Records System (ALMRS) that is part of BLM's integrated Modernization effort, would be postponed, and hazardous materials management inventory and cleanup efforts would be drastically reduced on 270 million acres of public land managed by BLM in 28 States. Also, discretionary fire fighting pre-suppression activities would be cut back, possibly increasing the ultimate cost of emergency fire suppression operations.

The America the Beautiful initiatives for BLM, including Recreation 2000 and Wildlife 2000, would effectively be shut down. BLM's increased drug eradication and interdiction program could not be supported. Land acquisition, maintenance and construction projects would be cut in half. The ability to offer allowable cut timber volumes in western Oregon would be greatly reduced, thereby significantly reducing receipts and payments to Oregon and California counties.

Bureau of Reclamation

A sequester would result in no new contract awards to continue work on water projects currently under construction and no major rehabilitation or improvement work at existing projects. Further adjustments would be required, including the termination of contingent construction contracts (with payment of penalties) for existing projects. This would lead to delays in the completion of projects, the realization of project benefits, and, in some cases, the initiation of project repayment.

Routine preventive maintenance efforts at dams, pumping plants, canals, and other project features would be curtailed, as necessary, in order to continue the operation of project facilities. This might result in higher project maintenance and repair costs in future years. Operations at some existing projects might be curtailed due to a lack of funds for repairs or required maintenance to ensure safe operation of project facilities.

Fish and Wildlife Service (FWS)

A sequester would not permit nine new National Wildlife Refuges to open in 1991 as planned, 100 refuges would be placed in caretaker status, law enforcement activities associated with drug control on FWS lands would be severely curtailed, funding for FWS America the Beautiful land acquisition and resource protection initiatives would be drastically reduced, and the North American Waterfowl Management Plan (that provides the focal point for the restoration of North American waterfowl populations) would not be implemented.

Other examples would be: (1) planned acquisition of water rights to help restore the important Stillwater National Wildlife Refuge in Nevada would not be implemented; (2) FWS would not meet its planned target of restoring some 13,000 acres of high priority wetlands; (3) at least 15 national fish hatcheries would have reduced operations and curtailed production, and several hatcheries would be closed; (4) the environmental contaminants program would be adversely affected, resulting in reduced contaminant clean-up on FWS lands; and (5) substantial funding to States would be delayed for one year for the Wallop-Breaux and Pittman-Robertson fish and wildlife programs.

Geological Survey

A sequester would adversely affect operation of the Global Climate Change Research program; the National Water Quality Assessment program, designed to determine the status and trends of the Nation's ground and surface waters, and which would not become operational in 1991 as planned; and the Advanced Cartographic System (ACS), an effort to develop and implement a new, state-of-the-art cartographic data collection, analysis, and presentation system.

Ongoing programs adversely affected would be geologic and mineral resources investigations, including important studies in earthquake and volcano hazards and energy resources assessments. The collection and analysis of water resources data would be lessened, possibly resulting in voids in various databases or delays in research dependent on such information.

Operation of approximately 675 water quality streamflow stations would be discontinued in the Federal Data Collection and Analysis program. Approximately 3,000 water quality streamflow gauges and as many as 180 cooperative investigations would have to be discontinued in the Federal-State Cooperative Data Collection and Analysis program. The grant to each of the 54 State Water Resources Research Institutes would be significantly reduced.

Historic Preservation fund

A sequester would translate into smaller grants to State historic preservation offices and to the National Trust for Historic Preservation. Some grants might be eliminated. Fewer properties would be nominated to and placed on the National Register of Historic Preservation; efforts to ensure that State and local development planning and permitting recognize historic values would be reduced; and public visitation to National Trust properties might be curtailed. Efforts that now help to ensure that local planning and permitting recognize historic values would be eliminated.

Minerals Management Service

A sequester would cause major reductions to the auditing staff and reduce the accuracy of revenue collections of royalties from minerals production on Federal lands. Revenues would be reduced due to an inability to audit royalty collections effectively. In addition, there would be a reduction in inspection staff and helicopter support needed to enforce safe and environmentally sound operations of outer continental shelf oil and gas operations. Revenues would be reduced due to the cancellation of new off-shore oil and gas leasing. Environmental studies and lease preparation activities would be curtailed, leading to further delays in off-shore leasing.

National Park Service (NPS)

A sequester would severely and adversely affect NPS's ability to keep parks safe and open to the visiting public. Park operating funds would be reduced to levels available in the mid-1970's. There has been significant expansion of the park system since that time. Many of these newer and smaller units would be closed to permit the "Crown Jewels" (e.g., Yellowstone, Yosemite, and the Grand Canyon) to remain open to the public. Funding for regional repair and rehabilitation programs would be cut to focus only on emergencies. Resource protection efforts would be continued at a suitable level in some areas, while other areas would be essentially closed until greater resources became available.

Seasonal hiring would be eliminated and hundreds of park rangers and maintenance staff would be furloughed. All back country areas would be closed to hikers and campers because there would be no one to patrol the areas. Park Police efforts in urban parks, including drug law enforcement, would be substantially curtailed. Discretionary ecological research projects, such as the effects of acid rain and aircraft noise studies, would be suspended.

The America the Beautiful initiative for NPS covering land acquisition, resource protection, and recreation enhancement would be severely curtailed.

Office of Surface Mining Reclamation and Enforcement (OSM)

A sequester would lead to reduced inspections for surface mine land reclamation activities and oversight of State inspection activities. Reductions in State regulatory grants would endanger the primacy of State oversight programs. OSM's ability to respond to emergency reclamation needs through its emergency reclamation program would be limited. This could lead to increased risks to the health and safety of miners and communities experiencing emergency reclamation requirements.

Payments to States by the Minerals Management Service

A sequester would delay a portion of the payments due to 27 States (primarily in the West) until 1992 and disrupt planned activities. States might not have adequate funding for schools, roads, and emergencies.

The impact on the six largest payments would be:

(In millions of dollars)

	1991 Budget	Reduction	Post Sequester
Wyoming	$202	–$77	$125
New Mexico	101	–38	63
Utah	61	–23	38
Colorado	37	–14	23
California	28	–11	17
Montana	23	–9	14
21 Other States	31	–12	19
Total	483	–184	299

Department of Justice

Drug Enforcement Administration (DEA)

A sequester would eliminate 1991 program enhancements, thereby crippling this element of the President's drug strategy. Across-the-board reductions to domestic marijuana eradication programs, State and local task forces, foreign cooperative investigations, domestic enforcement programs, and intelligence activities would also be required. Training for State and local police officers and implementation of the Chemical Control and Trafficking Act would also be curtailed. Further, planned purchases of investigative and automated data processing equipment and some major computer contracts would be canceled.

In some cities and rural areas, DEA would simply have no presence. Foreign support would be spread so thin that cooperative efforts with foreign governments would be hindered and the security of our agents would be at great risk. All State and local programs such as task forces, training, and laboratory support would be eliminated. The result might be increased drug trafficking because drug dealers are quick to notice the level of effort expended by the Federal Government on law enforcement.

Federal Bureau of Investigation (FBI)

A sequester would leave all 1991 program enhancements unfunded. Funding for the President's Financial Fraud and Crime Initiative packages implemented in 1990 would be reduced. Prosecution of those who have perpetrated savings and loan institutions fraud would be slowed. New investigative programs such as white collar crime investigations aimed at procurement fraud, and investigations of Asian organized crime would be severely impaired. The foreign counterintelligence and drug programs would be diminished substantially. Specifically, the anticipated completion of white collar crime investigations would likely drop by 25 percent (1,000-plus fewer convictions) from planned 1991 levels. The FBI's efforts directed at Asian groups would not advance in 1991 while current investigative efforts would be cut in half. Investigations into La Cosa Nostra and other major organized crime

groups would be cut by 20 percent from planned 1991 levels. Major equipment purchases affecting the fingerprint automation and field office management system programs would be canceled. Training for State and local officers would also be curtailed.

Priority investigative programs and those in which the FBI has sole law enforcement jurisdiction would be affected. As all equipment purchases would be foregone, agents would be inadequately equipped to use the sophisticated investigative techniques required for complex cases. Continued use of obsolete protective equipment would expose agents to possibly dangerous situations. The FBI would be unable to provide adequate support for automated data processing and telecommunications operations integral to information collection and analysis in support of investigative operations. All State and local programs, such as the Uniform Crime Report publications, laboratory analysis of evidence, and fingerprint identification work, would be halted. It is also likely that crime and foreign intelligence activities would increase during this period as the deterrence factor decreases.

Federal Prison System (FPS)

A sequester would prevent newly constructed prisons with 3,315 beds from becoming operational, and force FPS to move 6,595 prisoners out of non-Federal contract facilities and into its already overcrowded facilities, increasing overcrowding to well over 89 percent from the current level of about 70 percent. It would eliminate the staff increases (2,000 work years) necessary to address inadequate staff levels, and require furloughing 5,600 employees. This would eliminate staff training, greatly reduce FPS's administrative efforts, and reduce the quality and amount of food and medical services, inmate security, and inmate supervision.

Virtually every program available to inmates within the prisons (e.g., rehabilitative and educational) would be eliminated, thereby causing FPS to "lock down" all institutions and inviting inmate idleness, violence, and court intervention.

Immigration and Naturalization Service (INS)

A sequester would prevent INS from hiring 200 new Border Patrol staff and building new traffic checkpoints to intercept drug and alien smugglers that are important elements of the President's drug strategy. Such a funding level would hamper INS's border enforcement activities, processing of travelers across our land borders, and efforts to deter illegal immigration through detention of aliens and enforcement of employer sanctions. Such massive cutbacks would be likely to lead to major influxes of illegal aliens that were common prior to the enactment of the Immigration Reform and Control Act in 1986.

Even basic operations would be seriously impacted. Reductions in enforcement activities would immobilize operations and seriously jeopardize the ability of the INS to stem the flow of illegal aliens and the ever-increasing flow of illegal drugs. The ability of INS to detain and process criminal aliens apprehended by the Border Patrol would be constrained because of a lack of detention officers and funding to operate detention facilities. Investigations of major alien smuggling operations would be seriously reduced. Major backups would be experienced at ports-of-entry. Backlogs in processing of refugee and asylum applications as well as adjudication requests would be inevitable.

U.S. Attorneys' Office

Reduced staff resulting from a sequester would prevent litigation of any cases that would have been litigated as a result of increased resources provided for the crime and financial institution fraud initiatives in 1990. Specific areas that would be affected are prosecutions of narcotics cases, bankruptcy and procurement fraud cases, and other criminal fraud prosecutions.

U.S. Attorneys would be forced to abandon almost 25 percent of all ongoing litigation designed to obtain criminal convictions against violators of substance abuse, immigration and civil rights laws, organized criminal groups, and tax evaders. Attorneys would slow down efforts to recover monies from failed institutions resulting from saving and loan and bank fraud violations. All ongoing activities for collecting monies owed to the Government would be limited. Litigation designed to defend the Government from substantial monetary losses as a result of other types of fraud would be reduced.

Department of Labor

A sequester would have the following effects on Department of Labor (DOL) programs, compared with the 1991 request:

- Some 8,000 work years would be lost across all DOL agencies, requiring reductions-in-force in all enforcement programs. Among other effects, some 29,100 fewer work places would be inspected by the Occupational Safety and Health Administration, 27,400 fewer mine inspections would be initiated, increases for improving pension oversight as well as some base funding would be eliminated, and DOL's ability to maintain its core national labor force statistical series would be in jeopardy.
- In the DOL State grant programs area, States would close 250 or more of the 1,900 local offices that process walk-in unemployment insurance claims and provide employment services. Staff at remaining offices and operating hours would be reduced. Claims delays would be universal—taking up to five days in some areas; States would divert any remaining resources from program integrity efforts and devote them to processing claims. The quality control program would be abandoned.
- For the Job Corps, the sequester would mean reducing the program by up to 15,600 slots. This could require closing about 39 of the existing 107 Job Corps centers, reducing the number of centers to 68. Work on acquiring and operating the six new centers mandated by Congress would have to cease if current centers have to be closed. As a result, no funds would be available to operate the two new centers scheduled to open in 1991, while plans to open two new centers in 1992 and 1993 would be postponed or curtailed. The Job Corps anti-drug initiative would be canceled.
- Some 141,000 fewer participants would be served in the President's Job Training Partnership Act (JTPA) training program for severely disadvantaged adults and 260,000 fewer low-income young adults would be enrolled in the new initiatives targeted on this at-risk group. Participation in each program would drop by about 38 percent. Implementation of the President's new JTPA initiative would be curtailed. About 91,000 fewer displaced workers would receive readjustment assistance in JTPA's dislocated worker program.
- Approximately 21,500 fewer subsidized job slots for low income persons age 55 and older would be financed in the Older Americans Employment program, representing a 38 percent cut in program participation.

Department of State

Under a sequester in operations accounts, large infrastructure related projects, such as construction of the new Foreign Service training facility would stop, and procurement and maintenance would be eliminated. Maintenance at over 2,200 Government-owned and long-term leased properties overseas would fall below minimum levels, and the Department would be forced to defer the foreign affairs community's high priority telecommunications enhancement (DOSTN) as well as important consular, procurement, accounting and finance computer upgrades. In addition, nine embassy construction projects at high threat posts planned to begin in 1991 would be put on hold because of a lack of construction security funds, and plans for new construction projects would be eliminated. Major rehabilitations of four high priority posts would also be deferred.

The Department of State would be required to either close, or significantly reduce staffing in, the majority of its over 240 overseas missions. Except in a few critical instances, most diplomatic reporting and representational activities would stop. Public oriented activities such as consular and visa services and trade promotion programs would either cease or be limited to only emergency situations. Services to the public from Washington and other domestic offices in areas such as passport issuances, munitions licensing, Freedom of Information requests, and export promotion would either cease or be reduced to unacceptable levels.

The security of the Department's personnel, property, and classified information would be threatened by reductions in physical and technical security programs. The multi-billion dollar inventory in overseas properties, anti-terrorism equipment, and information management systems would be left

vulnerable to both technical and security failures because of the lack of funds for required maintenance and repair. Overseas inspections, including those of the newly-established Office of Security Oversight, would be eliminated.

The State Department would be unable to meet U.S. treaty obligations for our assessed share of the budgets of international organizations, thereby increasing total U.S. arrearages to over $1 billion. This would likely result in the loss of our vote in some of the UN-affiliated and other international organizations. In addition, U.S. effectiveness would be hurt in shaping the agendas of multilateral organizations that manage programs such as nuclear energy safety, AIDS research, and the peaceful resolution of armed conflicts in important regions of the world such as Central America and Middle East. It would also reduce the U.S. ability to participate in the critical Conference on Security and Cooperation in Europe (CSCE), "Open Skies", and other conferences that are aimed at influencing the fundamental changes occurring in East-West relations.

Anti-narcotics efforts associated with the National Drug Control Policy in the Andean nations of South America, overseas humanitarian assistance, and funded refugee admissions into the United States, particularly from the Soviet Union, would be reduced. Efforts to improve anti-terrorism programs designed to prevent the reoccurrence of disasters like that of Pan Am 103 would be hindered.

Department of Transportation

Federal Aviation Administration (FAA)

Under a sequester, the hours of operation at virtually all airport control towers and, therefore, the number of flights between cities, would be reduced. The air traffic control system would turn into chaos. Reductions of this magnitude would unquestionably require the airlines to cancel numerous scheduled flights with negative financial consequences for the airline industry. Major cutbacks in the air traffic controller work force would produce service interruptions far more extensive than those experienced after the 1981 strike. Delays to air travelers would increase by 400-600 percent. Even worse, a major FAA cutback and disruption in 1991 would affect air travelers for at least three years due to recovery problems.

There would be extensive closure of facilities, including all contract towers. Over 100 control towers would have to be taken out of service or the hours of operation drastically reduced. Implementation activity and training for modernization of the airspace system would be curtailed. Training and hiring for the future air traffic control computer system would fall three years behind schedule.

Delays in repairing navigational aids would cause time-consuming rerouting of aircraft and intermittent closure of some airports. Reductions in safety inspector and security staff, including Federal air marshals, would result in fewer scheduled inspections of aircraft and airports.

Many major computer and radar contracts that are approaching the peak year of their delivery schedules would be canceled or renegotiated. This would add several years to the schedule for modernization the air traffic control system. Contract penalties due to stop-restart requirements of the sequester would exceed $500 million. Critical technical skills would be lost for several years.

FAA also would have to postpone: (1) the replacement of various facilities, such as airport control towers planned for San Diego, Chicago Midway, Kansas City, and Los Angeles and stall construction already underway at Chicago O'Hare, St. Louis, and Newark; (2) upgrading computer software and hardware used by controllers to separate aircraft, which could exacerbate the problem at some facilities of information disappearing from controller radar screens; (3) joint development of long range radar replacements used to ensure safe operation and separation of aircraft; (4) establishment of a voice communications system required for the sector suite system; and (5) maintenance of many FAA buildings and facilities, which would delay FAA work to strengthen buildings in earthquake risk areas and to extend the service life of buildings built in the 1940's that house electronic systems. Cuts of this size would also postpone installation of equipment needed at the new Denver airport and continued expansion at Dallas/Fort Worth.

Installation of approximately 400 items of national airspace system equipment procured in prior years would be delayed. This would jeopardize the safety of the air transportation system and result in further delaying modernization of the system. Such delays would include the upgrade of radar, communications, weather information, automated data processing, and tower and en route center equipment.

Critically needed airport improvement and capacity enhancement programs related to providing new capabilities directly aimed at reducing congestion in the national air system would be deferred. This would include a slowdown in the interim plan to support the airspace system until modernization is completed.

The FAA would be unable to follow-through with current efforts to expand its overseas security presence and full implementation of the recommendations of the President's Commission on Aviation Security and Terrorism would be slowed. Also, FAA would delay implementation of anti-drug activities required by the Drug Control Act of 1988.

Select research and development contracts would be canceled or delayed. Progress on numerous FAA research and development programs that are directly tied to safety and capacity improvements for air traffic control computers would be delayed by more than a year. Progress on new explosive detection technology research would continue but at a much slower rate. The President's Commission on Airline Security and Terrorism recently urged acceleration of this research.

Federal Railroad Administration

A sequester would result in a 40 percent reduction in scheduled safety inspections of railroad track, bridges, equipment, and operations. In addition, DOT's automated track inspection vehicle would have to reduce planned operations from a planned 28,500 miles to 20,500 miles on passenger, hazardous materials, and other priority routes. Federal oversight of the railroad industry's actions to eliminate drug and alcohol usage among railroad workers would be interrupted.

Department of the Treasury

Internal Revenue Service (IRS)

A sequester would primarily affect revenue-generating enforcement activities with an estimated revenue loss of $8.5 billion. The indirect effects on voluntary compliance produced by the perception of a faltering IRS enforcement presence would be even greater. Taxpayer service would fall precipitously and taxpayers would find it more difficult to complete their returns; 15 million fewer taxpayers would receive assistance and busy signals for those seeking assistance by telephone would increase exponentially.

All computer investments, including the critical Tax System Modernization project, would be deferred, increasing the chance of a returns processing breakdown in the future. Returns processing work would demand top resource priority but there would be delays in refund checks. If it takes IRS longer than 45 days to process a refund, interest must be paid to the taxpayer. The impact of the sequester would greatly increase these interest payments. Tax processing errors would increase as fewer employees, struggling to meet workload, would not be able to exercise proper care and attention to their work.

The projected loss of 9,000 workers in returns processing would prevent a closure of filing season work (e.g., returns processing for one year would not be completed before returns for the next year arrived). Inventories of unprocessed returns would grow into subsequent years. There would be no IRS participation in the war on drugs in order to preserve a focus on essential criminal tax fraud issues.

United States Customs Service

A sequester would eliminate all 1991 initiatives, including staffing for the southwest border, canine enforcement teams, money laundering investigations, and financial integrity. Additionally,

staffing cuts of roughly 50 percent would be required, with commensurate declines in enforcement and commercial program effectiveness.

In practical terms, a sequester would mean fewer cargo container inspections (36 percent less than 1990), a 120 percent increase in delays in releasing cargo, lost tariff revenues, and fewer drug seizures. The protection afforded domestic industry by Customs enforcement efforts would erode. Investments in the labor saving Automated Commercial Systems (ACS) program would be postponed. Longer passenger processing delays would occur at border crossings and airports. Many of the smaller ports along the northern border and other locations could be closed or face curtailed service hours.

An estimated $1 billion in revenue would be lost due to lack of adequate processing controls. Contraband entries would expand and the war against drug imports would be severely hampered.

Department of Veterans Affairs

A sequester, compared with the 1991 request, would:

- Require significant reductions in purchases of medical and other supplies and equipment, prevent the opening of new facilities, cancel 1991 initiatives (e.g., increases for drug abuse treatment, quality assurance, physician and nurses pay), reduce medical care staff years by 15,600 or eight percent, and reduce the number of incidents of care (e.g., hospital stays and outpatient visits) provided to veterans by 2.0 million;
- Reduce operating staff associated with the Veterans Benefits Administration, the National Cemetery System, and administrative activities, forgo scheduled computer upgrades and acquisitions, and delay interments in many of the smaller national cemeteries. Staff reductions in regional offices would be inevitable and would reduce the timeliness and quality of benefits claims processing and the servicing of delinquent guaranteed loans below 1990 levels;
- Reduce bed levels (by 350) and clinical services in all proposed construction and renovation projects (medical centers, regional offices, and cemeteries). Project redesigns caused by reductions in the size and scope of these projects would delay planning and construction by at least a year and nine months and hamper the provision of quality health care to eligible veterans; and
- Disproportionately reduce the contributory Montgomery bill program (because over half of the educational programs for disabled veterans' dependents and vocational rehabilitation are exempt) affecting annual benefit payments ranging from $1,300 to $2,200 to nearly 125,000 veterans and service persons.

Other Agencies

Commodity Futures Trading Commission (CFTC)

A sequester would have a devastating impact on enforcement actions, especially in light of the recent trading abuses in the Chicago futures markets. This would permit only 79 enforcement actions to be completed compared to 124 in 1989, a reduction of 64 percent. Market surveillance would be reduced by 25 percent at a time when additional surveillance is needed to protect hedging and pricing functions of these markets. There could be increased commodities fraud as no new enforcement actions would be undertaken. The result would be a less competitive market environment with less protection for market participants. For example, family farmers who forward price their products with county grain elevators would be exposed to greater market risks. CFTC's overall program output would be reduced by one-half, reversing actions to increase and strengthen CFTC's regulatory capacity.

Environmental Protection Agency (EPA)

The major impacts of a sequester would be:

- Severe reductions in State environmental programs, which typically receive half their funding from EPA grants;
- Cancellation of EPA's wetlands initiatives;

- A decreased level of corrective actions undertaken at operating hazardous waste facilities at a time when EPA will be responsible for an expanded universe of regulated facilities and hazardous substances;
- Delays in the development of regulations and inability to meet court-ordered deadlines for various regulations;
- Reduced information made available to the public because of reductions in automated data processing funding;
- Severe limitations on EPA's ability to implement the new Clean Air Act amendments. EPA probably could not meet the first year deadlines in the Clean Air Act amendments and technical and financial assistance to States to implement the amendments would be severely restricted;
- Halting all new Superfund cleanups, undermining the public's confidence in Federal clean-up efforts; and the Government's leverage to make the polluters pay. Decreased enforcement and fewer cleanups funded by responsible parties, and more fund-financed cleanups. Lower cost recoveries would prevent the fund from being replenished;
- Severe slippage in numerous Clean Water Act requirements, including monitoring of water quality, issuance of National Pollutant Discharge Elimination System (NPDES) permits, and development of water quality criteria;
- Serious delays in the cleanups of specific bodies such as the Great Lakes, the Chesapeake Bay, and the 17 estuaries in the national estuary program;
- Reduction of 50 percent in air pollution enforcement activities such as stationary source inspections, notices of violation, administrative orders, and civil and criminal litigation; and
- Curtailed analysis of Toxic Release Inventory (TRI) reports, delay availability of the TRI data base to the public, reduce resources available for data quality assurance, and eliminate enforcement actions against non-reporters.

Judicial Branch

A sequester would have the following effects:

- 30 percent of Federal defenders' cases and 100 percent of panel attorney cases would be dismissed for failure to provide counsel, or counsel would be appointed without compensation;
- 3 percent of the estimated payments committed to pay panel attorneys for prior year case assignments could not be paid;
- Inmates filing new death penalty *habeas corpus* petitions would not have their cases reviewed by a Federal court, or counsel would have to be appointed without compensation;
- Funds would not be available for fees of jurors for civil trials, denying the public their right to a civil jury trial;
- Funds would not be available for fees of jurors for approximately two months of the year for criminal trials;
- The community supervision programs of the probation system would suffer the burden of personnel shortages; 52 percent of the offenders in these programs would not have their supervision enforced;
- Testing and treatment of 19 percent of drug offenders would be terminated; and
- Expansion of home detention (electronic monitoring) of offenders could not be accomplished resulting in increased jail costs.

National Aeronautics and Space Administration (NASA)

A sequester would cause a major restructuring of all NASA activities. The Space Station would be canceled (with a termination liability of about $600 million). In space science, technology and aeronautics, the Moon/Mars Initiative and Mission to Planet Earth would be deferred and two to

three major science projects under development would have to be canceled (e.g., Comet Rendezvous/Asteroid Flyby, Advanced X-Ray Astrophysics Facility). In addition, reductions would have to be made in the operations support for spacecraft (e.g., Magellan mission to Venus). With the exception of critical safety-related items, all facility construction and renovation would be stopped.

The 10 planned Shuttle flights during 1991 would be postponed or canceled. The eleven missions planned for 1992 would also have to be postponed or canceled, effectively suspending Shuttle operations until 1993. (Recovery from this suspension would entail a re-hiring and recertification of the contractor work force.) The purchase of critical spare parts, the development of the Advanced Solid Rocket Motor, and the procurement of expendable launch vehicles would be terminated. All planned safety improvements to the Shuttle would be deferred. Additional terminations or postponements would include all shuttle engine ground testing, all orbiter modifications, all planned Shuttle equipment upgrades, and all procurement of upper stage rockets and payload operations. Engineering laboratories and on-line Shuttle facilities would be placed on a "caretaker" status.

National Science Foundation (NSF)

A sequester would terminate support to roughly 28,000 individuals, including senior investigators, graduate and undergraduate students, pre-college teachers, and high school students. In addition, it would defer or terminate all new initiatives and many existing programs, including Science and Technology Centers, Engineering Research Centers, precollege education programs, graduate fellowships, and global change research. It would shut down the U.S. Antarctic program for 1991 operations and defer or terminate any remaining activities in the economic competitiveness and human resources areas.

Office of Personnel Management (OPM)

A sequester of OPM's civilian retirement obligation limitation would: (1) increase existing backlogs in death claims, refunds, and initial annuity payout processing (currently, the initial annuity payment can take as long as six to nine months and lump-sum refunds about 3 months to process) and would likely extend by three to six months the processing of initial annuity and lump-sum payments; (2) stall design and development of the automated Federal Employees' Retirement System (FERS) project that is meant to automate FERS retirement processing and definitely push into 1992 or beyond the major start-up activities for the FERS automated record keeping system. This would result in the continuing build-up of paper records for the FERS system similar to what exists for the Civil Service Retirement System.; and (3) force cutbacks in essential processing staff training and quality assurance activities.

OPM would eliminate all 1991 initiatives including funding for the Public Policy Scholarship, training for front-line workers, and the Commission on the Public Service. The Presidential Management Intern Program would not be permitted to double in size as was authorized by Executive Order. It would eliminate OPM's ability to implement pay reform, would cut current staffing levels, and require the consolidation of area offices and the deferral of the acquisition of new computer equipment. The backlog of National Agency Checks and Investigations would increase by about 32,000 cases as OPM would not be able to provide timely investigations for agencies.

OPM would lose oversight and evaluation capacity and staffing research and development.

OPM's retirement and insurance functions would probably not possess the level of resources for account maintenance activities, to carry out its fiduciary responsibilities, or to provide a minimally acceptable level of services to its beneficiaries.

Civilian retirement claims processing reductions would put in jeopardy the timely payment of monthly annuities to 2.2 million Federal civilian retirees. The typical annuitant receives a monthly annuity of approximately $1,450 ($17,400 per annum) and may have no other source of retirement income. Delays in the payment of annuities could prevent annuitants from being able to finance their basic necessities.

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Retirement and insurance processing times for interim payments, annuity cases, death cases and refund claims would double and triple. Workload balances for annuity, death, refund and deposit claims, annuity roll maintenance, and health benefits disputed claims would increase three- to ten-fold.

Congress and senior citizen advocates would strongly object to delayed processing of monthly annuity checks. The lengthy delay in processing initial annuity payments would directly conflict with an Administration goal and a President's Commission on Management Initiatives commitment to expedite new retiree initial annuity payments.

Reductions in the Government Payments for Annuitants would prevent payment of the Government's share of health premiums. A cut in enrollee payments might occur.

Front-line training initiatives would be eliminated. The time needed to fill agency job requests would double or triple, and the Presidential Management Intern Program and other entry-level programs designed to bring new talent into the Federal Government would be eliminated.

The time needed to process special rate requests would more than double and compliance activity and work on classification standards would be cut by half. This would result in less qualified staff Government-wide, thus severely degrading the quality of products and services.

OPM could not pay the Federal Employee Health Benefit carriers the Government share of employee health insurance premiums. The result would be a cut in enrollee benefits. Reductions in the Government Payment for Annuitants would result in the Government being negligent in meeting its statutorily required payment on behalf of annuitants.

Railroad Retirement Board

A sequester would reduce railroad retirement supplemental annuities by $34 million. Supplemental annuities are paid to roughly 200,000 rail retirees who have 25 or more years of railroad service. Railroad unemployment and sickness insurance benefits would be reduced by $40 million from the estimated $105 million. The reduction would affect the welfare of 60,000 railroad workers dependent on unemployment and sickness benefits.

Small Business Administration

A sequester would force as many as 40 field offices to close. Small Business Assistance and Advocacy programs, including programs for the promotion of minorities, women and international trade assistance, would be sharply curtailed. Lending and surety bond program levels would be reduced by more than $2.1 billion.

APPENDIX A: COMPARISONS WITH CONGRESSIONAL BUDGET OFFICE ESTIMATES

The Congressional Budget Office (CBO) released revised baseline estimates on June 20, 1990. These estimates show a 1991 baseline deficit of $232.1 billion, or $0.7 billion more than the comparable OMB baseline deficit estimate of $231.4 billion. Both the CBO and OMB estimates assume spending by the Resolution Trust Corporation above what is permitted under current law to address the problems of insolvent savings and loans. Table A–1 below compares the OMB and CBO baseline estimates.

Table A–1. MID-SESSION REVIEW: COMPARISON OF OMB AND CBO BASELINE DEFICIT ESTIMATES

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
OMB adjusted baseline deficit	218.5	231.4	205.0	135.2	79.6	76.8
Differences:						
Economic assumptions:						
Lower (+)/higher (–) receipts	–7.2	6.8	26.7	50.6	64.7	67.7
Higher (+)/lower (–) outlays	0.1	–4.2	1.2	10.2	21.6	35.8
Subtotal, economic	–7.1	2.6	27.9	60.8	86.2	103.4
Technical reestimates:						
Lower (+)/higher (–) receipts	7.4	–8.3	–20.0	–32.4	–38.3	–43.4
Higher (+)/lower (–) outlays:						
Resolution Trust Corporation	–21.1	7.4	18.7	18.4	11.7	2.0
Other deposit insurance	0.6	2.0	6.5	12.0	8.6	4.2
Medicare and Medicaid	–2.5	–2.4	–2.4	–2.0	–1.2	–*
Census Bureau	–*	0.9	1.4	1.4	1.6	1.7
Net interest (including debt service)	0.3	1.2	3.4	4.3	2.3	–0.6
Other	–1.5	–2.8	–1.7	–3.3	–4.2	–5.8
Subtotal, technical	–16.9	–2.0	5.8	–1.5	–19.5	–41.9
Total, economic and technical differences	–23.9	0.7	33.8	59.3	66.8	61.5
CBO June baseline deficit	194.5	232.1	238.7	194.5	146.4	138.3

*$50 million or less.

APPENDIX B: SEQUESTERABLE BASELINE AND SEQUESTER AMOUNTS UNDER A $100 BILLION SEQUESTER BY AGENCY AND BUDGET ACCOUNT

(Fiscal year 1991; in thousands of dollars)

Percentages Used:
- Nondefense, 38.4 percent
- Defense, 25.1 percent

G-R-H Sequester Amounts

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Legislative Branch		
Senate		
Salaries, officers and employees (01–05–0110–801–A):		
Budget Authority	386,613	148,459
Outlays	370,762	142,373
Congressional use of foreign currency, Senate (01–05–0188–801–A):		
401(C) Authority	1,575	605
Outlays	1,575	605
House of Representatives		
Mileage of Members (01–10–0208–801–A):		
Budget Authority	219	84
Outlays	110	42
Salaries and expenses (01–10–0400–801–A):		
Budget Authority	552,756	212,258
Outlays	530,504	203,714
Congressional use of foreign currency, House of Representative (01–10–0488–801–A):		
401(C) Authority	3,360	1,290
Outlays	3,360	1,290
Joint Items		
Capitol Guide Service (01–12–0170–801–A):		
Budget Authority	1,387	533
Outlays	1,284	493
Joint Committee on Printing (01–12–0180–801–A):		
Budget Authority	1,232	473
Outlays	1,129	434
Joint Economic Committee (01–12–0181–801–A):		
Budget Authority	3,627	1,393
Outlays	3,446	1,323
Special Services Office (01–12–0190–801–A):		
Budget Authority	246	94
Outlays	246	94
Office of the Attending Physician (01–12–0425–801–A):		
Budget Authority	1,465	563
Outlays	1,465	563
Joint Committee on Taxation (01–12–0460–801–A):		
Budget Authority	4,499	1,728
Outlays	4,049	1,555
Capitol Police Board (01–12–0474–801–A):		
Budget Authority	57,389	22,037
Outlays	55,667	21,376
General expenses, Capitol police (01–12–0476–801–A):		
Budget Authority	1,955	751
Outlays	1,703	654
Statements of appropriations (01–12–0499–801–A):		
Budget Authority	21	8
Official mail costs (01–12–0825–801–A):		
Budget Authority	103,176	39,620
Outlays	103,176	39,620
Congressional Budget Office		
Salaries and expenses (01–14–0100–801–A):		
Budget Authority	20,154	7,739
Outlays	18,138	6,965
Architect of the Capitol		
Office of the Architect of the Capitol: Salaries (01–15–0100–801–A):		
Budget Authority	130,380	50,066
401(C) Authority—Off. Coll.	120	46
Outlays	98,296	37,746
Library of Congress		
Salaries and expenses (01–25–0101–503–A):		
Budget Authority	162,954	62,574
401(C) Authority—Off. Coll.	5,888	2,261
Outlays	141,655	54,396
Copyright Office: Salaries and expenses (01–25–0102–376–A):		
Budget Authority	12,604	4,840
401(C) Authority—Off. Coll.	8,144	3,127
Outlays	18,845	7,236
Congressional Research Service: Salaries and expenses (01–25–0127–801–A):		
Budget Authority	48,067	18,458
Outlays	43,597	16,741
Books for the blind and physically handicapped: Salaries & exp (01–25–0141–503–A):		
Budget Authority	38,716	14,867
Outlays	14,441	5,545
Furniture and furnishings (01–25–0146–503–A):		
Budget Authority	2,689	1,033
Outlays	1,995	766
Gift and trust fund accounts (01–25–9971–503–A):		
Obligation limitation	328	126
Government Printing Office		
Office of Superintendent of Documents: Salaries and expenses (01–30–0201–808–A):		
Budget Authority	17,034	6,541
Outlays	10,731	4,121
Congressional printing and binding (01–30–0203–801–A):		
Budget Authority	77,263	29,669
Outlays	64,128	24,625
Government Printing Office revolving fund (01–30–4505–808–A):		
Obligation limitation	38,383	14,739
General Accounting Office		
Salaries and expenses (01–35–0107–801–A):		
Budget Authority	381,027	146,314
Outlays	331,100	127,142
United States Tax Court		
Salaries and expenses (01–40–0100–752–A):		
Budget Authority	29,436	11,303
Outlays	25,580	9,823
Tax Court independent counsel, U.S. Tax Court (01–40–5023–752–AA):		
401(C) Authority	10	4
Outlays	10	4
Legislative Branch Boards and Commissions		
Commission on Security & Cooperation in Europe: Salaries & exp (01–45–0110–801–A):		
Budget Authority	880	338
Outlays	824	316
Copyright Royalty Tribunal: Salaries and expenses (01–45–0310–376–A):		
Budget Authority	105	40
Outlays	59	23
Biomedical Ethics: Salaries and expenses (01–45–0400–801–A):		
Budget Authority	608	233
Outlays	608	233
International conferences and contingencies: House, Senate exp (01–45–0500–801–A):		
401(C) Authority	340	131
Outlays	340	131
National Commission on Children (01–45–1050–801–A):		
Budget Authority	1,391	534
Outlays	1,319	506
U.S. Bipartisan Commission on Comprehensive Health Care (01–45–1100–801–A):		
Budget Authority	489	188
Outlays	489	188
National Commission of Acquired Immune Deficiency Syndrome (01–45–1300–801–A):		
Budget Authority	1,044	401
Outlays	835	321
Office of Technology Assessment		
Salaries and expenses (01–50–0700–801–A):		
Budget Authority	19,237	7,387
Outlays	15,178	5,828
Total, Legislative Branch:		
Budget Authority	2,058,663	790,526
401(C) Authority	5,285	2,030
401(C) Authority—Off. Coll.	14,152	5,434
Obligation limitation	38,711	14,865
Outlays	1,866,644	716,792
The Judiciary		
Supreme Court of the United States		
Salaries and expenses (02–05–0100–752–A):		
Budget Authority	17,149	6,585
Outlays	11,647	4,472
Care of the building and grounds (02–05–0103–752–A):		
Budget Authority	4,563	1,752
Outlays	4,161	1,598
United States Court of Appeals for Federal Circuit		
Salaries and expenses (02–07–0510–752–A):		
Budget Authority	7,876	3,024
Outlays	6,740	2,588
United States Court of International Trade		
Salaries and expenses (02–15–0400–752–A):		
Budget Authority	7,686	2,951
Outlays	7,268	2,791
Courts of Appeals, District Courts and other Svcs		
Salaries and expenses (02–25–0920–752–A):		
Budget Authority	1,316,406	505,500
401(C) Authority	7,500	2,880
Outlays	1,206,095	463,140
Defender services (02–25–0923–752–A):		
Budget Authority	127,332	48,895
Outlays	123,666	47,488
Fees of jurors and commissioners (02–25–0925–752–A):		
Budget Authority	60,693	23,306
Outlays	50,072	19,228
Court security (02–25–0930–752–A):		
Budget Authority	60,328	23,166
Outlays	36,679	14,085
Registry administration (02–25–5101–752–A):		
401(C) Authority	3,500	1,344
Outlays	3,500	1,344

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Administrative Office of the United States Courts		
Salaries and expenses (02-26-0927-752-A):		
Budget Authority	35,264	13,541
Outlays	29,285	11,245
Judiciary Automation Fund (02-26-5114-752-A):		
401(C) Authority	85,854	32,968
Outlays	72,117	27,693
Federal Judicial Center		
Salaries and expenses (02-30-0928-752-A):		
Budget Authority	13,055	5,013
Outlays	10,575	4,061
Total, The Judiciary:		
Budget Authority	1,650,352	633,733
401(C) Authority	96,854	37,192
Outlays	1,561,805	599,733
Executive Office of the President		
The White House Office		
Salaries and expenses (03-10-0110-802-A):		
Budget Authority	31,657	12,156
Outlays	28,202	10,830
Executive Residence at the White House		
Operating expenses (03-20-0210-802-A):		
Budget Authority	7,137	2,741
401(C) Authority—Off. Coll.	540	207
Outlays	6,720	2,580
Official Residence of the Vice President		
Operating expenses (03-21-0211-802-A):		
Budget Authority	599	230
Outlays	408	157
Special Assistance to the President		
Salaries and expenses (03-22-1454-802-A):		
Budget Authority	2,410	925
Outlays	2,154	827
Council of Economic Advisers		
Salaries and expenses (03-28-1900-802-A):		
Budget Authority	3,003	1,153
Outlays	2,702	1,038
Council/Office on Environmental Quality		
Council on Environmental Quality & Off. of Environmental Quali (03-31-1453-802-A):		
Budget Authority	1,536	590
Outlays	1,382	531
Office of Policy Development		
Salaries and expenses (03-35-2200-802-A):		
Budget Authority	3,222	1,237
Outlays	2,549	979
National Security Council		
Salaries and expenses (03-38-2000-802-A):		
Budget Authority	5,584	2,144
Outlays	4,244	1,630
National Space Council		
Salaries and expenses (03-39-0020-802-A):		
Budget Authority	1,029	395
Outlays	720	276
National Critical Materials Council		
Salaries and expenses (03-41-0111-802-A):		
Budget Authority	416	160
Outlays	374	144
Office of Administration		
Salaries and expenses (03-42-0038-802-A):		
Budget Authority	19,413	7,455
Outlays	16,269	6,247
Office of Management and Budget		
Office of Federal Procurement Policy: Salaries and expenses (03-45-0201-802-A):		
Budget Authority	2,752	1,057
Outlays	2,442	938
Salaries and Expenses (03-45-0300-802-A):		
Budget Authority	46,438	17,832
Outlays	42,719	16,404
Office of National Drug Control Policy		
Salaries and Expenses (03-47-1457-802-A):		
Budget Authority	38,545	14,801
Outlays	23,646	9,080
Special forfeiture fund (03-47-5001-802-A):		
Budget Authority	113,578	43,614
Outlays	56,789	21,807
Office of Science and Technology Policy		
Salaries and expenses (03-49-2600-802-A):		
Budget Authority	2,963	1,138
Outlays	1,779	683
Office of the United States Trade Representative		
Salaries and expenses (03-50-0400-802-A):		
Budget Authority	18,604	7,144
Outlays	16,567	6,362
Total, Executive Office of the President:		
Budget Authority	298,886	114,772
401(C) Authority—Off. Coll.	540	207
Outlays	209,666	80,513
Funds Appropriated to the President		
Unanticipated Needs		
Unanticipated needs (04-06-0037-802-A):		
Budget Authority	1,042	400
Outlays	1,000	384
Investment in Management Improvement		
Investment in Management Improvement (04-08-0061-802-A):		
Budget Authority	521	200
Outlays	391	150
International Security Assistance		
Peacekeeping operations (04-09-1032-152-A):		
Budget Authority	34,149	13,113
Outlays	23,563	9,048
Economic support fund (04-09-1037-152-A):		
Budget Authority	4,132,559	1,586,903
Outlays	2,085,633	800,883
International military education and training (04-09-1081-152-A):		
Budget Authority	49,178	18,884
Outlays	24,589	9,442
Foreign Military Financing (04-09-1082-152-A):		
Budget Authority	5,030,402	1,931,674
Outlays	1,766,970	678,516
Multilateral Assistance		
Contribution to the Inter-American Development Bank (04-12-0072-151-A):		
Budget Authority	98,920	37,985
Outlays	4,920	1,889
Contribution to the International Development Association (04-12-0073-151-A):		
Budget Authority	1,001,207	384,463
Outlays	147,564	56,665
Contribution to the Asian Development Bank (04-12-0076-151-A):		
Budget Authority	182,322	70,012
Contribution to the International Bank for Reconstruction & De (04-12-0077-151-A):		
Budget Authority	51,877	19,921
Outlays	5,188	1,992
Contribution to the International Finance Corporation (04-12-0078-151-A):		
Budget Authority	77,740	29,852
Contribution to the African Development Fund (04-12-0079-151-A):		
Budget Authority	108,940	41,833
Contribution to the African Development Bank (04-12-0082-151-A):		
Budget Authority	9,892	3,799
Outlays	9,892	3,799
International organizations and programs (04-12-1005-151-A):		
Budget Authority	285,651	109,690
Outlays	214,239	82,268
Agency for International Development		
Operating expenses, Agency for International Development (04-14-1000-151-A):		
Budget Authority	451,450	173,357
Outlays	338,587	130,017
Operating expenses of the AID Office of Inspector General (04-14-1007-151-A):		
Budget Authority	31,842	12,227
Outlays	23,882	9,171
American schools and hospitals abroad (04-14-1013-151-A):		
Budget Authority	39,440	15,145
Outlays	13,704	5,262
Development fund for Africa (04-14-1014-151-A):		
Budget Authority	601,484	230,970
Outlays	48,119	18,478
Functional development assistance program (04-14-1021-151-A):		
Budget Authority	1,310,000	503,040
Outlays	102,966	39,539
International disaster assistance (04-14-1035-151-A):		
Budget Authority	31,149	11,961
Outlays	7,787	2,990
Special assistance initiative (04-14-1042-151-A):		
Budget Authority	166,003	63,745
Outlays	30,628	11,761
Housing and other credit guaranty programs (04-14-4340-151-A):		
401(C) Authority—Off. Coll.	7,216	2,771
Guaranteed Loan Limitation	103,752	39,841
Outlays	7,216	2,771

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Private sector revolving fund (04–14–4341–151–A):		
Budget Authority	5,187	1,992
Direct Loan Limitation	3,631	1,394
Guaranteed Loan Limitation	94,936	36,455

Trade and Development Program

Account Title	Sequester Base	Sequester Amount
Trade and development program (04–16–1001–151–A):		
Budget Authority	32,833	12,608
Outlays	8,208	3,152

Peace Corps

Account Title	Sequester Base	Sequester Amount
Peace Corps (04–18–0100–151–A):		
Budget Authority	173,520	66,632
Outlays	141,593	54,372

Overseas Private Investment Corporation

Account Title	Sequester Base	Sequester Amount
Overseas Private Investment Corporation (04–20–4030–151–A):		
401(C) Authority— Off. Coll.	12,912	4,958
Direct Loan Limitation	20,750	7,968
Guaranteed Loan Limitation	220,422	84,642
Outlays	14,577	5,598

Inter-American Foundation

Account Title	Sequester Base	Sequester Amount
Inter-American Foundation (04–22–4031–151–A):		
Budget Authority	17,598	6,758
401(C) Authority— Off. Coll.	10,000	3,840
Outlays	18,763	7,205

African Development Foundation

Account Title	Sequester Base	Sequester Amount
African Development Foundation (04–24–0700–151–A):		
Budget Authority	9,235	3,546
Outlays	4,987	1,915

International Monetary Programs

Account Title	Sequester Base	Sequester Amount
Contribution to Enhanced Struct Adjust Facility of the IMF (04–35–0005–155–A):		
Budget Authority	145,253	55,777
Outlays	2,905	1,116

Military Sales Programs

Account Title	Sequester Base	Sequester Amount
Special defense acquisition fund (04–37–4116–155–A):		
Obligation limitation	286,926	110,180
Foreign military sales trust fund (04–37–8242–155–A):		
401(C) Authority— Off. Coll.	270,000	103,680
Outlays	270,000	103,680

Special Assistance for Central America

Account Title	Sequester Base	Sequester Amount
Central American reconciliation assistance (04–55–1038–152–A):		
Budget Authority	27,467	10,547
Outlays	27,467	10,547
Total, Funds Appropriated to the President:		
Budget Authority	14,106,861	5,417,034
401(C) Authority— Off. Coll.	300,128	115,249
Obligation limitation	286,926	110,180
Direct Loan Limitation	24,381	9,362
Guaranteed Loan Limitation	419,110	160,938
Outlays	5,345,338	2,052,610

Department of Agriculture

Office of the Secretary

Account Title	Sequester Base	Sequester Amount
Office of the Secretary (05–03–0115–352–A):		
Budget Authority	7,644	2,935
Outlays	7,589	2,914
Gifts and bequests (05–03–8203–352–A):		
401(C) Authority	2,500	960
Outlays	2,041	784

Departmental Administration

Account Title	Sequester Base	Sequester Amount
Rental payments and building operations and maintenance (05–05–0117–352–A):		
Budget Authority	75,076	28,829
Outlays	67,034	25,741
Advisory committees (05–05–0118–352–A):		
Budget Authority	1,561	599
Outlays	1,157	444
Departmental administration (05–05–0120–352–A):		
Budget Authority	23,096	8,869
Outlays	16,835	6,465
Hazardous Waste Management (05–05–0500–304–A):		
Budget Authority	20,764	7,973
Outlays	10,101	3,879
Office of budget and program analysis (05–05–0503–352–A):		
Budget Authority	4,745	1,822
Outlays	4,066	1,561

Office of Governmental and Public Affairs

Account Title	Sequester Base	Sequester Amount
Office of Public Affairs (05–06–0130–352–A):		
Budget Authority	8,898	3,417
Outlays	6,128	2,353

Office of the Inspector General

Account Title	Sequester Base	Sequester Amount
Office of the Inspector General (05–08–0900–352–A):		
Budget Authority	54,258	20,835
Outlays	49,692	19,082

Office of the General Counsel

Account Title	Sequester Base	Sequester Amount
Office of the General Counsel (05–10–2300–352–A):		
Budget Authority	22,578	8,670
Outlays	19,966	7,667

Agricultural Research Service

Account Title	Sequester Base	Sequester Amount
Agricultural Research Service (05–18–1400–352–A):		
Budget Authority	612,927	235,364
401(C) Authority— Off. Coll.	3,600	1,382
Outlays	477,393	183,319
Buildings and facilities (05–18–1401–352–A):		
Budget Authority	11,123	4,271
Outlays	2,213	850

Cooperative State Research Service

Account Title	Sequester Base	Sequester Amount
Cooperative State Research Service (05–24–1500–352–A):		
Budget Authority	398,906	153,180
401(C) Authority	2,850	1,094
Outlays	224,857	86,345

Extension Service

Account Title	Sequester Base	Sequester Amount
Extension Service (05–27–0502–352–A):		
Budget Authority	384,758	147,747
401(C) Authority— Off. Coll.	245	94
Outlays	341,910	131,293

National Agricultural Library

Account Title	Sequester Base	Sequester Amount
National Agricultural Library (05–30–0300–352–A):		
Budget Authority	15,347	5,893
Outlays	11,541	4,432

National Agricultural Statistics Service

Account Title	Sequester Base	Sequester Amount
National Agricultural Statistics Service (05–33–1801–352–A):		
Budget Authority	69,980	26,872
401(C) Authority— Off. Coll.	1,717	659
Outlays	62,022	23,816

Economic Research Service

Account Title	Sequester Base	Sequester Amount
Economic Research Service (05–36–1701–352–A):		
Budget Authority	53,087	20,385
Outlays	44,849	17,222

World Agricultural Outlook Board

Account Title	Sequester Base	Sequester Amount
World agricultural outlook board (05–50–2100–352–A):		
Budget Authority	2,001	768
Outlays	1,600	614

Foreign Agricultural Service

Account Title	Sequester Base	Sequester Amount
Foreign Agricultural Service (05–51–2900–352–A):		
Budget Authority	105,882	40,659
Outlays	65,647	25,208

Office of International Cooperation & Development

Account Title	Sequester Base	Sequester Amount
Scientific activities overseas (05–53–1404–352–A):		
Budget Authority	912	350
Outlays	547	210
Office of International Corporation and Development (05–53–3200–352–A):		
Budget Authority	6,322	2,428
Outlays	6,322	2,428

Foreign Assistance Programs

Account Title	Sequester Base	Sequester Amount
Expenses, PL 480, foreign assistance programs, Agriculture (05–57–2274–151–A):		
Budget Authority	1,020,321	391,803
Obligation limitation	1,587,468	609,588
Direct Loan Limitation	822,763	315,941
Outlays	1,020,321	391,803

Agricultural Stabilization & Conservation Service

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (05–60–3300–351–A):		
Budget Authority	11,575	4,445
401(C) Authority— Off. Coll.	23,986	9,211
Outlays	24,099	9,254
Agricultural conservation program (05–60–3315–302–A):		
Budget Authority	190,028	72,971
Outlays	87,223	33,494
Emergency conservation program (05–60–3316–453–A):		
Budget Authority	31,184	11,975
Outlays	16,216	6,227

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Colorado river basin salinity control program (05–60–3318–304–A):		
Budget Authority	10,775	4,138
Outlays	5,388	2,069
Conservation reserve program (05–60–3319–302–A):		
Budget Authority	1,878,038	721,167
Outlays	1,310,385	503,188
Water Bank program (05–60–3320–302–A):		
Budget Authority	12,754	4,898
Outlays	1,849	710
Forestry incentives program (05–60–3336–302–A):		
Budget Authority	12,969	4,980
Outlays	4,280	1,644

Federal Crop Insurance Corporation

Account Title	Sequester Base	Sequester Amount
Administrative and operating expenses (05–63–2707–351–A):		
Budget Authority	247,677	95,108
Outlays	177,072	67,996

Commodity Credit Corporation

Account Title	Sequester Base	Sequester Amount
Commodity Credit Corporation Fund (05–66–4336–351–A):		
401(C) Authority	10,266,343	3,942,276
Direct Loan Limitation	10,000,000	3,840,000
Guaranteed Loan Limitation	5,500,000	2,112,000
Outlays	10,266,343	3,942,276

Rural Electrification Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (05–72–3100–271–A):		
Budget Authority	32,939	12,649
Outlays	29,645	11,384
Reimbursement to the Rural elec. & tel. revolv. fund for int. (05–72–3101–271–A):		
Budget Authority	277,700	106,637
Outlays	277,700	106,637
Purchase of Rural Telephone Bank capital stock (05–72–3102–452–A):		
Budget Authority	29,916	11,488
Outlays	29,916	11,488
Rural communication development fund (05–72–4142–452–A):		
Budget Authority	1,264	485
Outlays	1,264	485
Rural electrification and telephone revolving fund (05–72–4230–271–A):		
Budget Authority	5,202	1,998
Direct Loan Limitation	3,488,538	1,339,599
Direct Loan Floor	1,869,739	717,980
Outlays	234,588	90,082
Rural telephone bank (05–72–4231–452–A):		
Direct Loan Limitation	219,383	84,243
Direct Loan Floor	184,481	70,841
Outlays	9,118	3,501

Farmers Home Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (05–75–2001–452–A):		
Budget Authority	443,817	170,426
Outlays	405,400	155,674
Rural housing for domestic farm labor (05–75–2004–604–A):		
Budget Authority	11,318	4,346
Outlays	113	43
Mutual and self-help housing (05–75–2006–604–A):		
Budget Authority	8,997	3,455
Outlays	720	276

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Very low income housing repair grants (05–75–2064–604–A):		
Budget Authority	13,025	5,002
Outlays	12,374	4,752
Rural development grants (05–75–2065–452–A):		
Budget Authority	17,095	6,564
Outlays	2,564	985
Rural water and waste disposal grants (05–75–2066–452–A):		
Budget Authority	216,423	83,106
Outlays	8,657	3,324
Rural community fire protection grants (05–75–2067–452–A):		
Budget Authority	3,221	1,237
Outlays	1,450	557
Rural housing preservation grants (05–75–2070–604–A):		
Budget Authority	19,944	7,658
Outlays	598	230
Compensation for construction defects (05–75–2071–371–A):		
Budget Authority	521	200
Outlays	260	100
Agricultural Credit Insurance Fund (05–75–4140–351–A):		
Budget Authority	3,601	1,383
401(C) Authority—Off. Coll.	162,151	62,266
Direct Loan Limitation	1,671,400	641,818
Guaranteed Loan Limitation	3,164,287	1,215,086
Outlays	1,246,852	478,791
Rural Housing Insurance Fund (Appr.) (05–75–4141–371–A):		
Budget Authority	308,760	118,564
401(C) Authority—Off. Coll.	86,052	33,044
Obligation limitation	308,760	118,564
Direct Loan Limitation	1,985,770	762,536
Outlays	1,232,978	473,464
Rural Development Insurance Fund (Appr.) (05–75–4155–452–A):		
401(C) Authority—Off. Coll.	970	372
Direct Loan Limitation	463,350	177,926
Guaranteed Loan Limitation	201,431	77,350
Outlays	32,572	12,508
Self-help housing land development fund (05–75–4222–371–A):		
Direct Loan Limitation	521	200
Outlays	130	50
Rural development loan fund (05–75–4233–452–A):		
Budget Authority	17,470	6,708
Direct Loan Limitation	20,107	7,721
Outlays	2,011	772

Soil Conservation Service

Account Title	Sequester Base	Sequester Amount
Conservation operations (05–78–1000–302–A):		
Budget Authority	500,091	192,035
401(C) Authority—Off. Coll.	10,079	3,870
Outlays	470,163	180,543
Resource conservation and development (05–78–1010–302–A):		
Budget Authority	28,551	10,964
401(C) Authority—Off. Coll.	1,013	389

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Outlays	25,132	9,651
Watershed planning (05–78–1066–301–A):		
Budget Authority	9,248	3,551
401(C) Authority—Off. Coll.	236	91
Outlays	8,189	3,145
River basin surveys and investigations (05–78–1069–301–A):		
Budget Authority	12,882	4,947
401(C) Authority—Off. Coll.	269	103
Outlays	12,378	4,753
Watershed and flood prevention operations (05–78–1072–301–A):		
Budget Authority	251,483	96,569
401(C) Authority—Off. Coll.	8,892	3,415
Outlays	159,975	61,430
Great plains conservation program (05–78–2268–302–A):		
Budget Authority	21,811	8,375
401(C) Authority—Off. Coll.	20	8
Outlays	9,500	3,648
Miscellaneous contributed funds (Water resources) (05–78–8210–301–A):		
401(C) Authority	460	177
Outlays	322	124
Miscellaneous contributed funds (Conservation and land mgmt.) (05–78–8210–302–A):		
401(C) Authority	100	38
Outlays	70	27

Animal and Plant Health Inspection Service

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (05–79–1600–352–A):		
Budget Authority	371,875	142,800
401(C) Authority—Off. Coll.	29,580	11,359
Outlays	355,523	136,521
Buildings and facilities (05–79–1601–352–A):		
Budget Authority	14,170	5,441
Outlays	9,934	3,815

Federal Grain Inspection Service

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (05–80–2400–352–A):		
Budget Authority	8,568	3,290
Outlays	7,363	2,827
Inspection and weighing services (05–80–4050–352–A):		
401(C) Authority—Off. Coll.	37,164	14,271
Outlays	37,164	14,271

Agricultural Marketing Service

Account Title	Sequester Base	Sequester Amount
Marketing services (05–81–2500–352–A):		
Budget Authority	34,753	13,345
401(C) Authority—Off. Coll.	40,381	15,506
Outlays	67,842	26,051
Payments to States and possessions (05–81–2501–352–A):		
Budget Authority	1,288	495
Outlays	335	129
Perishable Agricultural Commodities Act fund (05–81–5070–352–A):		
401(C) Authority	5,675	2,179
Outlays	3,754	1,442
Funds for strengthening markets, income, and supply (section 3 (05–81–5209–605–A):		
401(C) Authority	375,277	144,106
Outlays	44,052	16,916

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Milk market orders assessment fund (05–81–8412–351–A):		
401(C) Authority—		
Off. Coll.	41,032	15,756
Outlays	41,032	15,756
Miscellaneous trust funds (05–81–9972–352–A):		
401(C) Authority	87,689	33,673
Outlays	66,898	25,689

Office of Transportation

Account Title	Sequester Base	Sequester Amount
Office of Transportation (05–82–2800–352–A):		
Budget Authority	2,513	965
Outlays	2,096	805

Food Safety and Inspection Service

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (05–83–3700–554–A):		
Budget Authority	442,143	169,783
401(C) Authority—		
Off. Coll.	38,586	14,817
Outlays	446,984	171,642
Exp. & refunds, insp. & grading (05–83–8137–352–A):		
401(C) Authority	1,200	461
Outlays	977	375

Food and Nutrition Service

Account Title	Sequester Base	Sequester Amount
Cash and Commodities for selected groups (05–84–3503–605–A):		
Budget Authority	244,174	93,763
Outlays	199,618	76,653
Food program administration (05–84–3508–605–A):		
Budget Authority	96,174	36,931
Outlays	85,595	32,868
Supplemental feeding programs (05–84–3510–605–A):		
Budget Authority	5,000	1,920
Outlays	5,000	1,920
Child nutrition programs (05–84–3539–605–A):		
Budget Authority	4,135	1,588
Outlays	4,135	1,588
Temporary emergency food assistance program (05–84–3635–351–A):		
Budget Authority	51,915	19,935
Outlays	30,889	11,861

Human Nutrition Information Service

Account Title	Sequester Base	Sequester Amount
Human Nutrition Information Services (05–86–3501–352–A):		
Budget Authority	9,441	3,625
Outlays	5,390	2,070

Packers and Stockyards Administration

Account Title	Sequester Base	Sequester Amount
Packers and Stockyards Administration (05–0–2600–352–A):		
Budget Authority	10,024	3,849
Outlays	9,112	3,499

Agricultural Cooperative Service

Account Title	Sequester Base	Sequester Amount
Agricultural Cooperative Service (05–92–3000–352–A):		
Budget Authority	4,939	1,897
Outlays	3,541	1,360

Forest Service

Account Title	Sequester Base	Sequester Amount
Construction (05–96–1103–302–A):		
Budget Authority	231,969	89,076
401(C) Authority—		
Off. Coll.	2,835	1,089
Outlays	103,330	39,679
Forest research (05–96–1104–302–A):		
Budget Authority	156,886	60,244
401(C) Authority—		
Off. Coll.	1,018	391
Outlays	125,922	48,354
State and private forestry (05–96–1105–302–A):		
Budget Authority	116,030	44,556
401(C) Authority—		
Off. Coll.	604	232
Outlays	62,773	24,105
National forest system (05–96–1106–302–A):		
Budget Authority	1,204,404	462,491
Outlays	1,039,851	399,303
Forest service fire fighting (05–96–1111–302–A):		
Budget Authority	851,216	326,867
Outlays	827,364	317,708
Working capital fund (05–96–4605–302–A):		
401(C) Authority—		
Off. Coll.	10,101	3,879
Outlays	10,101	3,879
Land acquisition (05–96–5004–303–A):		
Budget Authority	66,123	25,391
Outlays	17,951	6,893
Range betterment fund (05–96–5207–302–A):		
Budget Authority	4,578	1,758
Outlays	3,718	1,428
Acquisition of lands for nat'l forests (05–96–5208–302–A):		
Budget Authority	1,103	424
Outlays	627	241
Acq. of lands to complete land exchanges (05–96–5216–302–A):		
Budget Authority	1,105	424
Outlays	989	380
Operations and maintenance of quarters (05–96–5219–302–A):		
401(C) Authority	5,888	2,261
Outlays	1,881	722
Cooperative work trust fund (05–96–8028–302–A):		
401(C) Authority	329,502	126,529
Outlays	272,256	104,546
Gifts, donations, bequests for forest and rangeland research (05–96–8034–302–A):		
Budget Authority	30	12
Outlays	30	12
Reforestation trust fund (05–96–8046–302–A):		
401(C) Authority	30,000	11,520
Outlays	29,916	11,488
Forest Service permanent appropriations (05–96–9921–806–A):		
401(C) Authority	377,425	144,931
Outlays	359,935	138,215
Forest Service permanent appropriations (05–96–9922–302–A):		
401(C) Authority	148,164	56,895
Outlays	134,761	51,748
Total, Department of Agriculture:		
Budget Authority	11,465,021	4,402,568
401(C) Authority	11,633,073	4,467,100
401(C) Authority—		
Off. Coll.	500,531	192,204
Obligation limitation	1,896,228	728,152
Direct Loan		
Limitation	18,671,832	7,169,984
Direct Loan Floor	2,054,220	788,821
Guaranteed Loan		
Limitation	8,865,718	3,404,436
Outlays	22,969,964	8,820,471

Department of Commerce

General Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (06–05–0120–376–A):		
Budget Authority	29,132	11,187
Outlays	27,908	10,717
Office of the Inspector General (06–05–0126–452–A):		
Budget Authority	13,968	5,364
Outlays	13,381	5,138

Economic Development Administration

Account Title	Sequester Base	Sequester Amount
Grants and loans administration (06–06–0125–452–A):		
Budget Authority	26,561	10,199
Outlays	23,321	8,955
Economic development assistance programs (06–06–2050–452–A):		
Budget Authority	199,522	76,616
Guaranteed Loan		
Limitation	195,375	75,024
Outlays	19,952	7,662

Bureau of the Census

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (06–07–0401–376–A):		
Budget Authority	104,647	40,184
401(C) Authority—		
Off. Coll.	8,000	3,072
Outlays	101,136	38,836
Periodic censuses and programs (06–07–0450–376–A):		
Budget Authority	1,492,906	573,276
Outlays	1,346,488	517,051

Economic and Statistical Analysis

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (06–08–1500–376–A):		
Budget Authority	32,387	12,437
401(C) Authority—		
Off. Coll.	395	152
Outlays	29,219	11,220

International Trade Administration

Account Title	Sequester Base	Sequester Amount
Operations and administration (06–25–1250–376–A):		
Budget Authority	188,725	72,470
401(C) Authority—		
Off. Coll.	14,600	5,606
Outlays	147,651	56,698

Export Administration

Account Title	Sequester Base	Sequester Amount
Operations and administration (06–30–0300–376–A):		
Budget Authority	43,338	16,642
Outlays	36,837	14,145

Minority Business Development Agency

Account Title	Sequester Base	Sequester Amount
Minority business development (06–40–0201–376–A):		
Budget Authority	41,484	15,930
Outlays	21,074	8,092

United States Travel and Tourism Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (06–44–0700–376–A):		
Budget Authority	14,757	5,667
401(C) Authority—		
Off. Coll.	1,450	557
Outlays	12,518	4,807

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

National Oceanic and Atmospheric Administration

Account Title	Sequester Base	Sequester Amount
Operations, research, and facilities (06–48–1450–306–A):		
Budget Authority	1,335,049	512,659
401(C) Authority—Off. Coll.	15,315	5,881
Outlays	923,148	354,489
Coastal energy impact fund (06–48–4315–452–A):		
401(C) Authority—Off. Coll.	8,000	3,072
Outlays	8,000	3,072
Federal ship financing fund, fishing vessels (06–48–4417–376–A):		
401(C) Authority	5,400	2,074
Guaranteed Loan Limitation	480,000	184,320
Outlays	5,319	2,042
Fishing vessel and gear damage compensation fund (06–48–5119–376–A):		
Budget Authority	109	42
Outlays	109	42
Fishermen's contingency fund (06–48–5120–376–A):		
Budget Authority	765	294
Outlays	728	280
Foreign fishing observer fund (06–48–5122–376–A):		
Budget Authority	2,052	788
Outlays	1,972	757
Fisheries Promotional Fund (06-48-5124-376-A):		
Budget Authority	2,085	801
Outlays	1,149	441
Promote and develop fishery products and research (06–48–5139–376–A):		
401(C) Authority	61,900	23,770
Outlays	1,381	530
Aviation weather services program (06–48–8105–306–A):		
Budget Authority	30,825	11,837
Outlays	30,825	11,837

Patent and Trademark Office

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (06–51–1006–376–A):		
Budget Authority	89,866	34,509
401(C) Authority—Off. Coll.	241,620	92,782
Outlays	291,046	111,762

Technology Administration

Account Title	Sequester Base	Sequester Amount
Salaries and Expenses (06–53–1100–376–A):		
Budget Authority	4,059	1,559
Outlays	3,491	1,341
Information products and services (06–53–8546–376–A):		
401(C) Authority	53,000	20,352
Outlays	39,287	15,086

National Institute of Standards and Technology

Account Title	Sequester Base	Sequester Amount
Scientific and technical research and services (06–55–0500–376–A):		
Budget Authority	171,052	65,684
Outlays	133,421	51,234
Working capital fund (06–55–4650–376–A):		
Budget Authority	562	216
Outlays	282	108

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

National Telecommunications and Information Admin.

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (06–60–0550–376–A):		
Budget Authority	14,677	5,636
Outlays	11,742	4,509
Public telecommunications facilities, planning and constructio (06–60–0551–503–A):		
Budget Authority	20,847	8,005
Outlays	2,418	929
Total, Department of Commerce:		
Budget Authority	3,859,375	1,482,002
401(C) Authority	120,300	46,196
401(C) Authority—Off. Coll.	289,380	111,122
Guaranteed Loan Limitation	675,375	259,344
Outlays	3,233,803	1,241,780

Department of Defense—Military

Military Personnel

Account Title	Sequester Base	Sequester Amount
Military personnel, Marine Corps (07–05–1105–051–A):		
Budget Authority	6,014,059	1,509,529
Outlays	5,761,468	1,446,128
Reserve personnel, Marine Corps (07–05–1108–051–A):		
Budget Authority	327,402	82,178
Outlays	292,043	73,303
Reserve personnel, Navy (07–05–1405–051–A):		
Budget Authority	1,636,910	410,864
Outlays	1,484,677	372,654
Military personnel, Navy (07–05–1453–051–A):		
Budget Authority	20,034,632	5,028,693
Outlays	19,133,074	4,802,402
Military personnel, Army (07–05–2010–051–A):		
Budget Authority	25,499,496	6,400,373
Outlays	24,199,022	6,073,955
National Guard personnel, Army (07–05–2060–051–A):		
Budget Authority	3,432,349	861,520
Outlays	3,174,924	796,906
Reserve personnel, Army (07–05–2070–051–A):		
Budget Authority	2,291,710	575,219
Outlays	2,099,206	526,901
Military personnel, Air Force (07–05–3500–051–A):		
Budget Authority	20,790,807	5,218,493
Outlays	19,917,592	4,999,316
Reserve personnel, Air Force (07–05–3700–051–A):		
Budget Authority	690,134	173,224
Outlays	645,275	161,964
National Guard personnel, Air Force (07–05–3850–051–A):		
Budget Authority	1,110,441	278,721
Outlays	1,049,366	263,391

Operation and Maintenance

Account Title	Sequester Base	Sequester Amount
Operation and maintenance, Defense agencies (07–10–0100–051–A):		
Budget Authority	8,172,250	2,051,235
Outlays	6,946,412	1,743,549
Court of Military Appeals, Defense (07–10–0104–051–A):		
Budget Authority	4,132	1,037
Outlays	3,471	871
Drug Interdiction Defense (07–10–0105–051–A):		
Budget Authority	30,645	7,692
Outlays	12,258	3,077
Goodwill Games (07–10–0106–051–A):		
Budget Authority	15,132	3,798
Outlays	12,106	3,039

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Office of the Inspector General (07–10–0107–051–A):		
Budget Authority	100,866	25,317
Unobligated Balances—Defense	19	5
Outlays	75,663	18,991
Foreign currency fluctuations, Defense (07–10–0801–051–A):		
Unobligated Balances—Defense	299,186	75,096
Environmental restoration, Defense (07–10–0810–051–A):		
Unobligated Balances—Defense	211	53
Outlays	116	29
Humanitarian Assistance (07–10–0819–051–A):		
Budget Authority	10,420	2,615
Outlays	7,638	1,917
Operation and maintenance, Marine Corps (07–10–1106–051–A):		
Budget Authority	1,887,886	473,859
Outlays	1,374,381	344,970
Operation and maintenance, Marine Corps Reserve (07–10–1107–051–A):		
Budget Authority	81,807	20,534
Outlays	58,901	14,784
National Board for the Promotion of Rifle Practice, Army (07–10–1705–051–A):		
Budget Authority	4,837	1,214
Outlays	2,661	668
Operation and maintenance, Navy (07–10–1804–051–A):		
Budget Authority	26,103,242	6,551,914
Outlays	20,099,496	5,044,973
Operation and maintenance, Navy Reserve (07–10–1806–051–A):		
Budget Authority	962,741	241,648
Outlays	608,452	152,721
Operation and maintenance, Army (07–10–2020–051–A):		
Budget Authority	24,387,435	6,121,246
Outlays	19,851,372	4,982,694
Operation and maintenance, Army National Guard (07–10–2065–051–A):		
Budget Authority	1,953,389	490,301
Outlays	1,517,784	380,964
Operation and maintenance, Army Reserve (07–10–2080–051–A):		
Budget Authority	911,179	228,706
Outlays	692,496	173,816
Operation and maintenance, Air Force (07–10–3400–051–A):		
Budget Authority	23,079,903	5,793,056
Outlays	17,702,286	4,443,274
Operation and maintenance, Air Force Reserve (07–10–3740–051–A):		
Budget Authority	1,053,551	264,441
Outlays	849,162	213,140
Operation and maintenance, Air National Guard (07–10–3840–051–A):		
Budget Authority	2,115,710	531,043
Outlays	1,707,378	428,552
Restoration of the Rocky Mountain Arsenal (07–10–5098–051–A):		
401(C) Authority	21,300	5,346
Unobligated Balances—Defense	29,880	7,500
Outlays	21,300	5,346

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Procurement		
Procurement, Defense agencies (07–15–0300–051–A):		
Budget Authority	1,387,518	348,267
Unobligated Balances—Defense	362,333	90,946
Outlays	507,458	127,372
National Guard and Reserve Equipment (07–15–0350–051–A):		
Budget Authority	1,030,246	258,592
Unobligated Balances—Defense	476,830	119,684
Outlays	162,765	40,854
Defense Production Act purchases (07–15–0360–051–A):		
Budget Authority	45,305	11,372
Unobligated Balances—Defense	47,627	11,954
Chemical agents and munitions destruction, Defense (07–15–0390–051–A):		
Budget Authority	264,898	66,489
Unobligated Balances—Defense	17,287	4,339
Outlays	107,512	26,986
Procurement, Marine Corps (07–15–1109–051–A):		
Budget Authority	1,210,839	303,921
Unobligated Balances—Defense	222,381	55,818
Outlays	225,016	56,479
Aircraft procurement, Navy (07–15–1506–051–A):		
Budget Authority	9,543,052	2,395,306
Unobligated Balances—Defense	1,861,479	467,231
Outlays	1,539,612	386,443
Weapons procurement, Navy (07–15–1507–051–A):		
Budget Authority	5,528,022	1,387,534
Unobligated Balances—Defense	1,411,075	354,180
Outlays	624,519	156,754
Shipbuilding and conversion, Navy (07–15–1611–051–A):		
Budget Authority	11,682,207	2,932,234
Unobligated Balances—Defense	8,439,096	2,118,213
Outlays	804,852	202,018
Other procurement, Navy (07–15–1810–051–A):		
Budget Authority	7,881,196	1,978,180
Unobligated Balances—Defense	3,819,915	958,799
Outlays	1,275,421	320,131
Aircraft procurement, Army (07–15–2031–051–A):		
Budget Authority	3,844,510	964,972
Unobligated Balances—Defense	702,737	176,387
Outlays	591,142	148,377
Missile procurement, Army (07–15–2032–051–A):		
Budget Authority	2,587,403	649,438
Unobligated Balances—Defense	651,960	163,642
Outlays	161,968	40,654
Procurement of weapons and tracked combat vehicles, Army (07–15–2033–051–A):		
Budget Authority	2,535,390	636,383
Unobligated Balances—Defense	1,097,334	275,431
Outlays	36,327	9,118
Procurement of ammunition, Army (07–15–2034–051–A):		
Budget Authority	2,017,357	506,357
Unobligated Balances—Defense	246,335	61,830
Outlays	769,655	193,183
Other procurement, Army (07–15–2035–051–A):		
Budget Authority	3,615,676	907,535
Unobligated Balances—Defense	1,166,611	292,819
Outlays	430,406	108,032
Aircraft procurement, Air Force (07–15–3010–051–A):		
Budget Authority	16,037,703	4,025,463
Unobligated Balances—Defense	7,132,558	1,790,272
Outlays	926,810	232,629
Missile procurement, Air Force (07–15–3020–051–A):		
Budget Authority	6,584,129	1,652,616
Unobligated Balances—Defense	2,538,951	637,277
Outlays	1,879,355	471,718
Other procurement, Air Force (07–15–3080–051–A):		
Budget Authority	8,839,294	2,218,663
Unobligated Balances—Defense	2,093,509	525,471
Outlays	6,275,429	1,575,133
Research, Development, Test, and Evaluation		
Research, development, test, and evaluation, Defense agencies (07–20–0400–051–A):		
Budget Authority	8,384,756	2,104,574
Unobligated Balances—Defense	984,699	247,159
Outlays	5,031,397	1,262,881
Developmental test and evaluation, Defense (07–20–0450–051–A):		
Budget Authority	185,706	46,612
Unobligated Balances—Defense	32,733	8,216
Outlays	46,965	11,788
Operational test and evaluation, Defense (07–20–0460–051–A):		
Budget Authority	13,259	3,328
Unobligated Balances—Defense	1,909	479
Outlays	606	152
Research, development, test, and evaluation, Navy (07–20–1319–051–A):		
Budget Authority	9,885,776	2,481,330
Unobligated Balances—Defense	440,048	110,452
Outlays	5,782,461	1,451,398
Research, development, test, and evaluation, Army (07–20–2040–051–A):		
Budget Authority	5,556,752	1,394,745
Unobligated Balances—Defense	351,349	88,189
Outlays	3,013,132	756,296
Research, development, test, and evaluation, Air Force (07–20–3600–051–A):		
Budget Authority	14,042,510	3,524,670
Unobligated Balances—Defense	1,874,192	470,422
Outlays	9,152,103	2,297,178
Military Construction		
Base realignment and closure account (07–25–0103–051–A):		
Budget Authority	521,000	130,771
Unobligated Balances—Defense	85,000	21,335
Outlays	203,616	51,108
Military construction, Defense agencies (07–25–0500–051–A):		
Budget Authority	531,243	133,342
Unobligated Balances—Defense	353,696	88,778
Outlays	123,891	31,097
Foreign currency fluctuations, construction (07–25–0803–051–A):		
Unobligated Balances—Defense	152,484	38,273
North Atlantic Treaty Organization infrastructure (07–25–0804–051–A):		
Budget Authority	419,706	105,346
Unobligated Balances—Defense	19,231	4,827
Outlays	87,787	22,035
Military construction, Navy (07–25–1205–051–A):		
Budget Authority	1,167,506	293,044
Unobligated Balances—Defense	420,192	105,468
Outlays	261,970	65,754
Military construction, Naval Reserve (07–25–1235–051–A):		
Budget Authority	58,977	14,803
Unobligated Balances—Defense	10,545	2,647
Outlays	9,733	2,443
Military construction, Army (07–25–2050–051–A):		
Budget Authority	760,686	190,932
Unobligated Balances—Defense	338,004	84,839
Outlays	351,581	88,247
Military construction, Army National Guard (07–25–2085–051–A):		
Budget Authority	240,171	60,283
Unobligated Balances—Defense	93,727	23,525
Outlays	24,040	6,034
Military construction, Army Reserve (07–25–2086–051–A):		
Budget Authority	103,319	25,933
Unobligated Balances—Defense	35,015	8,789

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Outlays	18,675	4,687
Military construction, Air Force (07–25–3300–051–A):		
Budget Authority	1,223,616	307,128
Unobligated Balances—		
Defense	558,550	140,196
Outlays	294,058	73,809
Military construction, Air Force Reserve (07–25–3730–051–A):		
Budget Authority	48,140	12,083
Unobligated Balances—		
Defense	12,163	3,053
Outlays	6,452	1,619
Military construction, Air National Guard (07–25–3830–051–A):		
Budget Authority	245,773	61,689
Unobligated Balances—		
Defense	104,179	26,149
Outlays	27,996	7,027

Family Housing

Account Title	Sequester Base	Sequester Amount
Family housing, Army (07–30–0702–051–A):		
Budget Authority	1,508,704	378,685
Unobligated Balances—		
Defense	92,975	23,337
Outlays	1,055,380	264,900
Family housing, Navy and Marine Corps (07–30–0703–051–A):		
Budget Authority	831,850	208,794
Unobligated Balances—		
Defense	137,094	34,411
Outlays	415,815	104,370
Family housing, Air Force (07–30–0704–051–A):		
Budget Authority	906,544	227,543
Unobligated Balances—		
Defense	57,950	14,545
Outlays	564,695	141,738
Family housing, Defense agencies (07–30–0706–051–A):		
Budget Authority	22,011	5,525
Unobligated Balances—		
Defense	70	18
Outlays	15,116	3,794

Revolving and Management Funds

Account Title	Sequester Base	Sequester Amount
National Defense Stockpile transaction fund (07–40–4555–051–A):		
Unobligated Balances—		
Defense	421,828	105,879
Air Force stock fund (07–40–4921–051–A):		
Budget Authority	115,766	29,057
Outlays	45,149	11,332
Emergency response fund (07–40–4965–051–A):		
Budget Authority	104,200	26,154
Unobligated Balances—		
Defense	100,000	25,100
Army industrial fund (07–40–4992–051–A):		
Budget Authority	31,052	7,794
Outlays	12,110	3,040
Total, Department of Defense—Military:		
Budget Authority	304,246,833	76,365,957
401(C) Authority	21,300	5,346
Unobligated Balances—		
Defense	39,294,947	9,863,033
Outlays	192,162,955	48,232,903

Department of Defense—Civil

Cemeterial Expenses, Army

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (08–05–1805–705–A):		
Budget Authority	12,926	4,964
Outlays	9,643	3,703

Corps of Engineers—Civil

Account Title	Sequester Base	Sequester Amount
Flood control, Mississippi River and tributaries (08–10–3112–301–A):		
Budget Authority	344,961	132,465
401(C) Authority—		
Off. Coll.	195	75
Outlays	241,668	92,801
General investigations (08–10–3121–301–A):		
Budget Authority	135,300	51,955
Outlays	94,710	36,369
Construction, general (08–10–3122–301–A):		
Budget Authority	1,008,616	387,309
401(C) Authority—		
Off. Coll.	250	96
Outlays	403,696	155,019
Operation and maintenance, general (08–10–3123–301–A):		
Budget Authority	1,270,821	487,995
401(C) Authority—		
Off. Coll.	3,500	1,344
Outlays	1,020,157	391,740
Operation and maintenance, general (08–10–3123–303–A):		
Budget Authority	20,596	7,909
Outlays	20,596	7,909
General expenses (08–10–3124–301–A):		
Budget Authority	148,699	57,100
Outlays	118,959	45,680
Flood control and coastal emergencies (08–10–3125–301–A):		
Budget Authority	20,864	8,012
Outlays	10,432	4,006
Regulatory Program (08–10–3126–301–A):		
Budget Authority	71,659	27,517
Outlays	68,076	26,141
Revolving fund (08–10–4902–301–A):		
Budget Authority	10,275	3,946
Outlays	8,220	3,156
Inland waterways trust fund (08–10–8861–301–A):		
Budget Authority	122,450	47,021
Outlays	73,470	28,212
Harbor maintenance trust fund (08–10–8863–301–A):		
Budget Authority	168,884	64,851
Outlays	168,884	64,851

Soldiers' and Airmen's Home

Account Title	Sequester Base	Sequester Amount
Operation and maintenance (08–20–8931–705–A):		
Budget Authority	40,615	15,596
401(C) Authority—		
Off. Coll.	144	55
Outlays	35,682	13,702
Capital outlay (08–20–8932–705–A):		
Budget Authority	9,768	3,751
Outlays	3,419	1,313

Forest & Wildlife Conservation, Mil. Reservations

Account Title	Sequester Base	Sequester Amount
Wildlife conservation (08–30–5095–303–A):		
401(C) Authority	2,200	845
Outlays	1,450	557

The Mildred and Claude Pepper Foundation

Account Title	Sequester Base	Sequester Amount
Mildred and Claude Pepper Foundation (08–31–0826–552–A):		
Budget Authority	10,420	4,001
Outlays	10,420	4,001
Total, Department of Defense—Civil:		
Budget Authority	3,396,854	1,304,392
401(C) Authority	2,200	845
401(C) Authority—		
Off. Coll.	4,089	1,570
Outlays	2,289,482	879,160

Department of Education

Office of Elementary and Secondary Education

Account Title	Sequester Base	Sequester Amount
Indian education (18–10–0101–501–A):		
Budget Authority	76,729	29,464
Outlays	11,223	4,310
Impact aid (18–10–0102–501–A):		
Budget Authority	763,111	293,035
Outlays	614,498	235,967
Compensatory education for the disadvantaged (18–10–0900–501–A):		
Budget Authority	5,593,832	2,148,031
Outlays	671,260	257,764
School improvement programs (18–10–1000–501–A):		
Budget Authority	1,477,227	567,255
Outlays	177,264	68,069

Off. of Bilingual Ed. & Minority Languages Affairs

Account Title	Sequester Base	Sequester Amount
Bilingual and Immigrant Education (18–15–1300–501–A):		
Budget Authority	196,598	75,494
Outlays	23,591	9,059

Office of Special Education & Rehabilitative Svcs.

Account Title	Sequester Base	Sequester Amount
Education for the handicapped (18–20–0300–501–A):		
Budget Authority	2,141,575	822,365
Outlays	264,558	101,590
Vocational rehabilitation (18–20–0301–506–A):		
Budget Authority	262,285	100,717
Outlays	201,959	77,552
Vocational rehab split for G-R-H: ASI (G-R-H) (18–20–0301–506–I):		
Budget Authority—		
ASI	68,782	68,782
Outlays	52,962	52,962
Special institutions for the handicapped (Gallaudet) (18–20–0604–501–C):		
Budget Authority	21,629	8,306
Outlays	20,331	7,807
Special institutions for the handicapped (APHB) (18–20–0604–501–D):		
Budget Authority	5,901	2,266
Outlays	5,901	2,266
Special institutions for the handicapped (NTID) (18–20–0604–502–B):		
Budget Authority	37,585	14,433
Outlays	36,164	13,887
Special institutions for the handicapped (Gallaudet) (18–20–0604–502–C):		
Budget Authority	48,854	18,760
Outlays	46,959	18,032

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount

Office of Vocational and Adult Education

Account Title	Sequester Base	Sequester Amount
Vocational and adult education (18–30–0400–501–A):		
Budget Authority	1,169,613	449,131
401(C) Authority	7,148	2,745
Outlays	141,213	54,226

Office of Postsecondary Education

Account Title	Sequester Base	Sequester Amount
Student financial assistance (18–40–0200–502–A):		
Budget Authority	6,340,325	2,434,685
Outlays	1,174,049	450,835
Higher education (18–40–0201–502–A):		
Budget Authority	650,763	249,893
Outlays	95,116	36,525
Guaranteed student loans (18–40–0230–502–A):		
401(C) Authority—Spec. Rules	44,573	44,573
Outlays	35,658	35,658
College housing and academic facilities loans (18–40–0242–502–A):		
Budget Authority	31,260	12,004
Direct Loan Limitation	31,260	12,004
Howard University (18–40–0603–502–A):		
Budget Authority	190,109	73,002
Outlays	181,473	69,686
College housing loans (18–40–4250–502–A):		
401(C) Authority—Off. Coll.	50	19
Outlays	50	19

Office of Educational Research and Improvement

Account Title	Sequester Base	Sequester Amount
Libraries (18–50–0104–503–A):		
Budget Authority	142,385	54,676
Outlays	51,244	19,678
Research, statistics and improvement of practice (18–50–1100–503–A):		
Budget Authority	99,242	38,109
Outlays	42,674	16,387

Departmental Management

Account Title	Sequester Base	Sequester Amount
Office for Civil Rights (18–80–0700–751–A):		
Budget Authority	46,733	17,945
Outlays	38,789	14,895
Salaries and expenses (Elementary, secondary and vocational ed.) (18–80–0800–501–A):		
Budget Authority	22,634	8,691
Outlays	18,786	7,214
Salaries and expenses (Higher education) (18–80–0800–502–A):		
Budget Authority	100,092	38,435
Outlays	83,076	31,901
Salaries and expenses (Research and general education aids) (18–80–0800–503–A):		
Budget Authority	140,449	53,932
Outlays	116,572	44,764
Salaries and expenses (Social services) (18–80–0800–506–A):		
Budget Authority	22,917	8,800
Outlays	19,021	7,304
Office of the Inspector General (18–80–1400–751–A):		
Budget Authority	24,212	9,297
Outlays	20,096	7,717
Total, Department of Education:		
Budget Authority	19,606,060	7,528,726
Budget Authority—ASI	68,782	68,782
401(C) Authority	7,148	2,745
401(C) Authority—Off. Coll.	50	19
401(C) Authority—Spec. Rules	44,573	44,573
Direct Loan Limitation	31,260	12,004
Outlays	4,144,487	1,646,074

Department of Energy

Atomic Energy Defense Activities

Account Title	Sequester Base	Sequester Amount
Atomic energy defense activities (19–10–0220–053–A):		
Budget Authority	10,052,119	2,523,082
Outlays	6,533,877	1,640,003

Energy Programs

Account Title	Sequester Base	Sequester Amount
Geothermal resources development fund (19–20–0206–271–A):		
Budget Authority	80	31
Outlays	80	31
Federal Energy Regulatory Commission (19–20–0212–276–A):		
Budget Authority	120,357	46,217
Outlays	108,946	41,835
Fossil energy research and development (19–20–0213–271–A):		
Budget Authority	436,081	167,455
Outlays	174,432	66,982
Energy conservation (Energy conservation) (19–20–0215–272–A):		
Budget Authority	383,671	147,330
Outlays	76,582	29,407
Energy information administration (19–20–0216–276–A):		
Budget Authority	67,202	25,806
Outlays	43,681	16,774
Economic regulation (19–20–0217–276–A):		
Budget Authority	19,160	7,357
Outlays	13,412	5,150
Strategic petroleum reserve (19–20–0218–274–A):		
Budget Authority	200,629	77,042
Outlays	110,346	42,373
Naval petroleum and shale reserves (19–20–0219–271–A):		
Budget Authority	197,438	75,816
Outlays	108,591	41,699
General science and research activities (19–20–0222–251–A):		
Budget Authority	1,144,904	439,643
Outlays	865,547	332,370
Energy supply, R&D activities (19–20–0224–271–A):		
Budget Authority	2,277,066	874,393
Outlays	1,138,533	437,197
Uranium supply and enrichment activities (19–20–0226–271–A):		
401(C) Authority—Off. Coll.	1,287,700	494,477
Outlays	1,287,700	494,477
SPR petroleum (19–20–0233–274–A):		
Budget Authority	224,310	86,135
401(C) Authority	108,458	41,648
Outlays	296,729	113,944
Emergency preparedness (19–20–0234–274–A):		
Budget Authority	6,857	2,633
Outlays	5,486	2,107
Clean Coal Technology (19–20–0235–271–A):		
401(C) Authority	956,000	367,104
Outlays	148,002	56,833
Isotope production and distribution fund (19–20–4180–271–A):		
Budget Authority	16,689	6,409
401(C) Authority—Off. Coll.	16,243	6,237
Outlays	16,243	6,237
Payments to states under Federal Power Act (19–20–5105–806–A):		
401(C) Authority	2,343	900
Nuclear waste disposal fund (19–20–5227–271–A):		
Budget Authority	307,553	118,100
Outlays	153,777	59,050

Power Marketing Administration

Account Title	Sequester Base	Sequester Amount
Operation and maintenance, Southeastern Power Administration (19–50–0302–271–A):		
Budget Authority	385	148
Outlays	327	126
Operation and maintenance, Southwestern Power Administration (19–50–0303–271–A):		
Budget Authority	6,027	2,314
Outlays	3,737	1,435
Operation and maintenance, Alaska Power Administration (19–50–0304–271–A):		
Budget Authority	1,907	732
Outlays	1,506	578
Bonneville Power Administration fund (19–50–4045–271–A):		
401(C) Authority—Off. Coll.	45,800	17,587
Outlays	45,800	17,587
Colorado river basins power marketing fund, WAPA (19–50–4452–271–A):		
401(C) Authority—Off. Coll.	7,668	2,945
Outlays	7,668	2,945
Construction, rehabilitation, operation and maintenance, WAPA (19–50–5068–271–A):		
Budget Authority	43,085	16,545
Outlays	19,388	7,445

Departmental Administration

Account Title	Sequester Base	Sequester Amount
Departmental administration (Energy information, policy, & reg.) (19–60–0228–276–A):		
Budget Authority	209,594	80,484
401(C) Authority—Off. Coll.	183,413	70,431
Outlays	313,388	120,341
Office of the Inspector General (19–60–0236–276–A):		
Budget Authority	23,679	9,093
Outlays	23,679	9,093
Total, Department of Energy:		
Budget Authority	15,738,793	4,706,765
401(C) Authority	1,066,801	409,652
401(C) Authority—Off. Coll.	1,540,824	591,677
Outlays	11,497,457	3,546,019

Department of Health and Human Services

Food and Drug Administration

Account Title	Sequester Base	Sequester Amount
Program expenses (09–10–0600–554–A):		
Budget Authority	618,452	237,486
Outlays	519,751	199,584
Buildings and facilities (09–10–0603–554–A):		
Budget Authority	8,701	3,341
Outlays	1,305	501

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Revolving fund for certification and other services (09-10-4309-554-A):		
401(C) Authority—		
Off. Coll.	3,230	1,240
Outlays	3,230	1,240
Health Resources and Services		
Health resources and services (health care services) (09-15-0350-551-A):		
Budget Authority	1,073,609	412,266
401(C) Authority—		
Off. Coll.	365	140
Outlays	561,749	215,712
Health resources and services 2% split (G-R-H) (09-15-0350-551-G):		
Budget Authority—		
Spec. Rules	10,550	10,550
Outlays	6,330	6,330
Health resources and services (education and training) (09-15-0350-553-A):		
Budget Authority	221,999	85,248
Outlays	123,160	47,293
Vaccine improvement program trust fund (09-15-8175-551-A):		
Budget Authority	5,127	1,969
Outlays	5,053	1,940
Indian Health		
Tribal Health Administration (09-17-0390-551-A):		
Budget Authority	92,295	35,441
Outlays	67,303	25,844
Tribal and Federal Health Services 2% split (G-R-H) (09-17-00390-551-G):		
Budget Authority—		
Spec. Rules	22,766	22,766
401(C) Authority—		
Spec. Rules	60	60
Outlays	16,634	16,634
Indian health facilities 2% split (G-R-H) (09-17-0391-551-G):		
Budget Authority—		
Spec. Rules	1,493	1,493
Outlays	793	793
Centers for Disease Control		
Disease control (Health care services) (09-20-0943-551-A):		
Budget Authority	1,032,778	396,587
Outlays	567,984	218,106
Disease control (Health research) (09-20-0943-552-A):		
Budget Authority	137,404	52,763
401(C) Authority	346	133
Outlays	75,754	29,090
National Institutes of Health		
National Library of Medicine (Health research) (09-25-0807-552-A):		
Budget Authority	30,436	11,687
Outlays	18,505	7,106
National Library of Medicine (Education and training) (09-25-0807-553-A):		
Budget Authority	55,052	21,140
Outlays	33,513	12,869
John E. Fogarty International Center (09-25-0819-552-A):		
Budget Authority	16,192	6,218
Outlays	7,773	2,985
Buildings and facilities (09-25-0838-552-A):		
Budget Authority	63,606	24,425
Outlays	12,721	4,885

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
National Institute on Aging (Health research) (09-25-0843-552-A):		
Budget Authority	239,230	91,864
Outlays	79,142	30,391
National Institute on Aging (Education and training) (09-25-0843-553-A):		
Budget Authority	10,441	4,009
Outlays	3,242	1,245
Nat. Inst. Child Health and Human Development (Health research) (09-25-0844-552-A):		
Budget Authority	443,866	170,445
Outlays	150,498	57,791
Nat. Inst. Child Health and Human Development (Ed. & training) (09-25-0844-553-A):		
Budget Authority	17,863	6,859
Outlays	1,880	722
Office of the Director (Health research) (09-25-0846-552-A):		
Budget Authority	104,402	40,090
401(C) Authority	200	77
Outlays	49,269	18,919
Office of the Director (Education and training) (09-25-0846-553-A):		
Budget Authority	7,755	2,978
Outlays	3,645	1,400
Research resources (Health research) (09-25-0848-552-A):		
Budget Authority	366,054	140,565
Outlays	234,163	89,919
Research resources (Education and training) (09-25-0848-553-A):		
Budget Authority	2,694	1,034
Outlays	137	53
National Cancer Institute (Health research) (09-25-0849-552-A):		
Budget Authority	1,664,923	639,330
Outlays	832,859	319,818
National Cancer Institute (Education and training) (09-25-0849-553-A):		
Budget Authority	38,849	14,918
Outlays	1,360	522
National Institute of General Medical Sciences (Health research) (09-25-0851-552-A):		
Budget Authority	621,699	238,732
Outlays	226,553	86,996
National Institute of General Medical Sciences (Ed. & training) (09-25-0851-553-A):		
Budget Authority	88,779	34,091
Outlays	29,208	11,216
National Institute of Environmental Health Sciences (Research) (09-25-0862-552-A):		
Budget Authority	227,684	87,431
Outlays	126,916	48,736
National Institute of Environmental Health Sciences (Ed.&train.) (09-25-0862-553-A):		
Budget Authority	10,949	4,204
Outlays	6,131	2,354
National Heart, Lung and Blood Institute (Health research) (09-25-0872-552-A):		
Budget Authority	1,069,015	410,502
Outlays	523,821	201,147
National Heart, Lung and Blood Institute (Education & training) (09-25-0872-553-A):		
Budget Authority	48,741	18,717
Outlays	1,950	749
National Institute of Dental Research (Health research) (09-25-0873-552-A):		
Budget Authority	135,053	51,860
Outlays	74,483	28,601

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
National Institute of Dental Research (Education and training) (09-25-0873-553-A):		
Budget Authority	6,542	2,512
Outlays	3,568	1,370
National Insti. of Diabetes, and Digestive and Kidney Diseases (09-25-0884-552-A):		
Budget Authority	581,397	223,256
Outlays	187,769	72,103
National Insti. of Diabetes, and Digestive and Kidney Diseases (09-25-0884-553-A):		
Budget Authority	25,604	9,832
Outlays	6,401	2,458
National Institute of Allergy & Infectious Diseases (Research) (09-25-0885-552-A):		
Budget Authority	849,199	326,092
Outlays	285,402	109,594
National Institute of Allergy & Infectious Diseases (Ed.&train.) (09-25-0885-553-A):		
Budget Authority	19,133	7,347
Outlays	2,889	1,109
National Institute of Neurological Disorders and Stroke (09-25-0886-552-A):		
Budget Authority	497,068	190,874
Outlays	203,798	78,258
National Institute of Neurological Disorders and Stroke (09-25-0886-553-A):		
Budget Authority	14,200	5,453
Outlays	5,822	2,236
National Eye Institute (Health research) (09-25-0887-552-A):		
Budget Authority	238,881	91,730
Outlays	90,395	34,712
National Eye Institute (Education and training) (09-25-0887-553-A):		
Budget Authority	7,671	2,946
Outlays	765	294
National Ins. of Arthritis and Musculoskeletal and Skin Diseas (09-25-0888-552-A):		
Budget Authority	168,691	64,777
Outlays	71,197	27,340
National Ins. of Arthritis and Musculoskeletal and Skin Diseas (09-25-0888-553-A):		
Budget Authority	7,386	2,836
Outlays	1,270	488
National Center for Nursing Research (09-25-0889-552-A):		
Budget Authority	30,559	11,735
Outlays	4,950	1,901
National Center for Nursing Research (09-25-0889-553-A):		
Budget Authority	4,640	1,782
Outlays	742	285
NID and Other Communicative Disorders (09-25-0890-552-A):		
Budget Authority	119,120	45,742
Outlays	49,128	18,865
NID and Other Communicative Disorders (09-25-0890-553-A):		
Budget Authority	3,428	1,316
Outlays	1,391	534
National Center for Human Genome Research (09-25-0891-552-A):		
Budget Authority	58,860	22,602
Outlays	20,703	7,950
National Center for Human Genome Research (09-25-0891-553-A):		
Budget Authority	3,190	1,225
Outlays	1,008	387

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Alcohol, Drug Abuse, & Mental Health Administration

Account Title	Sequester Base	Sequester Amount
Federal subsidy for St. Elizabeths Hospital (09–30–1300–551–A):		
Budget Authority	18,756	7,202
Outlays	18,756	7,202
Alcohol, drug abuse, and mental health (Health care services) (09–30–1361–551–A):		
Budget Authority	1,726,727	663,063
Outlays	579,956	222,703
Alcohol, drug abuse, and mental health (Health research) (09–30–1361–552–A):		
Budget Authority	936,305	359,541
Outlays	346,957	133,231
Alcohol, drug abuse, and mental health (Education and training) (09–30–1361–553–A):		
Budget Authority	73,894	28,375
Outlays	3,642	1,399

Office of Assistant Secretary for Health

Account Title	Sequester Base	Sequester Amount
Public health service management (Health care services) (09–37–1101–551–A):		
Budget Authority	58,320	22,395
Outlays	29,483	11,321
Public health service management (Health research) (09–37–1101–552–A):		
Budget Authority	21,248	8,159
Outlays	18,445	7,083
Medical treatment effectiveness (09–37–1105–552–A):		
Budget Authority	27,965	10,739
Outlays	15,661	6,014

Health Care Financing Administration

Account Title	Sequester Base	Sequester Amount
Program management (Health care services) (09–38–0511–551–A):		
Budget Authority	91,830	35,263
Outlays	91,830	35,263
Program management (Health research) (09–38–0511–552–A):		
Budget Authority	13,384	5,139
Outlays	13,384	5,139
Federal supplementary medical insurance trust fund (09–38–8004–571–A):		
401(C) Authority	27,599	10,598
Obligation limitation	1,471,689	565,129
Outlays	1,306,263	501,605
FSMI 2% split (G-R-H) (09–38–8004–571–S):		
Obligat. limit.—Spec. Rules	408,000	408,000
Outlays	408,000	408,000
Federal hospital insurance trust fund (09–38–8005–571–A):		
401(C) Authority	103,825	39,869
Obligation limitation	1,040,079	399,390
Outlays	885,502	340,033
FHI 2% split (G-R-H) (09–38–8005–571–S):		
Obligat. limit.—Spec. Rules	1,190,000	1,190,000
Outlays	1,190,000	1,190,000

Social Security Administration

Account Title	Sequester Base	Sequester Amount
Supplemental security income program (09–60–0406–609–A):		
Budget Authority	832,072	319,516
Outlays	832,072	319,516
Special benefits for disabled coal miners (09–60–0409–601–A):		
Budget Authority	7,156	2,748
Outlays	7,156	2,748

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Family Support Administration

Account Title	Sequester Base	Sequester Amount
Program administration (09–70–1500–609–A):		
Budget Authority	89,426	34,340
401(C) Authority—Off. Coll.	417	160
Outlays	62,906	24,156
Family support payment to States (CSE) (09–70–1501–609–B):		
Budget Authority	1,166,599	447,974
401(C) Authority	362,401	139,162
Outlays	1,529,000	587,136
Low income home energy assistance (09–70–1502–609–A):		
Budget Authority	1,503,606	577,385
Outlays	1,368,281	525,420
Refugee and Entrant Assistance (09–70–1503–609–A):		
Budget Authority	390,564	149,977
Outlays	253,867	97,485
Community services block grant (09–70–1504–506–A):		
Budget Authority	397,068	152,474
401(C) Authority	8,041	3,088
Outlays	279,525	107,338
Interim assistance to States for legalization (09–70–1508–506–A):		
401(C) Authority	840,000	322,560
Outlays	252,825	97,085
Payments to States for Family Support Activities (09–70–1509–609–A):		
Budget Authority	1,000,000	384,000
Outlays	763,000	292,992

Human Development Services

Account Title	Sequester Base	Sequester Amount
Social services block grant (09–80–1634–506–A):		
Budget Authority	2,800,000	1,075,200
Outlays	2,660,000	1,021,440
Human development services (09–80–1636–506–A):		
Budget Authority	3,059,713	1,174,930
Outlays	1,778,479	682,936
Payments to State for foster care and adoption assistance (09–80–1645–506–A):		
Budget Authority—Spec. Rules	5,132	5,132
Outlays	3,683	3,683

Policy Management

Account Title	Sequester Base	Sequester Amount
General Departmental administration (09–90–0120–609–A):		
Budget Authority	82,692	31,754
Outlays	57,884	22,227
Policy research (09–90–0122–609–A):		
Budget Authority	5,214	2,002
Outlays	2,086	801
Office of the Inspector General (09–90–0128–609–A):		
Budget Authority	52,891	20,310
Outlays	39,670	15,233
Office for Civil Rights (09–90–0135–751–A):		
Budget Authority	18,128	6,961
Outlays	16,496	6,334
Office of Consumer Affairs (09–90–0137–506–A):		
Budget Authority	1,919	737
Outlays	1,535	589
Total, Department of Health and Human Services:		
Budget Authority	25,464,694	9,778,441
Budget Authority—Spec. Rules	39,941	39,941
401(C) Authority	1,342,412	515,487
401(C) Authority—Off. Coll.	4,012	1,540

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
401(C) Authority—Spec. Rules	60	60
Obligation limitation	2,511,768	964,519
Obligat. limit.—Spec. Rules	1,598,000	1,598,000
Outlays	20,120,357	8,727,487

Health and Human Services Social Security

Social Security

Account Title	Sequester Base	Sequester Amount
Federal old-age and survivors insurance trust fund (16–05–8006–651–A):		
Obligation limitation	1,694,999	650,880
Outlays	1,459,886	560,596
Federal disability insurance trust fund (16–05–8007–651–A):		
Obligation limitation	540,687	207,624
Outlays	471,776	181,162
Total, Health and Human Services Social Security:		
Obligation limitation	2,235,686	858,504
Outlays	1,931,662	741,758

Department of Housing and Urban Development

Housing Programs

Account Title	Sequester Base	Sequester Amount
Housing counseling assistance (25–02–0156–506–A):		
Budget Authority	3,591	1,379
Subsidized housing programs (Housing assistance) (25–02–0164–604–A):		
Budget Authority	7,528,368	2,890,893
Outlays	71,957	27,631
Congregate services program (25–02–0178–604–A):		
Budget Authority	6,074	2,332
Asst. for the renewal of expiring section 8 subsidy cont. (25–02–0194–604–A):		
Budget Authority	1,122,844	431,172
Outlays	61,532	23,628
Section 8 moderate rehab. single room occupancy (25–02–0195–604–A):		
Budget Authority	76,259	29,283
Outlays	3,045	1,169
Rental housing assistance fund (25–02–4041–604–A):		
401(C) Authority—Off. Coll.	70,000	26,880
Outlays	70,000	26,880
Nonprofit sponsor assistance (25–02–4042–604–A):		
Direct Loan Limitation	1,114	428
FHA Mutual Mortgage and Cooperative Housing Insurance Fund (25–02–4070–371–A):		
Obligation limitation	229,291	88,048
Direct Loan Limitation	74,258	28,515
Guaranteed Loan Limitation	65,345,176	25,092,548
Outlays	229,291	88,048
Nehemiah Housing Opportunity Fund (25–02–4071–604–A):		
Budget Authority	25,220	9,684
FHA general and special risk insurance funds (25–02–4072–371–A):		
Obligation limitation	181,451	69,677
Direct Loan Limitation	16,633	6,387
Guaranteed Loan Limitation	11,593,499	4,451,904
Outlays	181,451	69,677

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Housing for the elderly or handicapped fund (25–02–4115–371–A):		
Direct Loan Limitation	492,516	189,126
Interstate land sales (25–02–5270–376–A):		
401(C) Authority	600	230
Outlays	600	230
Manufactured home inspection and monitoring (25–02–5271–376–A):		
401(C) Authority	7,320	2,811
Outlays	6,500	2,496

Public and Indian Housing Programs

Account Title	Sequester Base	Sequester Amount
Payments for operation of low income housing projects (25–03–0163–604–A):		
Budget Authority	1,943,363	746,251
Outlays	893,436	343,079

Government National Mortgage Association

Account Title	Sequester Base	Sequester Amount
Guarantees of mortgage-backed securities (25–04–4238–371–A):		
401(C) Authority—Off. Coll.	5,950	2,285
Guaranteed Loan Limitation	85,063,753	32,664,481
Outlays	5,950	2,285

Community Planning and Development

Account Title	Sequester Base	Sequester Amount
Community development grants (25–06–0162–451–A):		
Budget Authority	3,014,473	1,157,558
Guaranteed Loan Limitation	147,722	56,725
Outlays	121,500	46,656
Urban homesteading (25–06–0171–451–A):		
Budget Authority	13,541	5,200
Outlays	13,541	5,200
Emergency shelter grants program (25–06–0181–604–A):		
Budget Authority	76,237	29,275
Outlays	11,436	4,391
Rental rehabilitation grants (25–06–0182–451–A):		
Budget Authority	133,360	51,210
Transitional and supportive housing demonstration programs (25–06–0188–604–A):		
Budget Authority	132,152	50,746
Rehabilitation loan fund (25–06–4036–451–A):		
401(C) Authority—Off. Coll.	13,703	5,262
Direct Loan Limitation	87,548	33,618
Outlays	29,685	11,399

Policy Development and Research

Account Title	Sequester Base	Sequester Amount
Research and technology (25–28–0108–451–A):		
Budget Authority	21,284	8,173
Outlays	6,385	2,452

Fair Housing and Equal Opportunity

Account Title	Sequester Base	Sequester Amount
Fair housing activities (25–29–0144–751–A):		
Budget Authority	12,931	4,966
Outlays	1,940	745

Management and Administration

Account Title	Sequester Base	Sequester Amount
Salaries & expenses, incl. transfer of funds (Community dev.) (25–35–0143–451–A):		
Budget Authority	178,667	68,608
Outlays	137,501	52,800

Account Title	Sequester Base	Sequester Amount
Salaries & expenses, incl. transfer of funds (Public assist.) (25–35–0143–604–A):		
Budget Authority	161,003	61,825
Outlays	123,907	47,580
Salaries & expenses, incl. transfer of funds (Federal law acts.) (25–35–0143–751–A):		
Budget Authority	21,566	8,281
Outlays	16,596	6,373
Office of the Inspector General (25–35–0189–451–A):		
Budget Authority	24,912	9,566
Outlays	19,182	7,366
Total, Department of Housing and Urban Development:		
Budget Authority	14,495,845	5,566,402
401(C) Authority	7,920	3,041
401(C) Authority—Off. Coll.	89,653	34,427
Obligation limitation	410,742	157,725
Direct Loan Limitation	672,069	258,074
Guaranteed Loan Limitation	162,150,150	62,265,658
Outlays	2,005,435	770,085

Department of the Interior

Bureau of Land Management

Account Title	Sequester Base	Sequester Amount
Management of lands and resources (10–04–1109–302–A):		
Budget Authority	456,454	175,278
Outlays	397,115	152,492
Construction and access (10–04–1110–302–A):		
Budget Authority	11,201	4,301
Outlays	2,800	1,075
Payments in lieu of taxes (10–04–1114–806–A):		
Budget Authority	109,410	42,013
Outlays	109,410	42,013
Oregon and California grant lands (10–04–1116–302–A):		
Budget Authority	66,932	25,702
Outlays	49,530	19,020
Special acquisition of lands and minerals (10–04–1117–302–A):		
401(C) Authority	1,300	499
Outlays	1,300	499
Firefighting (10–04–1119–302–A):		
Budget Authority	277,716	106,643
Outlays	194,401	74,650
Service charges, deposits, and forfeitures (10–04–5017–302–A):		
Budget Authority	6,272	2,408
Outlays	5,519	2,119
Land acquisition (10–04–5033–302–A):		
Budget Authority	16,031	6,156
Outlays	2,405	924
Operation and maintenance of quarters (10–04–5048–302–A):		
401(C) Authority	250	96
Outlays	210	81
Range improvements (10–04–5132–302–A):		
Budget Authority	10,188	3,912
Outlays	6,418	2,465
Miscellaneous permanent appropriations (10–04–9921–302–A):		
401(C) Authority	4,500	1,728
Outlays	4,455	1,711
Miscellaneous permanent appropriations (10–04–9921–806–A):		
401(C) Authority	142,394	54,679
Outlays	140,970	54,132

Account Title	Sequester Base	Sequester Amount
Miscellaneous trust funds (10–04–9971–302–A):		
Budget Authority	100	38
401(C) Authority	600	230
Outlays	357	137

Minerals Management Service

Account Title	Sequester Base	Sequester Amount
Leasing and royalty management (10–06–1917–302–A):		
Budget Authority	184,180	70,725
Outlays	128,926	49,508
Payments to states from receipts under Mineral Leasing Act (10–06–5003–806–A):		
401(C) Authority	531,593	204,132
Outlays	531,593	204,132

Office of Surface Mining Reclamation & Enforcement

Account Title	Sequester Base	Sequester Amount
Regulation and technology (10–08–1801–302–A):		
Budget Authority	107,322	41,212
Outlays	63,283	24,301
Abandoned mine reclamation fund (10–08–5015–302–A):		
Budget Authority	200,972	77,173
Outlays	69,372	26,639

Bureau of Reclamation

Account Title	Sequester Base	Sequester Amount
Loan program (10–10–0667–301–A):		
Budget Authority	35,063	13,464
Direct Loan Limitation	31,922	12,258
Outlays	21,564	8,281
Construction program (10–10–0684–301–A):		
Budget Authority	681,370	261,646
401(C) Authority—Off. Coll.	94,000	36,096
Outlays	666,407	255,900
Lower Colorado River basin development fund (10–10–4079–301–A):		
401(C) Authority—Off. Coll.	96,821	37,179
Outlays	96,821	37,179
Upper Colorado River basin fund (10–10–4081–301–A):		
401(C) Authority—Off. Coll.	31,604	12,136
Outlays	31,604	12,136
Working capital fund (10–10–4524–301–A):		
Budget Authority	8,733	3,353
Outlays	6,987	2,683
Emergency fund (10–10–5043–301–A):		
Budget Authority	1,027	394
Outlays	621	238
General investigations (10–10–5060–301–A):		
Budget Authority	11,889	4,565
Outlays	7,657	2,940
Operation and maintenance (10–10–5064–301–A):		
Budget Authority	218,949	84,076
401(C) Authority—Off. Coll.	9,287	3,566
Outlays	179,410	68,893
General administrative expenses (10–10–5065–301–A):		
Budget Authority	49,533	19,021
Outlays	44,579	17,118
Colorado River Dam Fund, Boulder Canyon Project (10–10–5656–301–A):		
Budget Authority	-3,262	-1,253
401(C) Authority	53,335	20,481
Outlays	28,692	11,018

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Reclamation trust funds (10–10–8070–301–A):		
401(C) Authority	97,195	37,323
Outlays	77,907	29,916
Miscellaneous permanent appropriations (10–10–9922–806–A):		
401(C) Authority	280	108
Outlays	224	86

Geological Survey

Account Title	Sequester Base	Sequester Amount
Surveys, investigations and research (10–12–0804–306–A):		
Budget Authority	525,171	201,666
401(C) Authority	250	96
401(C) Authority—Off. Coll.	78,427	30,116
Outlays	577,359	221,706
Operation and maintenance of quarters (10–12–5055–306–A):		
401(C) Authority	55	21
Outlays	45	17

Bureau of Mines

Account Title	Sequester Base	Sequester Amount
Mines and minerals (10–14–0959–306–A):		
Budget Authority	186,651	71,674
Outlays	121,696	46,731
Helium fund (10–14–4053–306–A):		
401(C) Authority—Off. Coll.	4,564	1,753
Outlays	4,564	1,753

Fish and Wildlife Service

Account Title	Sequester Base	Sequester Amount
Resource management (10–18–1611–303–A):		
Budget Authority	417,982	160,505
401(C) Authority—Off. Coll.	4,396	1,688
Outlays	338,387	129,941
Construction (10–18–1612–303–A):		
Budget Authority	80,336	30,849
Outlays	16,067	6,170
Land acquisition (10–18–5020–303–A):		
Budget Authority	96,818	37,178
Outlays	43,568	16,730
Operations and maintenance of quarters (10–18–5050–303–A):		
401(C) Authority	1,809	695
Outlays	648	249
National wildlife refuge fund (10–18–5091–806–A):		
Budget Authority	9,287	3,566
401(C) Authority	6,294	2,417
Outlays	11,455	4,399
Migratory bird conservation account (10–18–5137–303–A):		
401(C) Authority	31,600	12,134
Outlays	21,704	8,334
North America Wetlands Conservation Fund (10–18–5241–303–A):		
401(C) Authority	10,000	3,840
Outlays	7,000	2,688
Sport fish restoration (10–18–8151–303–A):		
401(C) Authority	212,400	81,562
Outlays	63,720	24,468
African elephant conservation fund (10–18–8154–303–A):		
401(C) Authority	1,300	499
Outlays	260	100
Contributed funds (10–18–8216–303–A):		
401(C) Authority	5,600	2,150
Outlays	1,776	682

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Miscellaneous permanent appropriations (10–18–9923–303–A):		
401(C) Authority	134,500	51,648
Outlays	40,350	15,494

National Park Service

Account Title	Sequester Base	Sequester Amount
Operation of the national park system (10–24–1036–303–A):		
Budget Authority	803,983	308,729
401(C) Authority—Off. Coll.	2,800	1,075
Outlays	605,787	232,622
John F. Kennedy Center for the Performing Arts (10–24–1038–303–A):		
Budget Authority	9,521	3,656
Outlays	4,391	1,686
Construction (10–24–1039–303–A):		
Budget Authority	317,641	121,974
401(C) Authority—Off. Coll.	11,000	4,224
Outlays	58,647	22,520
National recreation and preservation (10–24–1042–303–A):		
Budget Authority	16,777	6,442
Outlays	12,558	4,822
Illinois & Michigan Canal National Heritage-Corridor Commissio (10–24–1043–303–A):		
Budget Authority	261	100
Outlays	196	75
Land acquisition (10–24–5035–303–A):		
Budget Authority	125,746	48,286
401(C) Authority	30,000	11,520
Outlays	44,010	16,900
Operations and maintenance of quarters (10–24–5049–303–A):		
401(C) Authority	8,795	3,377
Outlays	5,859	2,250
Historic preservation fund (10–24–5140–303–A):		
Budget Authority	34,265	13,158
Outlays	11,289	4,335
Miscellaneous permanent appropriations (10–24–9924–303–A):		
401(C) Authority	980	376
Outlays	116	45

Bureau of Indian Affairs

Account Title	Sequester Base	Sequester Amount
Operation of Indian programs (Conservation and land management) (10–76–2100–302–A):		
Budget Authority	145,333	55,808
Outlays	101,723	39,062
Operation of Indian programs (Area and regional development) (10–76–2100–452–A):		
Budget Authority	610,497	234,431
401(C) Authority—Off. Coll.	64,000	24,576
Outlays	436,085	167,457
Operation of Indian programs (Elementary, secondary, & vo. ed.) (10–76–2100–501–A):		
Budget Authority	311,502	119,617
Outlays	218,051	83,732
White Earth Settlement Fund (10–76–2204–452–A):		
401(C) Authority	6,000	2,304
Outlays	6,000	2,304
Construction (10–76–2301–452–A):		
Budget Authority	183,547	70,482
Outlays	45,844	17,604
Payment to the Navaho Rehabilitation Trust Fund (10–76–2368–452–A):		
Budget Authority	834	320
Outlays	834	320

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Revolving fund for loans (10–76–4409–452–A):		
401(C) Authority—Off. Coll.	10,890	4,182
Direct Loan Limitation	9,000	3,456
Outlays	11,090	4,259
Indian loan guaranty and insurance fund (10–76–4410–452–A):		
Budget Authority	4,916	1,888
Guaranteed Loan Limitation	45,000	17,280
Outlays	3,599	1,382
Operations and maintenance of quarters (10–76–5051–452–A):		
401(C) Authority	6,330	2,431
Outlays	654	251
Cooperative fund (Papago) (10–76–8366–452–A):		
401(C) Authority	868	333
Navajo Rehabilitation Trust Fund (10–76–8368–452–A):		
401(C) Authority	872	335
Outlays	872	335
Miscellaneous permanent appropriations (Area and regional dev.) (10–76–9925–452–A):		
401(C) Authority	66,141	25,398
Outlays	5,572	2,140
Miscellaneous permanent appropriations (10–76–9925–808–A):		
401(C) Authority	2,000	768
Outlays	2,000	768

Office of Territorial Affairs

Account Title	Sequester Base	Sequester Amount
Administration of territories (10–82–0412–808–A):		
Budget Authority	50,875	19,536
Outlays	25,602	9,831
Trust Territory of the Pacific Islands (10–82–0414–808–A):		
Budget Authority	34,310	13,175
Outlays	30,535	11,725
Compact of free association (10–82–0415–808–A):		
Budget Authority	12,345	4,740
Outlays	11,382	4,371

Office of the Secretary

Account Title	Sequester Base	Sequester Amount
Salaries and Expenses (10–84–0102–306–A):		
Budget Authority	52,690	20,233
Outlays	47,421	18,210
Construction management (10–84–0103–306–A):		
Budget Authority	1,884	723
Outlays	1,697	652
Oil spill emergency fund (10–84–0119–306–A):		
Budget Authority	7,585	2,913
Outlays	7,585	2,913

Office of the Solicitor

Account Title	Sequester Base	Sequester Amount
Office of the Solicitor (10–86–0107–306–A):		
Budget Authority	26,510	10,180
Outlays	23,858	9,161

Office of Inspector General

Account Title	Sequester Base	Sequester Amount
Office of Inspector General (10–88–0104–306–A):		
Budget Authority	21,444	8,234
Outlays	19,300	7,411

National Indian Gaming Commission

Account Title	Sequester Base	Sequester Amount
National Indian Gaming Commission (10–89–0118–806–A):		
Budget Authority	784	301
Outlays	706	271

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Total, Department of the Interior:		
Budget Authority	6,539,575	2,511,191
401(C) Authority	1,357,24·	521,180
401(C) Authority—Off. Coll.	407,789	156,591
Direct Loan Limitation	40,922	15,714
Guaranteed Loan Limitation	45,000	17,280
Outlays	5,862,399	2,251,162

Department of Justice

General Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (11–03–0129–751–A):		
Budget Authority	100,970	38,772
Outlays	90,469	34,740
Office of the Inspector General (11–03–0328–751–A):		
Budget Authority	21,510	8,260
Outlays	20,311	7,799

United States Parole Commission

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (11–04–1061–751–A):		
Budget Authority	10,998	4,223
Outlays	9,458	3,632

Legal Activities

Account Title	Sequester Base	Sequester Amount
Salaries and expenses, Foreign Claims Settlement Commission (11–05–0100–153–A):		
Budget Authority	461	177
Outlays	334	128
Salaries and expenses, General legal activities (11–05–0128–752–A):		
Budget Authority	308,803	118,580
Outlays	268,658	103,165
Fees and expenses of witnesses (11–05–0311–752–A):		
Budget Authority	70,628	27,121
Outlays	49,510	19,012
Salaries and expenses, Antitrust Division (11–05–0319–752–A):		
Budget Authority	35,910	13,789
401(C) Authority—Off. Coll.	20,000	7,680
Outlays	49,446	18,987
Salaries and expenses, United States Attorneys (11–05–0322–752–A):		
Budget Authority	543,486	208,699
Outlays	478,268	183,655
Salaries and expenses, United States Marshals Service (11–05–0324–752–A):		
Budget Authority	256,848	98,630
401(C) Authority—Off. Coll.	58	22
Outlays	231,221	88,789
Independent counsel (11–05–0327–752–A):		
401(C) Authority	4,000	1,536
Outlays	4,000	1,536
Civil Liberties Public Education Fund (11–05–0329–808–A):		
401(C) Authority	500,000	192,000
Outlays	500,000	192,000
Salaries and expenses, Community Relations Service (11–05–0500–752–A):		
Budget Authority	30,201	11,597
Outlays	25,671	9,858
Support of United States prisoners (11–05–1020–752–A):		
Budget Authority	165,133	63,411
Outlays	99,080	38,047
Assets forfeiture fund (11–05–5042–752–A):		
Budget Authority	103,101	39,591
401(C) Authority	272,000	104,448
Outlays	150,040	57,615
United States trustees system fund (11–05–5073–752–A):		
Budget Authority	62,847	24,133
Outlays	56,562	21,720

Interagency Law Enforcement

Account Title	Sequester Base	Sequester Amount
Organized crime drug enforcement (11–07–0323–751–A):		
Budget Authority	223,948	85,996
Outlays	172,440	66,217

Federal Bureau of Investigation

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (11–10–0200–751–A):		
Budget Authority	1,763,208	677,072
401(C) Authority—Off. Coll.	20,352	7,815
Outlays	1,413,112	542,635

Drug Enforcement Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (11–12–1100–751–A):		
Budget Authority	574,039	220,431
401(C) Authority—Off. Coll.	1,500	576
Outlays	432,029	165,899

Immigration and Naturalization Service

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (11–15–1217–751–A):		
Budget Authority	881,997	338,687
401(C) Authority—Off. Coll.	3,817	1,466
Outlays	709,415	272,415
Immigration emergency fund (11–15–1218–751–A):		
Budget Authority	36,470	14,004
Immigration legalization (11–15–5086–751–A):		
401(C) Authority	33,093	12,708
Outlays	33,093	12,708
Immigration user fee (11–15–5087–751–A):		
401(C) Authority	125,142	48,055
Outlays	125,142	48,055
Immigration examinations fee (11–15–5088–751–A):		
401(C) Authority	157,233	60,377
Outlays	157,233	60,377

Federal Prison System

Account Title	Sequester Base	Sequester Amount
Buildings and facilities (11–20–1003–753–A):		
Budget Authority	1,455,909	559,069
Outlays	145,591	55,907
National Institute of Corrections (11–20–1004–754–A):		
Budget Authority	10,419	4,001
Outlays	4,168	1,601
Salaries and expenses (11–20–1060–753–A):		
Budget Authority	1,181,055	453,525
401(C) Authority—Off. Coll.	12,746	4,894
Outlays	1,108,765	425,766
Federal Prison Industries, Incorporated (11–20–4500–753–A):		
Obligation limitation	2,980	1,144
Outlays	2,980	1,144

Office of Justice Programs

Account Title	Sequester Base	Sequester Amount
Justice assistance (11–21–0401–754–A):		
Budget Authority	640,231	245,849
Outlays	140,851	54,087
Public safety officers' benefits (11–21–0403–754–A):		
Budget Authority	26,075	10,013
Outlays	26,075	10,013
Crime Victims Fund (11–21–5041–754–A):		
401(C) Authority	125,000	48,000
Outlays	62,500	24,000
Total, Department of Justice:		
Budget Authority	8,504,247	3,265,630
401(C) Authority	1,216,468	467,124
401(C) Authority—Off. Coll.	58,473	22,453
Obligation limitation	2,980	1,144
Outlays	6,566,422	2,521,507

Department of Labor

Employment and Training Administration

Account Title	Sequester Base	Sequester Amount
Program administration (12–05–0172–504–A):		
Budget Authority	67,783	26,029
Outlays	50,295	19,313
Training and employment services (12–05–0174–504–A):		
Budget Authority	4,094,373	1,572,239
Outlays	206,001	79,104
Community service employment for older Americans (12–05–0175–504–A):		
Budget Authority	382,427	146,852
Outlays	68,837	26,433
State unemployment insurance and employment services (12–05–0179–504–A):		
Budget Authority	22,924	8,803
Outlays	5,585	2,145
Federal unemployment benefits and allowances (12–05–0326–504–A):		
Budget Authority	71,000	27,264
Outlays	21,300	8,179
Federal unemployment benefits and allowances (12–05–0326–603–A):		
Budget Authority	198,500	76,224
Outlays	198,500	76,224
Unemployment trust fund (Training and employment) (12–05–8042–504–A):		
Obligation limitation	1,134,615	435,692
Outlays	487,655	187,260
Unemployment trust fund (Unemployment compensation) (12–05–8042–603–A):		
401(C) Authority	112,800	43,315
Obligation limitation	1,897,652	728,698
Outlays	2,010,452	772,014

Labor-Management Services

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (12–10–0104–505–A):		
Budget Authority	77,405	29,724
Outlays	66,297	25,458

Pension Benefit Guaranty Corporation

Account Title	Sequester Base	Sequester Amount
Pension Benefit Guaranty Corporation fund (12–12–4204–601–A):		
Obligation limitation	44,274	17,001
Outlays	44,274	17,001

Employment Standards Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (12–15–0105–505–A):		
Budget Authority	226,635	87,028
401(C) Authority—Off. Coll.	1,275	490
Outlays	198,720	76,308
Black lung disability trust fund (12–15–8144–601–A):		
Budget Authority	53,591	20,579
Outlays	53,591	20,579

Account Title	Sequester Base	Sequester Amount
Special workers' compensation expenses (12-15-9971-601-A):		
Obligation limitation	1,057	406
Outlays	1,057	406

Occupational Safety and Health Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (12-18-0400-554-A):		
Budget Authority	279,243	107,229
Outlays	243,333	93,440

Mine Safety and Health Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (12-19-1200-554-A):		
Budget Authority	176,287	67,694
Outlays	159,434	61,223

Bureau of Labor Statistics

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (12-20-0200-505-A):		
Budget Authority	201,386	77,332
401(C) Authority—		
Off. Coll.	1,100	422
Outlays	165,169	63,425

Departmental Management

Account Title	Sequester Base	Sequester Amount
Inspector General salaries and expenses (12-25-0106-505-A):		
Budget Authority	43,354	16,648
Outlays	32,099	12,326
Salaries and expenses (12-25-0165-505-A):		
Budget Authority	122,614	47,084
401(C) Authority—		
Off. Coll.	425	163
Outlays	103,298	39,666
Total, Department of Labor:		
Budget Authority	6,017,522	2,310,729
401(C) Authority	112,800	43,315
401(C) Authority—		
Off. Coll.	2,800	1,075
Obligation limitation	3,077,598	1,181,797
Outlays	4,115,897	1,580,504

Department of State

Administration of Foreign Affairs

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (14-05-0113-153-A):		
Budget Authority	1,872,631	719,090
Outlays	1,479,379	568,082
Protection of foreign missions and officials (14-05-0520-153-A):		
Budget Authority	9,482	3,641
Outlays	7,681	2,950
Emergencies in the diplomatic and consular service (14-05-0522-153-A):		
Budget Authority	4,830	1,855
Outlays	3,429	1,317
Payment to the American Institute in Taiwan (14-05-0523-153-A):		
Budget Authority	11,610	4,458
Outlays	8,591	3,299
Office of the Inspector General (14-05-0529-153-A):		
Budget Authority	21,625	8,304
Outlays	21,193	8,138
Acquisition and maintenance of buildings abroad (14-05-0535-153-A):		
Budget Authority	305,791	117,424
Outlays	56,266	21,606
Representation allowances (14-05-0545-153-A):		
Budget Authority	4,793	1,841
Outlays	4,122	1,583

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

International Organizations and Conferences

Account Title	Sequester Base	Sequester Amount
Contributions for international peacekeeping activities (14-10-1124-153-A):		
Budget Authority	84,484	32,442
Outlays	84,484	32,442
International conferences and contingencies (14-10-1125-153-A):		
Budget Authority	6,516	2,502
Outlays	4,431	1,702
Contributions to international organizations (14-10-1126-153-A):		
Budget Authority	640,780	246,060
401(C) Authority—		
Off. Coll.	40	15
Outlays	608,781	233,772

International Commissions

Account Title	Sequester Base	Sequester Amount
Salaries and expenses, IBWC (14-15-1069-301-A):		
Budget Authority	10,950	4,205
Outlays	9,855	3,784
Construction, IBWC (14-15-1078-301-A):		
Budget Authority	11,941	4,585
Outlays	5,970	2,292
American sections, international commissions (14-15-1082-301-A):		
Budget Authority	4,629	1,778
Outlays	3,657	1,404
International fisheries commissions (14-15-1087-302-A):		
Budget Authority	12,657	4,860
Outlays	12,657	4,860

Other

Account Title	Sequester Base	Sequester Amount
United States emergency refugee and migration assistance fund (14-25-0040-151-A):		
Budget Authority	77,900	29,914
Outlays	38,950	14,957
Anti-terrorism assistance (14-25-0114-152-A):		
Budget Authority	10,393	3,991
Outlays	8,314	3,193
Soviet-East European research and training (14-25-0118-153-A):		
Budget Authority	4,793	1,841
Outlays	4,793	1,841
Payment to the Asia Foundation (14-25-0525-154-A):		
Budget Authority	14,484	5,562
Outlays	12,967	4,979
International narcotics control (14-25-1022-151-A):		
Budget Authority	117,832	45,247
Outlays	35,350	13,574
Migration and refugee assistance (14-25-1143-151-A):		
Budget Authority	446,469	171,444
Outlays	334,852	128,583
U.S. bilateral science and technology agreements (14-25-1151-153-A):		
Budget Authority	4,138	1,589
Outlays	4,138	1,589
Fisherman's protective fund (14-25-5116-376-A):		
Budget Authority	1,042	400
Outlays	1,042	400
Fisherman's guaranty fund (14-25-5121-376-A):		
Budget Authority	938	360
Outlays	938	360
International Center, Washington, D.C. (14-25-5151-153-A):		
401(C) Authority	1,284	493
Outlays	1,284	493

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Total, Department of State:		
Budget Authority	3,680,708	1,413,393
401(C) Authority	1,284	493
401(C) Authority—		
Off. Coll.	40	15
Outlays	2,753,124	1,057,200

Department of Transportation

Federal Highway Administration

Account Title	Sequester Base	Sequester Amount
Motor carrier safety (21-05-0552-401-A):		
Budget Authority	34,861	13,387
Outlays	28,192	10,826
Railroad-highway crossings demonstration projects (21-05-0557-401-A):		
Budget Authority	5,156	1,980
Outlays	1,031	396
Trust fund share of other highway programs (21-05-8009-401-A):		
Budget Authority	10,313	3,960
Outlays	2,062	792
Baltimore-Washington Parkway (21-05-8014-401-A):		
Budget Authority	12,466	4,787
Outlays	2,493	957
Highway safety research and development (21-05-8017-401-A):		
Budget Authority	6,317	2,426
Outlays	1,263	485
Highway-related safety grants (21-05-8019-401-A):		
401(C) Authority	10,000	3,840
Obligation limitation	9,771	3,752
Outlays	1,954	750
Motor carrier safety grants (21-05-8048-401-A):		
401(C) Authority	62,540	24,015
Obligation limitation	62,540	24,015
Outlays	27,209	10,448
University transportation centers (21-05-8065-401-A):		
Budget Authority	5,194	1,994
Outlays	1,039	399
Federal-aid highways (21-05-8083-401-A):		
Budget Authority	1,042,000	400,128
401(C) Authority	14,101,139	5,414,837
Obligation limitation	12,722,820	4,885,563
Outlays	2,372,828	911,166
Right-of-way revolving fund (trust revolving fund) (21-05-8402-401-A):		
Direct Loan		
Limitation	44,153	16,955
Outlays	44,153	16,955
Miscellaneous appropriations (21-05-9911-401-A):		
Budget Authority	152,226	58,455
Outlays	30,445	11,691
Miscellaneous trust funds—Highway (21-05-9972-401-A):		
Budget Authority	65,824	25,276
Outlays	13,165	5,055

National Highway Traffic Safety Administration

Account Title	Sequester Base	Sequester Amount
Operations and research (21-10-0650-401-A):		
Budget Authority	76,600	29,414
Outlays	50,127	19,249
Trust fund share of operations and research (21-10-8016-401-A):		
Budget Authority	33,168	12,737
Outlays	21,706	8,335
State and community highway safety grants (21-10-8020-401-A):		
401(C) Authority	126,000	48,384
Obligation limitation	136,108	52,265

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Outlays	55,804	21,429

Federal Railroad Administration

Account Title	Sequester Base	Sequester Amount
Northeast corridor improvement program (21-16-0123-401-A):		
Budget Authority	25,469	9,780
Outlays	5,094	1,956
Office of the Administrator (21-16-0700-401-A):		
Budget Authority	22,550	8,659
Outlays	17,423	6,690
Railroad safety (21-16-0702-401-A):		
Budget Authority	33,000	12,672
Outlays	26,400	10,138
Grants to National Railroad Passenger Corporation (21-16-0704-401-A):		
Budget Authority	630,082	241,951
Outlays	582,185	223,559
Settlements of railroad litigation (21-16-0708-401-A):		
Budget Authority	235	90
Outlays	235	90
Amtrak Corridor Improvement Loans (21-16-0720-401-A):		
Budget Authority	3,647	1,400
Outlays	1,824	700
Railroad safety research and development (21-16-0745-401-A):		
Budget Authority	9,966	3,827
Outlays	5,980	2,296
Commuter rail service (21-16-0747-401-A):		
Budget Authority	5,127	1,969
Outlays	564	217
Regional rail reorganization program (21-16-4100-401-A):		
Budget Authority	23	9
Outlays	23	9

Urban Mass Transportation Administration

Account Title	Sequester Base	Sequester Amount
Urban mass transportation fund, administrative expenses (21-20-1120-401-A):		
Budget Authority	33,328	12,798
Outlays	29,995	11,518
Research, training and human resources (21-20-1121-401-A):		
Budget Authority	10,389	3,989
Outlays	2,078	798
Interstate transfer grants (21-20-1127-401-A):		
Budget Authority	166,220	63,828
Outlays	3,324	1,276
Washington metro (21-20-1128-401-A):		
Budget Authority	88,304	33,909
Outlays	1,766	678
Formula grants (21-20-1129-401-A):		
Budget Authority	1,693,364	650,252
Outlays	547,310	210,167
Discretionary grants (21-20-8191-401-A):		
401(C) Authority	1,400,000	537,600
Obligation limitation	1,184,316	454,777
Outlays	59,168	22,721

Federal Aviation Administration

Account Title	Sequester Base	Sequester Amount
Operations (21-25-1301-402-A):		
Budget Authority	3,164,515	1,215,174
401(C) Authority—		
Off. Coll.	14,484	5,562
Outlays	2,698,328	1,036,158
Aircraft purchase loan guarantee program (21-25-1399-402-A):		
Budget Authority	150	58
Outlays	150	58

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Trust fund share of FAA Operations (21-25-8104-402-A):		
Budget Authority	841,083	322,976
Outlays	841,083	322,976
Grants-in-aid for airports (Airport and airway trust fund) (21-25-8106-402-A):		
401(C) Authority	1,800,000	691,200
Obligation limitation	1,485,000	570,240
Outlays	237,600	91,238
Facilities and equipment (Airport and airway trust fund) (21-25-8107-402-A):		
Budget Authority	1,793,900	688,858
401(C) Authority—		
Off. Coll.	49,860	19,146
Outlays	370,968	142,452
Research, engineering & development (Airport & airway trust fn (21-25-8108-402-A):		
Budget Authority	177,593	68,196
401(C) Authority—		
Off. Coll.	350	134
Outlays	121,824	46,780

Coast Guard

Account Title	Sequester Base	Sequester Amount
Operating expenses (21-30-0201-403-A):		
Budget Authority	2,136,000	820,224
401(C) Authority—		
Off. Coll.	5,718	2,196
Outlays	1,820,823	699,196
Acquisition, construction, and improvements (21-30-0240-403-A):		
Budget Authority	463,000	177,792
Outlays	50,800	19,507
Retired pay (Coast Guard) (21-30-0241-403-A):		
Budget Authority	39,325	15,101
Outlays	39,325	15,101
Reserve training (21-30-0242-403-A):		
Budget Authority	74,580	28,639
Outlays	66,682	25,606
Research, development, test, and evaluation (21-30-0243-403-A):		
Budget Authority	21,350	8,198
Outlays	7,230	2,776
Alteration of bridges (21-30-0244-403-A):		
Budget Authority	2,421	930
Outlays	557	214
Offshore oil pollution compensation fund (21-30-5167-304-A):		
Obligation limitation	60,000	23,040
Pollution fund (21-30-5168-304-A):		
401(C) Authority	5,700	2,189
Outlays	1,425	547
Deepwater port liability fund (21-30-5170-304-A):		
Obligation limitation	51,940	19,945
Boat safety (21-30-8149-403-A):		
Budget Authority	62,332	23,935
Outlays	40,704	15,630

Maritime Administration

Account Title	Sequester Base	Sequester Amount
Ready reserve force (21-35-1710-054-A):		
Budget Authority	92,738	23,277
Outlays	71,408	17,923
Operations and training (21-35-1750-403-A):		
Budget Authority	70,405	27,036
Outlays	59,353	22,792
Federal ship financing fund (21-35-4301-403-A):		
401(C) Authority—		
Off. Coll.	7,300	2,803
Obligation limitation	4,040	1,551
Outlays	7,300	2,803

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Saint Lawrence Seaway Development Corporation

Account Title	Sequester Base	Sequester Amount
Saint Lawrence Seaway Development Corporation (21-40-4089-403-A):		
401(C) Authority—		
Off. Coll.	1,400	538
Outlays	1,400	538
Operations and maintenance (21-40-8003-403-A):		
Budget Authority	11,906	4,572
Outlays	11,906	4,572

Office of the Inspector General

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (21-45-0130-407-A):		
Budget Authority	33,193	12,746
Outlays	28,679	11,013

Research and Special Programs Administration

Account Title	Sequester Base	Sequester Amount
Research and special programs (21-50-0104-407-A):		
Budget Authority	17,943	6,890
Outlays	11,842	4,547
Pipeline safety (21-50-5172-407-A):		
Budget Authority	10,604	4,072
Outlays	8,484	3,258

Office of the Secretary

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (21-55-0102-407-A):		
Budget Authority	57,812	22,200
Outlays	52,031	19,980
Transportation planning, research, and development (21-55-0142-407-A):		
Budget Authority	7,050	2,707
Outlays	2,799	1,075
Payments to air carriers, DOT (21-55-0150-402-A):		
Budget Authority	31,930	12,261
Outlays	25,544	9,809
Commission on aviation security and terrorism (21-55-1850-407-A):		
Budget Authority	1,043	401
Working capital fund (21-55-4520-407-A):		
Budget Authority	4,628	1,777
Outlays	4,628	1,777
Total, Department of Transportation:		
Budget Authority	13,281,330	5,087,697
401(C) Authority	17,505,379	6,722,065
401(C) Authority—		
Off. Coll.	79,112	30,379
Obligation limitation	15,716,535	6,035,148
Direct Loan Limitation	44,153	16,955
Outlays	10,519,713	4,030,072

Department of the Treasury

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (15-05-0101-803-A):		
Budget Authority	60,830	23,359
401(C) Authority—		
Off. Coll.	306	118
Outlays	53,299	20,467
Office of the Inspector General (15-05-0106-803-A):		
Budget Authority	15,899	6,105
Outlays	13,737	5,275
International affairs (15-05-0171-803-A):		
Budget Authority	26,205	10,063
401(C) Authority—		
Off. Coll.	5,632	2,163
Outlays	28,461	10,929

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount

Federal Law Enforcement Training Center

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (15–08–0104–751–A):		
Budget Authority	37,128	14,257
Outlays	33,415	12,831
Acquisitions, construction, improvements, & related expenses (15–08–0105–751–A):		
Budget Authority	15,630	6,002
Outlays	7,815	3,001

Financial Management Service

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (15–10–1801–803–A):		
Budget Authority	236,521	90,824
Outlays	190,873	73,295
Saint Lawrence Seaway toll rebate program (15–10–8865–808–A):		
Budget Authority	10,442	4,010
Outlays	10,306	3,958

Bureau of Alcohol, Tobacco and Firearms

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (15–13–1000–751–A):		
Budget Authority	276,520	106,184
Outlays	248,868	95,565

United States Customs Service

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (15–15–0602–751–A):		
Budget Authority	1,115,677	428,420
401(C) Authority	157,125	60,336
401(C) Authority—Off. Coll.	16,550	6,355
Outlays	1,068,892	410,455
Operation and maintenance, air interdiction program (15–15–0604–751–A):		
Budget Authority	240,038	92,175
Outlays	132,021	50,696
Customs forfeiture fund (15–15–5693–803–A):		
Budget Authority	15,479	5,944
401(C) Authority	34,510	13,252
Outlays	49,989	19,196
Customs services at small airports (15–15–5694–808–A):		
Budget Authority	2,254	866
Outlays	2,254	866
Payments from forfeited assets (15–15–5696–803–A):		
401(C) Authority	40,000	15,360
Outlays	40,000	15,360
Refunds, transfers and expenses, unclaimed and abandoned goods (15–15–8789–803–A):		
401(C) Authority	17,819	6,842
Outlays	17,819	6,842

Bureau of Engraving and Printing

Account Title	Sequester Base	Sequester Amount
Bureau of Engraving and Printing fund (15–20–4502–803–A):		
401(C) Authority—Off. Coll.	397,258	152,547
Outlays	397,258	152,547

United States Mint

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (15–25–1616–803–A):		
Budget Authority	52,410	20,125
401(C) Authority—Off. Coll.	106,419	40,865
Outlays	158,001	60,672

Bureau of the Public Debt

Account Title	Sequester Base	Sequester Amount
Administering the public debt (15–35–0560–803–A):		
Budget Authority	202,634	77,811
Outlays	177,710	68,241

Internal Revenue Service

Account Title	Sequester Base	Sequester Amount
Administration and Management (15–45–0911–803–A):		
Budget Authority	74,484	28,602
Outlays	67,036	25,742
Processing tax returns and assistance (15–45–0912–803–A):		
Budget Authority	1,931,308	741,622
Outlays	1,527,665	586,623
Tax Law Enforcement (15–45–0913–803–A):		
Budget Authority	3,757,106	1,442,729
Outlays	3,377,638	1,297,013
Federal tax lien revolving fund (15–45–4413–803–A):		
401(C) Authority—Off. Coll.	6,000	2,304
Outlays	6,000	2,304
Reimbursement to State and Local Law Enforcement Agencies (15–45–5099–754–A):		
401(C) Authority	100	38
Outlays	100	38

United States Secret Service

Account Title	Sequester Base	Sequester Amount
Contribution for annuity benefits (15–55–1407–751–A):		
401(C) Authority	18,000	6,912
Outlays	18,000	6,912
Salaries and expenses (15–55–1408–751–A):		
Budget Authority	383,321	147,195
Outlays	326,726	125,463
Total, Department of the Treasury:		
Budget Authority	8,453,886	3,246,293
401(C) Authority	267,554	102,740
401(C) Authority—Off. Coll.	532,165	204,352
Outlays	7,953,883	3,054,291

Department of Veterans Affairs

Veterans Benefits Administration

Account Title	Sequester Base	Sequester Amount
Readjustment benefits (29–10–0137–702–A):		
Budget Authority	238,386	91,540
Outlays	219,300	84,211
Burial benefits and miscellaneous assistance (29–10–0155–701–A):		
Budget Authority	143,100	54,950
Outlays	142,916	54,880
Direct loan revolving fund (29–10–4024–704–A):		
Direct Loan Limitation	1,000	384

Veterans Health Services and Research Administration

Account Title	Sequester Base	Sequester Amount
Grants to the Republic of the Philippines (29–20–0144–703–A):		
Budget Authority	513	197
Outlays	46	18
Medical administration and miscellaneous operating expenses (29–20–0152–703–A):		
Budget Authority	48,912	18,782
Outlays	28,516	10,950
Medical care (29–20–0160–703–A):		
Budget Authority	911,089	349,858
Outlays	763,068	293,018
Medical care (29–20–0160–703–G):		
Budget Authority—Spec. Rules	219,054	219,054
401(C) Authority—Spec. Rules	507	507
Outlays	183,889	183,889
Medical and prosthetic research (29–20–0161–703–A):		
Budget Authority	222,742	85,533
Outlays	164,160	63,037

Departmental Administration

Account Title	Sequester Base	Sequester Amount
Construction, major projects (29–30–0110–703–A):		
Budget Authority	425,701	163,469
Outlays	19,582	7,519
Construction, minor projects (29–30–0111–703–A):		
Budget Authority	97,158	37,309
Outlays	50,037	19,214
General operating expenses (29–30–0151–705–A):		
Budget Authority	850,300	326,515
Outlays	782,276	300,394
Office of the Inspector General (29–30–0170–705–A):		
Budget Authority	22,847	8,773
Outlays	21,248	8,159
Grants for construction of state extended care facilities (29–30–0181–703–A):		
Budget Authority	43,003	16,513
Grants for the construction of State veterans cemeteries (29–30–0183–705–A):		
Budget Authority	4,468	1,716
Outlays	7	3
Parking garage revolving fund (29–30–4538–703–A):		
Budget Authority	29,742	11,421
Outlays	1,487	571
Total, Department of Veterans Affairs:		
Budget Authority	3,037,961	1,166,576
Budget Authority—Spec. Rules	219,054	219,054
401(C) Authority—Spec. Rules	507	507
Direct Loan Limitation	1,000	384
Outlays	2,376,532	1,025,863

Environmental Protection Agency

Environmental Protection Agency

Account Title	Sequester Base	Sequester Amount
Construction grants (20–00–0103–304–A):		
Budget Authority	2,075,372	796,943
Outlays	33,206	12,751
Research and development (Energy supply) (20–00–0107–271–A):		
Budget Authority	30,756	11,810
Outlays	10,765	4,134
Research and development (Pollution control and abatement) (20–00–0107–304–A):		
Budget Authority	208,852	80,199
401(C) Authority—Off. Coll.	5,000	1,920
Outlays	84,364	32,396
Abatement, control, and compliance (20–00–0108–304–A):		
Budget Authority	832,261	319,588
Outlays	386,063	148,248
Buildings and facilities (20–00–0110–304–A):		
Budget Authority	15,267	5,863
Outlays	2,520	968
Office of the Inspector General (20–00–0112–304–A):		
Budget Authority	32,312	12,408
Outlays	19,387	7,445
Salaries and expenses (20–00–0200–304–A):		
Budget Authority	904,736	347,419
401(C) Authority—Off. Coll.	2,200	845
Outlays	780,273	299,625

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Registration and expedited processing revolving fund (20–00–4310–304–A):		
401(C) Authority—		
Off. Col.	16,000	6,144
Outlays	14,738	5,659
Revolving fund for certification and other services (20–00–4311–304–A):		
401(C) Authority—		
Off. Col.	1,200	461
Outlays	200	77
Hazardous substance superfund (20–00–8145–304–A):		
Budget Authority	1,595,707	612,751
401(C) Authority—		
Off. Coll.	13,200	5,069
Obligation limitation	197,471	75,829
Outlays	348,299	133,747
Leaking underground storage tank trust fund (20–00–8153–304–A):		
Budget Authority	77,227	29,655
Obligation limitation	6,096	2,341
Outlays	23,168	8,897
Total, Environmental Protection Agency:		
Budget Authority	5,772,490	2,216,636
401(C) Authority—		
Off. Coll.	37,600	14,439
Obligation limitation	203,567	78,170
Outlays	1,702,983	653,947

General Services Administration

Real Property Activities

Account Title	Sequester Base	Sequester Amount
Federal buildings fund (23–05–4542–804–A):		
Budget Authority	1,725,617	662,637
401(C) Authority—		
Off. Coll.	6,900	2,650
Outlays	351,130	134,834

Personal Property Activities

Account Title	Sequester Base	Sequester Amount
Federal supply service (23–10–0116–804–A):		
Budget Authority	49,929	19,173
Outlays	43,688	16,776
Expenses of transportation audit contracts (23–10–5250–804–A):		
401(C) Authority	15,760	6,052
Outlays	410	157

Information Resources Management Service

Account Title	Sequester Base	Sequester Amount
Operating expenses, information resources management service (23–15–0900–804–A):		
Budget Authority	33,993	13,053
Outlays	15,145	5,816

Federal Property Resources Activities

Account Title	Sequester Base	Sequester Amount
Operating expenses, federal property resources service (General) (23–25–0533–804–A):		
Budget Authority	11,593	4,452
Outlays	8,996	3,454
Real property relocation (23–25–0535–804–A):		
Budget Authority	8,276	3,178
Outlays	753	289
Expenses, disposal of surplus real and related personal proper (23–25–5254–804–A):		
401(C) Authority	3,800	1,459
Outlays	3,522	1,352

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

General Activities

Account Title	Sequester Base	Sequester Amount
Allowances and office staff for former Presidents (23–30–0105–802–A):		
Budget Authority	1,487	571
Outlays	1,288	495
Office of Inspector General (23–30–0108–804–A):		
Budget Authority	27,458	10,544
Outlays	24,190	9,289
General management and administration, salaries and expenses (23–30–0110–804–A):		
Budget Authority	142,528	54,731
Outlays	97,123	37,295
Consumer information center fund (23–30–4549–376–A):		
Budget Authority	1,402	538
401(C) Authority—		
Off. Coll.	551	212
Outlays	763	293
Total, General Services Administration:		
Budget Authority	2,002,283	768,877
401(C) Authority	19,560	7,511
401(C) Authority—		
Off. Coll.	7,451	2,862
Outlays	547,008	210,050

National Aeronautics and Space Administration

National Aeronautics and Space Administration

Account Title	Sequester Base	Sequester Amount
Research and program management (Space flight) (26–00–0103–253–A):		
Budget Authority	953,874	366,288
401(C) Authority—		
Off. Coll.	4,141	1,590
Outlays	822,531	315,852
Research & program management (Space science, applications, etc) (26–00–0103–254–A):		
Budget Authority	673,297	258,546
Outlays	577,689	221,833
Research & program management (Supporting space activities) (26–00–0103–255–A):		
Budget Authority	76,573	29,404
Outlays	65,700	25,229
Research and program management (Air transportation) (26–00–0103–402–A):		
Budget Authority	413,093	158,628
Outlays	354,434	136,103
Space Flight, Control, and Data Comm. (26–00–0105–250–A):		
401(C) Authority—		
Off. Coll.	26,075	10,013
Outlays	26,075	10,013
Space Flight, Control, and Data Comm. (space flight) (26–00–0105–253–A):		
Budget Authority	3,910,106	1,501,481
Outlays	2,855,748	1,096,607
Space Flight, Control, and Data Comm. (supporting act.) (26–00–0105–255–A):		
Budget Authority	822,825	315,965
401(C) Authority	113,829	43,710
Outlays	492,049	188,947
Construction of facilities (Space flight) (26–00–0107–253–A):		
Budget Authority	100,845	38,724
Outlays	5,253	2,017
Construction of facilities (Space science, applications, etc) (26–00–0107–254–A):		
Budget Authority	21,444	8,234
Outlays	3,530	1,356

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Construction of facilities (Supporting space activities) (26–00–0107–255–A):		
Budget Authority	207,575	79,709
Outlays	12,018	4,615
Construction of facilities (Air transportation) (26–00–0107–402–A):		
Budget Authority	64,000	24,576
Outlays	3,640	1,398
Research and development (Space flight) (26–00–0108–253–A):		
Budget Authority	2,409,104	925,096
401(C) Authority—		
Off. Coll.	10,781	4,140
Outlays	1,172,846	450,373
Research and development (Space science, applications, etc) (26–00–0108–254–A):		
Budget Authority	2,537,687	974,472
Outlays	1,347,055	517,269
Research and development (Supporting space activities) (26–00–0108–255–A):		
Budget Authority	20,215	7,763
Outlays	14,452	5,550
Research and development (Air transportation) (26–00–0108–402–A):		
Budget Authority	499,326	191,741
Outlays	275,190	105,673
Office of the Inspector General (26–00–0109–255–A):		
Budget Authority	9,092	3,491
Outlays	7,728	2,968
Science, Space and Technology Education Trust Fund (26–00–8978–503–A):		
401(C) Authority	1,000	384
Outlays	1,000	384
Total, National Aeronautics and Space Administration:		
Budget Authority	12,719,056	4,884,118
401(C) Authority	114,829	44,094
401(C) Authority—		
Off. Coll.	40,997	15,743
Outlays	8,036,938	3,086,187

Office of Personnel Management

Office of Personnel Management

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (27–00–0100–805–A):		
Budget Authority	116,199	44,620
Outlays	110,389	42,389
Government payment for annuitants, employees health benefits (27–00–0206–551–A):		
Budget Authority	3,509,563	1,347,672
Office of the Inspector General (27–00–0400–805–A):		
Budget Authority	3,013	1,157
Outlays	2,862	1,099
Government payment for annuitants, employ. life insur. benefit (27–00–0500–602–A):		
Budget Authority	6,040	2,319
Outlays	5,710	2,193
Revolving fund (27–00–4571–805–A):		
401(C) Authority—		
Off. Coll.	792	304
Outlays	792	304
Civil service retirement and disability fund (27–00–8135–602–A):		
Obligation limitation	69,287	26,606
Outlays	68,543	26,321
Employees life insurance fund (27–00–8424–602–A):		
Obligation limitation	1,128	433
Outlays	1,128	433

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Employees health benefits fund (27–00–8440–551–A):		
Obligation limitation	14,987	5,755
Outlays	14,987	5,755
Retired employees health benefits fund (27–00–8445–551–A):		
Obligation limitation	218	84
Outlays	218	84
Total, Office of Personnel Management:		
Budget Authority	3,634,815	1,395,768
401(C) Authority—Off. Coll.	792	304
Obligation limitation	85,620	32,878
Outlays	204,629	78,578

Small Business Administration

Small Business Administration

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (28–00–0100–376–A):		
Budget Authority	394,812	151,608
Outlays	289,002	110,977
Office of the Inspector General (28–00–0200–376–A):		
Budget Authority	7,762	2,981
Outlays	6,970	2,676
Disaster loan fund (28–00–4153–453–A):		
Budget Authority	375,000	144,000
Direct Loan Limitation	1,889,407	725,532
Outlays	140,000	53,760
Business loan and investment fund (28–00–4154–376–A):		
Budget Authority	88,570	34,011
Direct Loan Limitation	77,629	29,810
Guaranteed Loan Limitation	4,684,061	1,798,679
Outlays	51,058	19,606
Surety bond guarantees revolving fund (28–00–4156–376–A):		
Guaranteed Loan Limitation	1,532,400	588,442
Total, Small Business Administration:		
Budget Authority	866,144	332,600
Direct Loan Limitation	1,967,036	755,342
Guaranteed Loan Limitation	6,216,461	2,387,121
Outlays	487,030	187,019

Other Independent Agencies

ACTION

Account Title	Sequester Base	Sequester Amount
Operating expenses (30–01–0103–506–A):		
Budget Authority	183,376	70,416
Outlays	105,441	40,489

Administrative Conference of the United States

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (30–05–1700–751–A):		
Budget Authority	1,952	750
Outlays	1,659	637

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Advisory Comm on Conferences in Ocean Shipping

Account Title	Sequester Base	Sequester Amount
Advisory Comm on Conferences in Ocean Shipping: S and E (30–10–2500–403–A):		
Budget Authority	314	121

Advisory Commission on Intergovernmental Relations

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (30–15–0100–808–A):		
Budget Authority	1,346	517
Outlays	1,232	473

Advisory Committee on Federal Pay

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (30–20–1800–805–A):		
Budget Authority	215	83
Outlays	203	78

Advisory Council on Historic Preservation

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (30–25–2300–303–A):		
Budget Authority	1,985	762
Outlays	1,945	747

American Battle Monuments Commission

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (30–30–0100–705–A):		
Budget Authority	16,804	6,453
Outlays	14,084	5,408

Appalachian Regional Commission

Account Title	Sequester Base	Sequester Amount
Appalachian regional development programs (30–40–0200–452–A):		
Budget Authority	154,129	59,186
Outlays	12,330	4,735

Architectural & Transport Barriers Compliance Brd

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (30–45–3200–751–A):		
Budget Authority	2,017	775
Outlays	1,801	692

Arms Control and Disarmament Agency

Account Title	Sequester Base	Sequester Amount
Arms control and disarmament activities (30–50–0100–153–A):		
Budget Authority	34,955	13,423
Outlays	29,713	11,410

Barry Goldwater Scholarship Foundation

Account Title	Sequester Base	Sequester Amount
Barry Goldwater Scholarship and Excellence in Educ. Fou (30–70–8281–502–A):		
401(C) Authority	3,495	1,342
Outlays	1,575	605

Board for International Broadcasting

Account Title	Sequester Base	Sequester Amount
Grants and expenses (30–85–1145–154–A):		
Budget Authority	197,980	76,024
Outlays	192,041	73,744
Israel Relay Station (30–85–1146–154–A):		
Budget Authority	190,708	73,232
Outlays	57,212	21,969

Christopher Columbus Quincentennary Jubilee Comm

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (31–30–0800–376–A):		
Budget Authority	228	88
Outlays	228	88
Gifts and donations (31–30–8095–376–A):		
401(C) Authority	29	11
Outlays	27	10

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Comm for Preservation of America's Heritage Aboard

Account Title	Sequester Base	Sequester Amount
Salaries and Expenses (31–50–3700–153–A):		
Budget Authority	208	80
Outlays	208	80

Comm for Study of Intl Migration & Coop Econ Devel

Account Title	Sequester Base	Sequester Amount
Comm. for the Study of Int. Mig. and Coop. Econ. Dev: S (31–55–1400–153–A):		
Budget Authority	1,344	516
Outlays	874	336

Commission of Fine Arts

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (31–60–2600–451–A):		
Budget Authority	533	205
Outlays	488	187
National capital arts and cultural affairs (31–60–2602–503–A):		
Budget Authority	5,655	2,172
Outlays	5,655	2,172

Commission on Agricultural Workers

Account Title	Sequester Base	Sequester Amount
Commission on Agricultural Workers: Salaries and expens (31–65–0057–352–A):		
Budget Authority	802	308
Outlays	654	251

Commission on Civil Rights

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (31–75–1900–751–A):		
Budget Authority	5,977	2,295
Outlays	5,533	2,125

Comm on the Bicentennial of the U.S. Constitution

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (32–15–0054–808–A):		
Budget Authority	15,551	5,972
Outlays	10,673	4,098

Commission on the Ukraine famine

Account Title	Sequester Base	Sequester Amount
Commission on the Ukraine Famine: Salaries and expenses (32–35–0050–153–A):		
Budget Authority	104	40
Outlays	104	40

Committee for Purchase from the Blind and others

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (32–45–2000–505–A):		
Budget Authority	1,093	420
Outlays	997	383

Commodity Futures Trading Commission

Account Title	Sequester Base	Sequester Amount
Commodity Futures Trading Commission (32–55–1400–376–A):		
Budget Authority	41,047	15,762
Outlays	36,349	13,958

Competeiveness Policy Council

Account Title	Sequester Base	Sequester Amount
Competeiveness policy council (32–68–3750–376–A):		
Budget Authority	786	302
Outlays	707	271

Consumer Product Safety Commission

Account Title	Sequester Base	Sequester Amount
Product safety (32–85–0100–554–A):		
Budget Authority	36,699	14,092
401(C) Authority—Off. Coll.	10	4
Outlays	31,204	11,982

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Corporation for Public Broadcasting		
Public broadcasting fund (32-90-0151-503-A):		
401(C) Authority	298,870	114,766
Outlays	298,870	114,766
Court of Veterans Appeals		
Salaries and expenses (32-95-0300-705-A):		
Budget Authority	4,070	1,563
Outlays	3,459	1,328
Practice registration fee (32-95-5113-705-A):		
401(C) Authority	5	2
Defense Nuclear Facilities Safety Board		
Salaries and expenses (33-20-3900-053-A):		
Budget Authority	7,219	1,812
Unobligated Balances—Defense	252	63
Outlays	7,111	1,785
Delaware River Basin Commission		
Salaries and expenses (33-30-0100-301-A):		
Budget Authority	221	85
Outlays	206	79
Contribution to Delaware River Basin Commission (33-30-0102-301-A):		
Budget Authority	354	136
Outlays	354	136
District of Columbia		
Federal payment to the District of Columbia (33-40-1700-806-A):		
Budget Authority	448,581	172,255
401(C) Authority	20,300	7,795
Outlays	468,881	180,050
Federal payment to D.C. (water and sewer services) (33-40-1700-806-B):		
Budget Authority	9,050	3,475
Outlays	9,050	3,475
Federal payment to D.C. (retirement funds) (33-40-1700-806-C):		
Budget Authority	54,257	20,835
Outlays	54,257	20,835
Federal payment to D.C. (St. Elizabeth's Hospital) (33-40-1700-806-D):		
Budget Authority	15,630	6,002
Outlays	15,630	6,002
Federal payment to D.C. (Inaugural Expenses) (33-40-1700-806-E):		
Budget Authority	33,106	12,713
Outlays	33,106	12,713
Equal Employment Opportunity Commission		
Salaries and expenses (33-70-0100-751-A):		
Budget Authority	193,719	74,388
Outlays	170,783	65,581
Export-Import Bank of the United States		
Export-Import Bank of the United States (33-90-4027-155-A):		
Budget Authority	134,877	51,793
Obligation limitation	22,646	8,696
Direct Loan Limitation	638,100	245,030
Guaranteed Loan Limitation	10,619,400	4,077,850
Outlays	61,555	23,637
Farm Credit System Assistance Board		
Revolving fund for administrative expenses (34-15-4132-351-A):		
Obligation limitation	2,312	888
Federal Communications Commission		
Salaries and expenses (34-35-0100-376-A):		
Budget Authority	112,734	43,290
Outlays	105,970	40,692
Federal Election Commission		
Salaries and expenses (34-45-1600-808-A):		
Budget Authority	16,061	6,167
Outlays	14,234	5,466
Federal Emergency Management Agency		
Salaries and expenses (Defense-related activities) (34-50-0100-054-A):		
Budget Authority	74,172	28,482
Outlays	66,755	25,634
Salaries and expenses (Disaster relief and insurance) (34-50-0100-453-A):		
Budget Authority	71,049	27,283
Outlays	63,944	24,554
Emergency planning and assistance (Defense-related activities) (34-50-0101-054-A):		
Budget Authority	250,248	96,095
Outlays	137,636	52,852
Emergency planning and assistance (Disaster relief & insurance) (34-50-0101-453-A):		
Budget Authority	34,889	13,397
Outlays	19,189	7,369
Emergency food and shelter (34-50-0103-605-A):		
Budget Authority	135,556	52,054
Outlays	135,556	52,054
Disaster relief (34-50-0104-453-A):		
Budget Authority	1,303,490	500,540
Outlays	108,000	41,472
Office of the Inspector General (34-50-0300-453-A):		
Budget Authority	2,689	1,033
Outlays	2,474	950
National insurance development fund (34-50-4235-451-A):		
401(C) Authority	242	93
Outlays	242	93
Federal Labor Relations Authority		
Salaries and expenses (34-60-0100-805-A):		
Budget Authority	18,443	7,082
Outlays	15,733	6,041
Federal Maritime Commission		
Salaries and expenses (34-65-0100-403-A):		
Budget Authority	16,188	6,216
Outlays	14,456	5,551
Federal Mediation and Conciliation Service		
Salaries and expenses (34-70-0100-505-A):		
Budget Authority	27,826	10,685
Outlays	24,851	9,543
Federal Mine Safety and Health Review Commission		
Salaries and expenses (34-75-2800-554-A):		
Budget Authority	4,223	1,622
Outlays	3,743	1,437
Federal Trade Commission		
Salaries and expenses (34-85-0100-376-A):		
Budget Authority	59,073	22,684
401(C) Authority—Off. Coll.	20,000	7,680
Outlays	76,710	29,457
Franklin Delano Roosevelt Memorial Commission		
Salaries and expenses (34-90-0700-808-A):		
Budget Authority	29	11
Outlays	27	10
Harry S Truman Scholarship Foundation		
Harry S Truman memorial scholarship trust fund (35-10-8296-502-A):		
Obligation limitation	3,102	1,191
Outlays	3,058	1,174
Institute of American Indian and Alaska Native lopment		
Salaries and expenses (35-25-2900-502-A):		
Budget Authority	4,486	1,723
Outlays	4,486	1,723
Institute of Museum Services		
Institute of Museum Services (35-30-0300-503-A):		
Budget Authority	23,633	9,075
Outlays	6,193	2,378
Intelligence Community Staff		
Intelligence community staff (35-35-0400-054-A):		
Budget Authority	29,323	7,360
Outlays	19,646	4,931
Interagency Council on the Homeless		
Interagency Council on the Homeless (35-40-1300-604-A):		
Budget Authority	1,133	435
Outlays	1,020	392
International Cultural and Trade Center Commission		
Intl Cultural and Trade Center Commission: Salaries and (35-50-1800-804-A):		
Budget Authority	1,127	433
Outlays	1,072	412
International Trade Commission		
Salaries and expenses (35-60-0100-153-A):		
Budget Authority	40,299	15,475
Outlays	36,726	14,103
Interstate Commerce Commission		
Salaries and expenses (35-70-0100-401-A):		
Budget Authority	46,338	17,794
Outlays	43,094	16,548
Interstate Commission on the Potomac River Basin		
Contribution to Interstate Commission on the Potomac Ri (35-80-0446-304-A):		
Budget Authority	308	118
Outlays	308	118

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount

Japan-United States Friendship Commission

Account Title	Sequester Base	Sequester Amount
Japan-United States friendship trust fund (36–15–8025–154–A):		
Budget Authority	1,250	480
Outlays	1,250	480

Legal Services Corporation

Account Title	Sequester Base	Sequester Amount
Payment to the Legal Services Corporation (36–50–0501–752–A):		
Budget Authority	329,820	126,651
Outlays	287,272	110,312

Marine Mammal Commission

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (36–70–2200–302–A):		
Budget Authority	1,006	386
Outlays	791	304

Martin Luther King, Jr. Federal Holiday Commission

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (36–75–0600–808–A):		
Budget Authority	314	121
Outlays	251	96

Merit Systems Protection Board

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (36–80–0100–805–A):		
Budget Authority	21,926	8,420
Outlays	20,350	7,814

National Archives and Records Administration

Account Title	Sequester Base	Sequester Amount
Operating expenses (37–15–0300–804–A):		
Budget Authority	130,563	50,136
Outlays	100,704	38,670
National archives trust fund (37–15–8436–804–A):		
401(C) Authority— Off. Coll.	11,181	4,294
Outlays	11,181	4,294

National Capital Planning Commission

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (37–20–2500–451–A):		
Budget Authority	3,239	1,244
Outlays	2,980	1,144

Nat Comm on Amer. Indian, Alaska Native, and Native Hawaiian Housing

Account Title	Sequester Base	Sequester Amount
Salries and Expenses (37–37–0030–604–A):		
Budget Authority	521	200
Outlays	52	20

National Commission on Libraries and Info. Science

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (37–40–2700–503–A):		
Budget Authority	786	302
Outlays	629	242
White House conference on library and information servi (37–40–2701–503–A):		
Budget Authority	3,378	1,297
Outlays	689	265

Nat Comm on Severely Distressed Housing

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (37–53–0020–604–A):		
Budget Authority	2,084	800
Outlays	208	80

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

National Commission to Prevent Infant Mortality

Account Title	Sequester Base	Sequester Amount
National Commission to Prevent Infant Mortality (37–90–1500–808–A):		
Budget Authority	419	161
Outlays	419	161

National Council on Disability

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (38–05–3500–506–A):		
Budget Authority	1,605	616
Outlays	1,046	402

National Endowment for the Arts

Account Title	Sequester Base	Sequester Amount
National Endowment for the Arts: Grants and administrat (38–25–0100–503–A):		
Budget Authority	178,543	68,561
Outlays	59,116	22,701

National Endowment for the Humanities

Account Title	Sequester Base	Sequester Amount
National Endowment for the Humanities: Grants and admin (38–30–0200–503–A):		
Budget Authority	163,588	62,818
Outlays	74,442	28,586

National Institute of Building Sciences

Account Title	Sequester Base	Sequester Amount
Payment to the National Institute of Building Sciences (38–35–3601–376–A):		
Budget Authority	513	197
Outlays	513	197

National Labor Relations Board

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (38–40–0100–505–A):		
Budget Authority	146,866	56,397
Outlays	136,144	52,279

National Mediation Board

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (38–45–2400–505–A):		
Budget Authority	6,692	2,570
Outlays	5,086	1,953

National Science Foundation

Account Title	Sequester Base	Sequester Amount
Research and related activities (38–50–0100–251–A):		
Budget Authority	1,777,559	682,583
Outlays	889,592	341,603
Science and engineering education activities (38–50–0106–251–A):		
Budget Authority	212,844	81,732
Outlays	31,714	12,178
Academic Research Facilities (38–50–0150–251–A):		
Budget Authority	20,517	7,879
Outlays	2,052	788
U.S. Antarctic program activities (38–50–0200–251–A):		
Budget Authority	74,975	28,790
Outlays	37,113	14,251
U.S. Antarctic Logistical Support Acitivties (38–50–0202–251–A):		
Budget Authority	83,078	31,902
Outlays	41,123	15,791
Office of the Inspector General (38–50–0300–251–A):		
Budget Authority	2,678	1,028
Outlays	2,544	977

National Transportation Safety Board

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (38–60–0310–407–A):		
Budget Authority	28,531	10,956
Outlays	25,964	9,970

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Neighborhood Reinvestment Corporation

Account Title	Sequester Base	Sequester Amount
Payment to the Neighborhood Reinvestment Corporation (38–75–1300–451–A):		
Budget Authority	27,669	10,625
Outlays	27,669	10,625

Nuclear Regulatory Commission

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (38–85–0200–276–A):		
Budget Authority	455,829	175,038
Outlays	341,872	131,279
Office of the Inspector General (38–85–0300–276–A):		
Budget Authority	2,995	1,150
Outlays	2,216	851

Nuclear Waste Technical Review Board

Account Title	Sequester Base	Sequester Amount
Nuclear Waste Technical Review Board: Salaries and Expe (38–95–0500–271–A):		
Budget Authority	2,068	794
Outlays	1,525	586

Occupational Safety and Health Review Commission

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (39–10–2100–554–A):		
Budget Authority	6,257	2,403
Outlays	5,338	2,050

Office of Government Ethics

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (39–20–1100–805–A):		
Budget Authority	3,530	1,356
Outlays	3,392	1,303

Office of Navjo and Hopi Indian Relocation

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (39–21–1100–808–A):		
Budget Authority	37,975	14,582
Outlays	13,671	5,250

Office of Special Counsel

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (39–22–0100–808–A):		
Budget Authority	5,351	2,055
Outlays	4,976	1,911

Office of the Nuclear Waste Negotiator

Account Title	Sequester Base	Sequester Amount
Office of the Nuclear Waste Negotiator: S and E (39–25–0070–271–A):		
Budget Authority	2,068	794

Pennsylvania Avenue Development Corporation

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (39–50–0100–451–A):		
Budget Authority	2,487	955
Outlays	2,014	773
Public development (39–50–0102–451–A):		
Budget Authority	3,282	1,260
Outlays	2,462	945
Land acquisition and development fund (39–50–4084–451–A):		
Budget Authority	104	40
401(C) Authority— Off. Coll.	3,000	1,152
Outlays	3,104	1,192

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Postal Service, Payments to the Postal Service		
Payment to the Postal Service fund (39-60-1001-372-A):		
Budget Authority	472,469	181,428
Outlays	472,469	181,428
Payment to the Postal Service fund for nonfunded liabil (39-60-1004-372-A):		
Budget Authority	37,955	14,575
Outlays	37,955	14,575
President's Comm on Catastrophic Nuclear Accidents		
Presidential Commission on Catastrophic Nuclear Acciden (39-75-2200-453-A):		
Budget Authority	375	144
Outlays	375	144
Railroad Retirement Board		
Railroad social security equivalent benefit account (40-10-8010-601-A):		
Obligation limitation	32,957	12,655
Outlays	32,957	12,655
Rail Industry Pension Fund (40-10-8011-601-A):		
Obligation limitation	33,984	13,050
Outlays	33,984	13,050
Supplemental Annuity Pension Fund (40-10-8012-601-A):		
401(C) Authority	111,820	42,939
Obligation limitation	2,307	886
Outlays	56,900	21,850
Securities and Exchange Commission		
Salaries and expenses (40-30-0100-376-A):		
Budget Authority	174,529	67,019
Outlays	147,127	56,497
Selective Service System		
Salaries and expenses (40-45-0400-054-A):		
Budget Authority	27,094	6,801
Outlays	22,244	5,583
Smithsonian Institution		
Salaries and expenses (40-55-0100-503-A):		
Budget Authority	236,172	90,690
Outlays	209,082	80,287
Construction and improvements, National Zoological Park (40-55-0129-503-A):		
Budget Authority	6,694	2,570
Outlays	3,012	1,157
Repair and restoration of buildings (40-55-0132-503-A):		
Budget Authority	27,581	10,591
Outlays	11,032	4,236
Construction (40-55-0133-503-A):		
Budget Authority	8,671	3,330
Outlays	3,468	1,332
Salaries and expenses, National Gallery of Art (40-55-0200-503-A):		
Budget Authority	42,063	16,152
Outlays	36,679	14,085

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Repair, restoration and renovation of buildings (40-55-0201-503-A):		
Budget Authority	1,870	718
Outlays	198	76
Salaries and expenses, Woodrow Wilson International Cen (40-55-0400-503-A):		
Budget Authority	4,849	1,862
Outlays	3,006	1,154
Endowment challenge fund (40-55-8188-503-A):		
401(C) Authority	270	104
Outlays	270	104
Canal Zone biological area fund (40-55-8190-503-A):		
401(C) Authority	150	58
Outlays	135	52
State Justice Institute		
State Justice Institute (40-65-0052-752-A):		
Budget Authority	12,394	4,759
Outlays	3,093	1,188
Susquehanna River Basin Commission		
Salaries and expenses (40-70-0500-301-A):		
Budget Authority	206	79
Outlays	194	74
Contribution to Susquehanna River Basin Commission (40-70-0501-301-A):		
Budget Authority	283	109
Outlays	283	109
Tennessee Valley Authority		
TVA fund (Energy supply) (40-80-4110-271-A):		
401(C) Authority—Off. Coll.	58,954	22,638
Obligation limitation	58,954	22,638
Outlays	58,954	22,638
TVA fund (Area and regional development) (40-80-4110-452-A):		
Budget Authority	124,985	47,994
Obligation limitation	1,500	576
Outlays	30,746	11,806
United States Holocaust Memorial Council		
Holocaust Memorial Council (41-05-3300-808-A):		
Budget Authority	2,402	922
Outlays	1,900	730
United States Information Agency		
Salaries and expenses (41-10-0201-154-A):		
Budget Authority	663,423	254,754
Outlays	551,312	211,704
East West Center (41-10-0202-154-A):		
Budget Authority	21,288	8,175
Outlays	21,288	8,175
Radio construction (41-10-0204-154-A):		
Budget Authority	87,587	33,633
Outlays	16,642	6,391
Radio broadcasting to Cuba (41-10-0208-154-A):		
Budget Authority	13,113	5,035
Outlays	10,228	3,928
Educational and cultural exchange program (41-10-0209-154-A):		
Budget Authority	164,765	63,270
Outlays	84,030	32,268

G-R-H Sequester Amounts—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
National Endowment for Democracy (41-10-0210-154-A):		
Budget Authority	17,475	6,710
Outlays	8,291	3,184
Office of the Inspector General (41-10-0300-154-A):		
Budget Authority	3,800	1,459
Outlays	3,040	1,167
United States Institute of Peace		
Operating expenses (41-15-1300-153-A):		
Budget Authority	7,884	3,027
Outlays	7,884	3,027
United States Sentencing Commission		
Salaries and expenses (41-30-0938-752-A):		
Budget Authority	7,482	2,873
Outlays	6,887	2,645
Total, Other Independent Agencies:		
Budget Authority	9,980,528	3,824,063
401(C) Authority	435,181	167,110
401(C) Authority—Off. Coll.	93,145	35,768
Obligation limitation	157,762	60,580
Direct Loan Limitation	638,100	245,030
Guaranteed Loan Limitation	10,619,400	4,077,850
Unobligated Balances—Defense	252	63
Outlays	6,558,451	2,511,931
Allowances		
Allowances		
G-R-H aggregate spendout rate requirement (51-05-6070-929-A):		
Outlays	40,000	15,360
Total, Allowances:		
Outlays	40,000	15,360
Total Government:		
Budget Authority	500,878,782	150,514,889
Budget Authority—ASI	68,782	68,782
Budget Authority—Spec. Rules	258,995	258,995
401(C) Authority	35,333,589	13,565,266
401(C) Authority—Off. Coll.	4,003,723	1,537,430
401(C) Authority—Spec. Rules	45,140	45,140
Obligation limitation	26,624,123	10,223,662
Obligat. limit.—Spec. Rules	1,598,000	1,598,000
Direct Loan Limitation	22,090,753	8,482,849
Direct Loan Floor	2,054,220	788,821
Guaranteed Loan Limitation	188,991,214	72,572,627
Unobligated Balances—Defense	39,295,199	9,863,096
Outlays	327,064,064	100,319,056

APPENDIX C: DEFENSE PROGRAMS SEQUESTERABLE BASELINE AND SEQUESTER AMOUNTS UNDER A $100 BILLION SEQUESTER WITH MILITARY PERSONNEL ACCOUNTS EXEMPT

(Fiscal year 1991; in thousands of dollars)

Percentage Used:
Defense: 41.3 percent

G-R-H Sequester Amounts—Defense

(In thousands of dollars)

Department of Defense—Military

Operation and Maintenance

Account Title	Sequester Base	Sequester Amount
Operation and maintenance, Defense agencies (07-10-0100-051-A):		
Budget Authority	8,172,250	3,375,139
Outlays	6,946,412	2,868,868
Court of Military Appeals, Defense (07-10-0104-051-A):		
Budget Authority	4,132	1,707
Outlays	3,471	1,434
Drug Interdiction Defense (07-10-0105-051-A):		
Budget Authority	30,645	12,656
Outlays	12,258	5,063
Goodwill Games (07-10-0106-051-A):		
Budget Authority	15,132	6,250
Outlays	12,106	5,000
Office of the Inspector General (07-10-0107-051-A):		
Budget Authority	100,866	41,658
Unobligated Balances—Defense	19	8
Outlays	75,663	31,249
Foreign currency fluctuations, Defense (07-10-0801-051-A):		
Unobligated Balances—Defense	299,186	123,564
Environmental restoration, Defense (07-10-0810-051-A):		
Unobligated Balances—Defense	211	87
Outlays	116	48
Humanitarian Assistance (07-10-0819-051-A):		
Budget Authority	10,420	4,303
Outlays	7,638	3,154
Operation and maintenance, Marine Corps (07-10-1106-051-A):		
Budget Authority	1,887,886	779,697
Outlays	1,374,381	567,619
Operation and maintenance, Marine Corps Reserve (07-10-1107-051-A):		
Budget Authority	81,807	33,786
Outlays	58,901	24,326
National Board for the Promotion of Rifle Practice, Army (07-10-1705-051-A):		
Budget Authority	4,837	1,998
Outlays	2,661	1,099
Operation and maintenance, Navy (07-10-1804-051-A):		
Budget Authority	26,103,242	10,780,639
Outlays	20,099,496	8,301,092
Operation and maintenance, Navy Reserve (07-10-1806-051-A):		
Budget Authority	962,741	397,612
Outlays	608,452	251,291
Operation and maintenance, Army (07-10-2020-051-A):		
Budget Authority	24,387,435	10,072,011
Outlays	19,851,372	8,198,617
Operation and maintenance, Army National Guard (07-10-2065-051-A):		
Budget Authority	1,953,389	806,750
Outlays	1,517,784	626,845
Operation and maintenance, Army Reserve (07-10-2080-051-A):		
Budget Authority	911,179	376,317
Outlays	692,496	286,001
Operation and maintenance, Air Force (07-10-3400-051-A):		
Budget Authority	23,079,903	9,532,000
Outlays	17,702,286	7,311,044
Operation and maintenance, Air Force Reserve (07-10-3740-051-A):		
Budget Authority	1,053,551	435,117
Outlays	849,162	350,704
Operation and maintenance, Air National Guard (07-10-3840-051-A):		
Budget Authority	2,115,710	873,788
Outlays	1,707,378	705,147
Restoration of the Rocky Mountain Arsenal (07-10-5098-051-A):		
401(C) Authority	21,300	8,797
Unobligated Balances—Defense	29,880	12,340
Outlays	21,300	8,797

Procurement

Account Title	Sequester Base	Sequester Amount
Procurement, Defense agencies (07-15-0300-051-A):		
Budget Authority	1,387,518	573,045
Unobligated Balances—Defense	362,333	149,644
Outlays	507,458	209,580
National Guard and Reserve Equipment (07-15-0350-051-A):		
Budget Authority	1,030,246	425,492
Unobligated Balances—Defense	476,830	196,931
Outlays	162,765	67,222
Defense Production Act purchases (07-15-0360-051-A):		
Budget Authority	45,305	18,711
Unobligated Balances—Defense	47,627	19,670
Chemical agents and munitions destruction, Defense (07-15-0390-051-A):		
Budget Authority	264,898	109,403
Unobligated Balances—Defense	17,287	7,140
Outlays	107,512	44,402
Procurement, Marine Corps (07-15-1109-051-A):		
Budget Authority	1,210,839	500,076
Unobligated Balances—Defense	222,381	91,843
Outlays	225,016	92,932
Aircraft procurement, Navy (07-15-1506-051-A):		
Budget Authority	9,543,052	3,941,280
Unobligated Balances—Defense	1,861,479	768,791
Outlays	1,539,612	635,860
Weapons procurement, Navy (07-15-1507-051-A):		
Budget Authority	5,528,022	2,283,073
Unobligated Balances—Defense	1,411,075	582,774
Outlays	624,519	257,926
Shipbuilding and conversion, Navy (07-15-1611-051-A):		
Budget Authority	11,682,207	4,824,751
Unobligated Balances—Defense	8,439,096	3,485,347
Outlays	804,852	332,404
Other procurement, Navy (07-15-1810-051-A):		
Budget Authority	7,881,196	3,254,934
Unobligated Balances—Defense	3,819,915	1,577,625
Outlays	1,275,421	526,749
Aircraft procurement, Army (07-15-2031-051-A):		
Budget Authority	3,844,510	1,587,783
Unobligated Balances—Defense	702,737	290,230
Outlays	591,142	244,142
Missile procurement, Army (07-15-2032-051-A):		
Budget Authority	2,587,403	1,068,597
Unobligated Balances—Defense	651,960	269,259
Outlays	161,968	66,893
Procurement of weapons and tracked combat vehicles, Army (07-15-2033-051-A):		
Budget Authority	2,535,390	1,047,116
Unobligated Balances—Defense	1,097,334	453,199
Outlays	36,327	15,003
Procurement of ammunition, Army (07-15-2034-051-A):		
Budget Authority	2,017,357	833,168
Unobligated Balances—Defense	246,335	101,736
Outlays	769,655	317,868
Other procurement, Army (07-15-2035-051-A):		
Budget Authority	3,615,676	1,493,274
Unobligated Balances—Defense	1,166,611	481,810
Outlays	430,406	177,758
Aircraft procurement, Air Force (07-15-3010-051-A):		
Budget Authority	16,037,703	6,623,571
Unobligated Balances—Defense	7,132,558	2,945,746
Outlays	926,810	382,773
Missile procurement, Air Force (07-15-3020-051-A):		
Budget Authority	6,584,129	2,719,245
Unobligated Balances—Defense	2,538,951	1,048,587
Outlays	1,879,355	776,174
Other procurement, Air Force (07-15-3080-051-A):		
Budget Authority	8,839,294	3,650,628
Unobligated Balances—Defense	2,093,509	864,619
Outlays	6,275,429	2,591,752

Research, Development, Test, and Evaluation

Account Title	Sequester Base	Sequester Amount
Research, development, test, and evaluation, Defense agencies (07-20-0400-051-A):		
Budget Authority	8,384,756	3,462,904
Unobligated Balances—Defense	984,699	406,681
Outlays	5,031,397	2,077,967

G-R-H Sequester Amounts—Defense—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Developmental test and evaluation, Defense (07–20–0450–051–A):		
Budget Authority	185,706	76,697
Unobligated Balances—Defense	32,733	13,519
Outlays	46,965	19,397
Operational test and evaluation, Defense (07–20–0460–051–A):		
Budget Authority	13,259	5,476
Unobligated Balances—Defense	1,909	788
Outlays	606	250
Research, development, test, and evaluation, Navy (07–20–1319–051–A):		
Budget Authority	9,885,776	4,082,825
Unobligated Balances—Defense	440,048	181,740
Outlays	5,782,461	2,388,156
Research, development, test, and evaluation, Army (07–20–2040–051–A):		
Budget Authority	5,556,752	2,294,939
Unobligated Balances—Defense	351,349	145,107
Outlays	3,013,132	1,244,424
Research, development, test, and evaluation, Air Force (07–20–3600–051–A):		
Budget Authority	14,042,510	5,799,557
Unobligated Balances—Defense	1,874,192	774,041
Outlays	9,152,103	3,779,819

Military Construction

Account Title	Sequester Base	Sequester Amount
Base realignment and closure account (07–25–0103–051–A):		
Budget Authority	521,000	215,173
Unobligated Balances—Defense	85,000	35,105
Outlays	203,616	84,093
Military construction, Defense agencies (07–25–0500–051–A):		
Budget Authority	531,243	219,403
Unobligated Balances—Defense	353,696	146,076
Outlays	123,891	51,167
Foreign currency fluctuations, construction (07–25–0803–051–A):		
Unobligated Balances—Defense	152,484	62,976
North Atlantic Treaty Organization infrastructure (07–25–0804–051–A):		
Budget Authority	419,706	173,339
Unobligated Balances—Defense	19,231	7,942
Outlays	87,787	36,256
Military construction, Navy (07–25–1205–051–A):		
Budget Authority	1,167,506	482,180
Unobligated Balances—Defense	420,192	173,539
Outlays	261,970	108,194
Military construction, Naval Reserve (07–25–1235–051–A):		
Budget Authority	58,977	24,358
Unobligated Balances—Defense	10,545	4,355
Outlays	9,733	4,020
Military construction, Army (07–25–2050–051–A):		
Budget Authority	760,686	314,163
Unobligated Balances—Defense	338,004	139,596
Outlays	351,581	145,203
Military construction, Army National Guard (07–25–2085–051–A):		
Budget Authority	240,171	99,191
Unobligated Balances—Defense	93,727	38,709
Outlays	24,040	9,929
Military construction, Army Reserve (07–25–2086–051–A):		
Budget Authority	103,319	42,671
Unobligated Balances—Defense	35,015	14,461
Outlays	18,675	7,713
Military construction, Air Force (07–25–3300–051–A):		
Budget Authority	1,223,616	505,353
Unobligated Balances—Defense	558,550	230,681
Outlays	294,058	121,446
Military construction, Air Force Reserve (07–25–3730–051–A):		
Budget Authority	48,140	19,882
Unobligated Balances—Defense	12,163	5,023
Outlays	6,452	2,665
Military construction, Air National Guard (07–25–3830–051–A):		
Budget Authority	245,773	101,504
Unobligated Balances—Defense	104,179	43,026
Outlays	27,996	11,562

Family Housing

Account Title	Sequester Base	Sequester Amount
Family housing, Army (07–30–0702–051–A):		
Budget Authority	1,508,704	623,095
Unobligated Balances—Defense	92,975	38,399
Outlays	1,055,380	435,872
Family housing, Navy and Marine Corps (07–30–0703–051–A):		
Budget Authority	831,850	343,554
Unobligated Balances—Defense	137,094	56,620
Outlays	415,815	171,732
Family housing, Air Force (07–30–0704–051–A):		
Budget Authority	906,544	374,403
Unobligated Balances—Defense	57,950	23,933
Outlays	564,695	233,219
Family housing, Defense agencies (07–30–0706–051–A):		
Budget Authority	22,011	9,091
Unobligated Balances—Defense	70	29
Outlays	15,116	6,243

Revolving and Management Funds

Account Title	Sequester Base	Sequester Amount
National Defense Stockpile transaction fund (07–40–4555–051–A):		
Unobligated Balances—Defense	421,828	174,215
Air Force stock fund (07–40–4921–051–A):		
Budget Authority	115,766	47,81[illegible]
Outlays	45,149	18,647
Emergency response fund (07–40–4965–051–A):		
Budget Authority	104,200	43,035
Unobligated Balances—Defense	100,000	41,300
Army industrial fund (07–40–4992–051–A):		
Budget Authority	31,052	12,824
Outlays	12,110	5,001
Total, Department of Defense—Military:		
Budget Authority	222,418,893	91,859,003
401(C) Authority	21,300	8,797
Unobligated Balances—Defense	39,294,947	16,228,811
Outlays	114,406,308	47,249,811

Department of Energy

Atomic Energy Defense Activities

Account Title	Sequester Base	Sequester Amount
Atomic energy defense activities (19–10–0220–053–A):		
Budget Authority	10,052,119	4,151,525
Outlays	6,533,877	2,698,491
Total, Department of Energy:		
Budget Authority	10,052,119	4,151,525
Outlays	6,533,877	2,698,491

Department of Transportation

Maritime Administration

Account Title	Sequester Base	Sequester Amount
Ready reserve force (21–35–1710–054–A):		
Budget Authority	92,738	38,301
Outlays	71,408	29,492
Total, Department of Transportation:		
Budget Authority	92,738	38,301
Outlays	71,408	29,492

Other Independent Agencies

Defense Nuclear Facilities Safety Board

Account Title	Sequester Base	Sequester Amount
Salaries and expenses (33–20–3900–053–A):		
Budget Authority	7,219	2,981
Unobligated Balances—Defense	252	104
Outlays	7,111	2,937

Intelligence Community Staff

Account Title	Sequester Base	Sequester Amount
Intelligence community staff (35–35–0400–054–A):		
Budget Authority	29,323	12,110
Outlays	19,646	8,114

G-R-H Sequester Amounts—Defense—Continued

(In thousands of dollars)

Account Title	Sequester Base	Sequester Amount
Selective Service System		
Salaries and expenses (40–45–0400–054–A):		
Budget Authority	27,094	11,190
Outlays	22,244	9,187
Total, Other Independent Agencies:		
Budget Authority	63,636	26,281
Unobligated Balances—Defense	252	104
Outlays	49,001	20,238
Total:		
Budget Authority	232,627,386	96,075,110
401(C) Authority	21,300	8,797
Unobligated Balances—Defense	39,295,199	16,228,915
Outlays	121,060,594	49,998,032

APPENDIX D: SUMMARY TABLES

Table D–1. MID-SESSION REVIEW: OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW

(In billions of dollars)

	1990	1991	1992	1993	1994	1995
Mandatory programs:						
Human resources programs:						
Education, training, employment, and social services	10.9	12.5	11.4	11.0	11.4	11.9
Health:						
Medicaid	40.9	47.6	54.1	60.4	66.8	73.0
Other	2.5	3.5	4.5	5.4	6.1	6.9
Subtotal health	43.4	51.0	58.6	65.8	73.0	80.0
Medicare	94.5	102.9	117.6	131.8	147.7	164.9
Income security:						
Retirement and disability	57.2	62.0	65.0	68.7	72.4	76.1
Unemployment compensation	16.9	18.7	19.0	19.7	20.4	21.1
Food and nutrition assistance	21.7	24.2	25.5	26.9	28.1	29.3
Other	28.8	34.2	34.8	36.4	39.4	40.1
Subtotal income security	124.7	139.1	144.3	151.7	160.3	166.6
Social security	246.4	264.6	281.7	298.7	315.5	332.4
Veterans benefits and services:						
Income security for veterans	15.3	16.9	17.3	17.6	19.2	18.1
Other	0.9	0.8	0.9	0.9	1.0	1.0
Subtotal veterans benefits and services	16.2	17.7	18.2	18.5	20.2	19.1
Total mandatory human resources programs	536.1	587.8	631.8	677.5	728.0	774.9
Other mandatory programs:						
International affairs	–2.6	–1.0	–0.9	–1.0	–1.3	–1.1
Energy	–1.6	–0.7	–1.0	–0.8	–0.8	–1.0
Agriculture	9.9	10.7	13.6	14.5	14.2	13.3
Commerce and housing credit:						
RTC	57.1	62.6	41.3	–5.4	–41.7	–20.0
Other	13.9	11.5	10.7	10.6	8.2	6.4
Subtotal commerce and housing credit	71.1	74.1	52.0	5.2	–33.5	–13.6
Community and regional development	1.0	0.9	1.0	0.8	0.8	0.8
Justice	0.1	1.1	1.1	1.1	1.2	1.2
General government	0.8	1.2	1.3	1.0	0.8	0.9
Other functions	–*	–*	*	–0.1	–0.1	–0.1
Total other mandatory programs	78.7	86.3	67.2	20.8	–18.6	0.5
Total mandatory programs	614.7	674.2	699.0	698.3	709.4	775.4
Net interest:						
Interest on the public debt	261.1	289.5	303.3	310.4	313.7	316.0
Interest received by:						
On-budget trust funds	–45.3	–49.9	–54.4	–57.8	–60.7	–63.4
Off-budget trust funds	–15.8	–21.3	–26.8	–32.3	–37.6	–43.5
Other interest	–18.6	–22.7	–23.1	–21.0	–18.0	–15.5
Total net interest	181.4	195.6	199.0	199.3	197.3	193.6
Undistributed offsetting receipts:						
Employer share, employee retirement:						
On-budget	–28.3	–29.4	–30.2	–31.6	–33.0	–34.2
Off-budget	–5.6	–5.9	–6.4	–7.0	–7.7	–8.3
Rents and royalties on the Outer Continental Shelf	–2.9	–3.4	–3.6	–3.3	–3.6	–3.5
Total undistributed offsetting receipts	–36.7	–38.7	–40.2	–41.9	–44.3	–46.1
Total outlays for mandatory and related programs under current law	759.4	831.1	857.7	855.7	862.4	922.9

*$50 million or less.

Section 221(b) of the Legislative Reorganization Act of 1970 (30 USC 1106) requires that the Mid-Session Review include a summary "for the four fiscal years following the fiscal year for which the budget is submitted, information on estimated expenditures for programs authorized to continue in future years, or that are considered mandatory, under current law." These projections indicate that under existing legislation and the economic assumptions shown in Table 1, mandatory program outlays would rise by an average annual growth rate of 4.8 percent between 1990 and 1995 while net interest would rise by an average 1.3 percent.

The law requires a projection of estimated spending in the four succeeding fiscal years from the balances of budget authority outstanding at the end of 1991. These estimates for relatively controllable programs are provided in Table D–2. Table D–2 also provides the estimated amount of budget authority that will remain unexpended or that will have expired at the end of 1995.

The amount of budget authority balances for nonmandatory programs at the end of 1991 is estimated to total $629.4 billion. It is estimated that $240.3 billion (38 percent) will be spent in 1992 and that $127.1 billion (20 percent) will be spent in 1993. None of the balances are projected to expire between 1992 and 1995. At the end of 1995, it is estimated that $125.6 billion (20 percent) will still be unexpended.

Table D–2. MID-SESSION REVIEW: ESTIMATED SPENDING FROM END OF 1991 BALANCES OF BUDGET AUTHORITY: NONMANDATORY PROGRAMS

(In billions of dollars)

	Total
Total balances, end of 1991 (Mid-Session estimate)	629.4
Spending from 1991 balances in:	
1992	240.3
1993	127.1
1994	80.5
1995	55.9
Expiring balances, 1992 through 1995	—
Unexpended balances as of the end of 1995	125.6

Table D–3. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE RECEIPTS BY MAJOR SOURCE

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Individual income taxes	445.7	489.0	523.6	560.0	597.2	634.7	672.0	476.1	503.5	536.9	573.7	611.6	645.9
Corporation income taxes	103.3	111.9	128.6	141.1	155.7	161.8	172.4	98.0	114.3	126.7	137.0	148.8	160.6
Social insurance taxes and contributions	359.4	385.4	416.9	444.3	478.5	509.9	537.6	380.2	413.5	438.6	473.8	506.7	535.9
On-budget	(95.8)	(99.9)	(105.0)	(110.5)	(117.7)	(124.3)	(130.0)	(98.7)	(104.1)	(109.7)	(118.0)	(125.8)	(132.6)
Off-budget	(263.7)	(285.4)	(311.8)	(333.8)	(360.8)	(385.5)	(407.6)	(281.5)	(309.4)	(328.8)	(355.8)	(380.8)	(403.3)
Excise taxes	34.4	36.2	34.9	34.9	36.0	37.0	38.1	36.7	34.5	33.8	34.9	35.9	37.0
Estate and gift taxes	8.7	9.3	9.8	10.3	10.4	11.0	11.4	10.7	11.4	12.5	13.2	12.9	13.8
Customs duties and fees	16.3	16.8	18.2	19.7	21.0	22.5	24.2	16.9	18.2	19.5	20.5	21.5	22.5
Miscellaneous receipts	22.8	24.4	24.3	24.6	24.6	25.0	25.0	25.4	26.4	26.6	25.6	25.6	25.5
Total, receipts	990.7	1,072.8	1,156.3	1,234.9	1,323.5	1,401.9	1,480.8	1,044.0	1,121.7	1,194.5	1,278.7	1,363.1	1,441.1
ADDENDUM													
On-budget	727.0	787.4	844.5	901.1	962.6	1016.4	1073.2	762.5	812.3	865.7	922.9	982.2	1,037.9
Off-budget	263.7	285.4	311.8	333.8	360.8	385.5	407.6	281.5	309.4	328.8	355.8	380.8	403.3

Table D-4. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE OUTLAYS BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Legislative Branch	2.1	2.3	2.4	2.5	2.5	2.6	2.7	2.3	2.4	2.5	2.5	2.6	2.7
The Judiciary	1.5	1.7	1.8	1.9	1.9	2.0	2.1	1.7	1.8	1.9	1.9	2.0	2.1
Executive Office of the President	0.1	0.2	0.3	0.4	0.3	0.3	0.3	0.2	0.3	0.4	0.3	0.3	0.3
Funds Appropriated to the President	4.3	9.2	12.0	13.1	12.3	12.2	12.9	10.7	12.1	13.1	12.9	12.9	13.7
Department of Agriculture	48.3	48.3	53.9	58.2	58.9	59.3	60.1	47.6	52.4	57.1	60.1	61.5	62.0
Department of Commerce	2.6	3.9	2.7	2.7	2.7	2.8	2.8	3.9	2.8	2.7	2.8	2.8	2.8
Department of Defense—Military	294.9	286.8	296.0	307.1	317.2	328.8	340.3	290.3	296.3	306.7	315.4	330.4	337.8
Department of Defense—Civil	23.5	24.8	26.1	27.6	29.1	30.7	32.2	24.8	26.3	27.9	29.5	31.0	32.6
Department of Education	21.6	22.3	23.8	24.3	24.8	25.5	26.2	22.9	25.0	25.1	25.1	25.9	26.9
Department of Energy	11.4	12.3	13.8	14.6	15.4	16.1	16.8	12.3	13.8	14.7	15.4	16.1	16.8
Department of Health and Human Services, except Social Security	172.3	191.2	208.7	231.0	252.5	276.9	301.0	192.4	216.0	239.0	262.6	289.0	314.4
Department of Health and Human Services, Social Security	227.5	244.6	260.7	276.2	292.6	309.1	325.5	244.9	262.9	279.4	296.0	312.5	329.0
Department of Housing and Urban Development	19.7	22.8	22.9	23.3	23.2	23.5	23.8	21.4	23.3	23.4	23.7	23.7	23.5
Department of the Interior	5.2	5.8	6.1	6.4	6.7	6.9	7.2	6.1	6.2	6.7	7.0	7.2	7.5
Department of Justice	6.2	6.9	8.5	9.9	10.0	9.8	10.1	6.9	8.8	10.1	10.0	10.1	10.4
Department of Labor	22.7	24.9	26.1	27.0	28.0	29.0	30.2	25.5	28.1	28.8	29.9	30.9	31.9
Department of State	3.7	3.8	3.8	3.9	4.1	4.2	4.3	3.8	3.9	4.0	4.2	4.3	4.4
Department of Transportation	26.6	28.3	29.7	30.6	31.5	32.5	33.0	28.5	29.9	30.7	31.4	32.1	33.0
Department of the Treasury	230.6	247.2	256.5	260.2	265.2	269.1	271.3	252.4	279.8	295.5	304.9	311.8	317.3
Department of Veterans Affairs	30.0	28.7	30.5	31.3	33.8	33.3	32.5	29.3	31.2	32.3	33.2	35.5	34.9
Environmental Protection Agency	4.9	5.5	5.7	5.7	5.7	5.9	6.0	5.3	5.7	5.7	5.7	5.9	6.0
General Services Adminstration	–0.5	0.3	0.1	–0.1	–0.1	–0.1	–0.1	0.4	0.9	1.0	1.5	1.7	1.7
National Aeronautics and Space Administration	11.0	12.0	12.9	13.2	13.6	14.1	14.6	12.1	12.9	13.2	13.6	14.1	14.6
Office of Personnel Management	29.1	33.2	36.6	38.9	41.9	44.8	47.7	32.8	36.7	39.1	42.2	45.1	48.1
Small Business Administration	0.1	1.1	0.5	0.4	0.5	0.6	0.7	0.7	0.5	0.5	0.6	0.7	0.8
Other Independent Agencies	32.5	24.2	22.4	16.2	16.6	15.1	14.4	81.0	82.9	60.2	13.5	–24.9	–4.7
On-budget	(32.8)	(24.2)	(22.4)	(16.2)	(16.6)	(15.1)	(14.4)	(81.0)	(82.9)	(60.2)	(13.5)	(–24.9)	(–4.7)
Off-budget	(–0.3)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Allowances	—	—	0.1	—	—	—	—	—	*	—	—	—	—
Undistributed offsetting receipts	–89.2	–97.3	–107.8	–118.9	–128.6	–140.1	–151.2	–97.8	–109.8	–122.2	–132.0	–142.7	–153.0
On-budget	(–72.9)	(–76.1)	(–81.4)	(–87.0)	(–90.7)	(–95.6)	(–99.8)	(–76.4)	(–82.6)	(–88.9)	(–92.7)	(–97.4)	(–101.1)
Off-budget	(–16.3)	(–21.2)	(–26.4)	(–31.9)	(–37.9)	(–44.5)	(–51.3)	(–21.3)	(–27.2)	(–33.3)	(–39.3)	(–45.3)	(–51.9)
Total, outlays	1,142.6	1,194.8	1,256.8	1,307.8	1,362.6	1,415.0	1,467.4	1,262.5	1,353.1	1,399.5	1,413.9	1,442.7	1,517.9
ADDENDUM													
On-budget	931.7	971.4	1,022.6	1,063.5	1,107.9	1,150.4	1,193.2	1,038.9	1,117.4	1,153.3	1,157.1	1,175.5	1,240.7
Off-budget	210.9	223.4	234.2	244.3	254.7	264.6	274.2	223.6	235.7	246.1	256.7	267.2	277.2

*$50 million or less.

Table D–5. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE OUTLAYS BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
National defense	303.6	296.3	306.4	318.1	328.6	340.6	352.5	299.9	306.8	317.6	326.8	342.2	350.0
Defense—Military	(294.9)	(286.8)	(296.0)	(307.1)	(317.2)	(328.8)	(340.3)	(290.3)	(296.3)	(306.7)	(315.4)	(330.4)	(337.8)
Other	(8.7)	(9.6)	(10.5)	(11.0)	(11.4)	(11.8)	(12.2)	(9.6)	(10.5)	(11.0)	(11.4)	(11.8)	(12.2)
International affairs	9.6	14.6	17.9	19.3	18.8	18.7	19.7	15.5	18.1	19.4	19.4	19.6	20.6
General science, space, and technology	12.8	14.1	15.2	15.7	16.1	16.7	17.3	14.2	15.2	15.7	16.1	16.7	17.3
Energy	3.7	3.2	4.6	4.5	5.1	5.4	5.5	3.3	4.9	4.8	5.4	5.5	5.6
Natural resources and environment	16.2	17.5	18.1	19.1	19.1	19.7	20.1	17.8	18.6	19.4	20.0	20.7	21.2
Agriculture	16.9	14.6	17.6	20.1	19.4	18.2	17.4	12.5	13.4	16.4	17.4	17.2	16.4
Commerce and housing credit	27.7	20.3	16.8	11.7	11.9	10.5	9.5	75.7	77.7	55.8	9.1	–29.3	–9.5
On-budget	(28.0)	(20.3)	(16.8)	(11.7)	(11.9)	(10.5)	(9.5)	(75.7)	(77.7)	(55.8)	(9.1)	(–29.3)	(–9.5)
Off-budget	(–0.3)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Transportation	27.6	29.3	30.7	31.7	32.7	33.6	34.1	29.5	30.9	31.8	32.5	33.3	34.1
Community and regional development	5.4	8.8	8.1	7.2	7.3	7.4	8.0	8.3	8.1	7.3	7.4	7.5	7.7
Educational, training, employment, and social services	36.7	37.6	40.6	42.0	43.2	44.6	46.0	38.3	42.5	42.9	43.6	45.1	46.8
Health	48.4	57.8	64.4	70.8	77.3	83.7	90.2	58.2	67.0	75.2	83.2	91.0	98.6
Medicare	85.0	96.6	104.2	118.4	132.4	147.8	164.5	96.9	105.4	120.2	134.5	150.5	167.7
Income security	136.0	146.6	157.0	163.6	170.5	178.9	185.7	148.5	164.3	170.4	178.3	187.2	193.9
Social security	232.5	248.5	264.7	280.9	297.7	314.6	331.5	248.7	266.9	284.1	301.2	318.1	335.1
On-budget	(5.1)	(3.9)	(4.1)	(4.7)	(5.1)	(5.5)	(6.0)	(3.8)	(4.0)	(4.7)	(5.2)	(5.6)	(6.0)
Off-budget	(227.5)	(244.6)	(260.7)	(276.2)	(292.6)	(309.1)	(325.5)	(244.9)	(262.9)	(279.4)	(296.0)	(312.5)	(329.0)
Veterans benefits and services	30.1	28.9	30.6	31.5	34.0	33.5	32.6	29.4	31.4	32.5	33.4	35.7	35.1
Administration of justice	9.4	10.5	12.8	14.3	14.9	15.0	15.5	10.5	13.0	14.5	14.9	15.4	15.9
General government	9.1	10.6	11.0	11.6	11.6	11.8	12.2	10.6	11.9	12.7	13.2	13.5	14.0
Net interest	169.1	175.6	174.3	167.6	163.9	158.4	151.1	181.4	195.6	199.0	199.3	197.3	193.6
On-budget	(180.5)	(191.2)	(194.8)	(193.0)	(194.7)	(195.2)	(194.1)	(197.2)	(216.9)	(225.8)	(231.6)	(234.9)	(237.1)
Off-budget	(–11.4)	(–15.6)	(–20.5)	(–25.4)	(–30.8)	(–36.8)	(–43.0)	(–15.8)	(–21.3)	(–26.8)	(–32.3)	(–37.6)	(–43.5)
Allowances	—	—	0.1	—	—	—	—	—	*	—	—	—	—
Undistributed offsetting receipts:													
Employer share, employee retirement (on-budget)	–29.4	–28.3	–29.5	–30.3	–31.7	–33.1	–34.3	–28.3	–29.4	–30.2	–31.6	–33.0	–34.2
Employer share, employee retirement (off-budget)	–4.9	–5.6	–6.0	–6.5	–7.1	–7.7	–8.3	–5.6	–5.9	–6.4	–7.0	–7.7	–8.3
Rents and royalties on the Outer Continental Shelf	–2.9	–2.6	–3.0	–3.4	–3.1	–3.3	–3.5	–2.9	–3.4	–3.6	–3.3	–3.6	–3.5
Total, undistributed offsetting receipts	–37.2	–36.5	–38.4	–40.2	–41.8	–44.1	–46.2	–36.7	–38.7	–40.2	–41.9	–44.3	–46.1
On-budget	(–32.4)	(–30.9)	(–32.5)	(–33.7)	(–34.8)	(–36.5)	(–37.9)	(–31.2)	(–32.7)	(–33.8)	(–34.8)	(–36.7)	(–37.8)
Off-budget	(–4.9)	(–5.6)	(–6.0)	(–6.5)	(–7.1)	(–7.7)	(–8.3)	(–5.6)	(–5.9)	(–6.4)	(–7.0)	(–7.7)	(–8.3)
Total, outlays	1,142.6	1,194.8	1,256.8	1,307.8	1,362.6	1,415.0	1,467.4	1,262.5	1,353.1	1,399.5	1,413.9	1,442.7	1,517.9
ADDENDUM													
On-budget	931.7	971.4	1,022.6	1,063.5	1,107.9	1,150.4	1,193.2	1,038.9	1,117.4	1,153.3	1,157.1	1,175.5	1,240.7
Off-budget	210.9	223.4	234.2	244.3	254.7	264.6	274.2	223.6	235.7	246.1	256.7	267.2	277.2

*$50 million or less.

Table D–6. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE OUTLAYS BY CATEGORY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Defense	303.6	296.3	306.4	318.1	328.6	340.6	352.5	299.9	306.8	317.6	326.8	342.2	350.0
International discretionary	16.6	17.3	18.9	20.1	19.7	20.0	20.7	18.5	19.1	20.3	20.5	20.9	21.6
Domestic discretionary	169.0	184.2	193.6	200.9	207.4	213.5	219.4	185.3	196.1	203.8	210.9	217.3	223.4
Mandatory	528.6	560.1	601.9	641.3	684.9	726.7	769.9	614.7	674.2	699.0	698.3	709.4	775.4
Asset sales and prepayments	–7.0	–2.3	—	—	—	—	—	–0.6	—	—	—	—	—
User fees and other collections	—	—	—	—	—	—	—	—	—	—	—	—	—
Net interest	169.1	175.6	174.3	167.6	163.9	158.4	151.1	181.4	195.6	199.0	199.3	197.3	193.6
Other undistributed offsetting receipts	–37.2	–36.5	–38.4	–40.2	–41.8	–44.1	–46.2	–36.7	–38.7	–40.2	–41.9	–44.3	–46.1
Total, outlays	1,142.6	1,194.8	1,256.8	1,307.8	1,362.6	1,415.0	1,467.4	1,262.5	1,353.1	1,399.5	1,413.9	1,442.7	1,517.9

Table D-7. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Legislative Branch	2.3	2.2	2.3	2.4	2.5	2.6	2.7	2.2	2.3	2.4	2.5	2.6	2.7
The Judiciary	1.5	1.7	1.8	1.9	2.0	2.0	2.1	1.7	1.8	1.9	2.0	2.1	2.1
Executive Office of the President	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Funds Appropriated to the President	11.0	12.4	12.4	13.1	13.5	13.7	14.6	12.4	13.0	13.7	14.1	14.4	15.4
Department of Agriculture	55.7	55.2	61.2	64.2	64.3	64.4	67.9	54.2	61.8	66.1	66.4	69.2	70.4
Department of Commerce	2.8	3.6	2.7	2.6	2.7	2.7	2.8	3.7	2.7	2.6	2.7	2.8	2.8
Department of Defense—Military	290.8	291.4	305.4	317.9	330.1	341.6	352.6	289.4	303.5	315.6	327.4	338.7	349.3
Department of Defense—Civil	37.2	36.7	38.5	40.2	42.6	45.0	47.1	36.7	38.7	40.6	43.1	45.6	47.9
Department of Education	23.0	24.1	24.3	24.8	25.5	26.2	26.8	24.7	25.7	25.6	25.7	26.7	27.6
Department of Energy	11.7	14.3	15.2	15.5	16.1	16.7	17.3	14.3	15.1	15.5	16.1	16.7	17.3
Department of Health and Human Services, except Social Security	196.6	212.3	231.0	251.1	274.1	299.0	322.0	213.2	234.7	253.6	278.1	303.6	326.1
Department of Health and Human Services, Social Security	279.9	306.6	338.3	365.7	398.7	430.0	459.0	302.8	336.6	362.1	395.1	426.1	455.1
Department of Housing and Urban Development	14.3	18.4	17.8	17.1	17.8	18.2	18.4	17.9	18.2	17.3	18.3	18.4	18.5
Department of the Interior	5.5	6.2	6.4	6.6	6.8	7.1	7.3	6.6	6.5	6.9	7.1	7.4	7.6
Department of Justice	6.7	8.6	9.4	9.8	9.8	10.0	10.3	8.8	9.7	10.0	10.2	10.3	10.6
Department of Labor	29.9	32.5	32.2	32.6	33.4	34.2	34.6	32.1	32.2	33.5	35.3	37.2	38.8
Department of State	4.1	4.2	4.4	4.5	4.7	4.8	5.0	4.3	4.5	4.6	4.8	4.9	5.1
Department of Transportation	28.5	30.2	31.2	32.4	33.6	34.8	35.9	30.2	31.2	32.4	33.6	34.8	35.9
Department of the Treasury	232.1	248.5	257.7	261.3	266.4	270.4	272.5	254.4	280.9	296.4	305.9	312.9	318.5
Department of Veterans Affairs	29.9	29.9	31.0	31.6	32.4	33.3	34.3	30.5	31.8	32.6	33.4	34.1	34.9
Environmental Protection Agency	5.1	5.4	5.6	5.7	5.9	6.1	6.3	5.4	5.6	5.7	5.9	6.1	6.3
General Services Administration	0.2	0.1	0.1	0.1	0.2	0.2	0.2	1.8	1.8	1.9	2.0	2.1	2.1
National Aeronautics and Space Administration	11.0	12.3	12.8	13.4	13.9	14.4	14.8	12.3	12.8	13.4	13.9	14.3	14.8
Office of Personnel Management	51.2	55.6	58.5	62.1	65.4	68.8	71.7	55.6	58.8	62.9	66.5	69.7	72.7
Small Business Administration	0.4	0.9	1.0	1.0	1.0	1.1	1.1	0.9	1.0	1.0	1.0	1.1	1.1
Other Independent Agencies	67.5	17.2	16.5	19.0	19.9	21.9	20.6	18.9	48.1	50.7	38.8	26.5	22.9
On-budget	(65.9)	(17.2)	(16.5)	(19.0)	(19.9)	(21.9)	(20.6)	(18.9)	(48.1)	(50.7)	(38.8)	(26.5)	(22.9)
Off-budget	(1.6)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Undistributed offsetting receipts	-89.2	-97.3	-107.8	-118.9	-128.6	-140.1	-151.2	-97.8	-109.8	-122.2	-132.0	-142.7	-153.0
On-budget	(-72.9)	(-76.1)	(-81.4)	(-87.0)	(-90.7)	(-95.6)	(-99.8)	(-76.4)	(-82.6)	(-88.9)	(-92.7)	(-97.4)	(-101.1)
Off-budget	(-16.3)	(-21.2)	(-26.4)	(-31.9)	(-37.9)	(-44.5)	(-51.3)	(-21.3)	(-27.2)	(-33.3)	(-39.3)	(-45.3)	(-51.9)
Total, budget authority	1,309.9	1,333.6	1,410.2	1,478.2	1,555.1	1,629.3	1,697.3	1,337.6	1,469.6	1,547.3	1,618.3	1,686.0	1,754.1
ADDENDUM													
On-budget	1,044.6	1,048.1	1,098.4	1,144.4	1,194.3	1,243.8	1,289.7	1,056.1	1,160.2	1,218.4	1,262.5	1,305.2	1,350.8
Off-budget	265.3	285.4	311.8	333.8	360.8	385.5	407.6	281.5	309.4	328.8	355.8	380.8	403.3

Table D–8. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
National defense	299.6	301.6	316.1	329.0	341.6	353.6	364.9	299.6	314.2	326.7	339.0	350.6	361.6
Defense—Military	(290.8)	(291.4)	(305.4)	(317.9)	(330.1)	(341.6)	(352.6)	(289.4)	(303.5)	(315.6)	(327.4)	(338.7)	(349.3)
Other	(8.7)	(10.3)	(10.7)	(11.1)	(11.5)	(11.9)	(12.3)	(10.3)	(10.7)	(11.1)	(11.5)	(11.9)	(12.3)
International affairs	17.3	18.6	19.0	20.0	20.9	21.5	22.7	19.0	19.9	20.9	21.9	22.5	23.8
General science, space, and technology	12.9	14.6	15.2	15.8	16.4	17.0	17.5	14.6	15.2	15.8	16.4	17.0	17.5
Energy	4.1	5.6	6.3	6.1	6.6	7.0	7.3	4.9	6.8	6.2	6.7	7.0	7.1
Natural resources and environment	17.0	17.0	18.2	19.0	19.4	20.1	20.7	17.7	18.9	19.3	20.5	21.2	21.9
Agriculture	21.3	18.0	22.2	25.2	23.7	20.8	21.7	13.9	19.0	22.3	22.0	19.9	20.6
Commerce and housing credit	61.9	15.5	12.8	13.0	13.5	16.1	15.2	17.9	44.7	46.9	32.9	22.8	17.7
On-budget	(60.3)	(15.5)	(12.8)	(13.6)	(13.5)	(16.1)	(15.2)	(17.9)	(44.7)	(46.9)	(32.9)	(22.8)	(17.7)
Off-budget	(1.6)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Transportation	29.3	31.2	32.3	33.5	34.8	36.0	37.1	31.2	32.3	33.5	34.7	36.0	37.1
Community and regional development	7.9	9.0	9.6	9.1	9.4	9.7	9.9	9.8	9.4	8.9	9.2	9.4	9.7
Educational, training, employment, and social services	38.8	39.6	41.6	42.8	43.9	45.4	46.9	40.4	43.7	43.6	44.1	46.0	47.7
Health	51.7	60.3	65.6	72.0	78.3	84.8	91.6	61.1	68.2	76.5	84.3	92.2	100.0
Medicare	107.3	116.9	125.1	137.6	153.5	169.3	184.9	116.2	122.9	134.1	149.7	164.5	178.8
Income security	173.4	183.2	192.1	199.6	208.0	217.6	224.4	184.9	198.2	206.5	217.0	228.4	236.2
Social security	285.0	310.5	342.3	370.4	403.8	435.5	464.9	306.6	340.6	366.8	400.2	431.7	461.2
On-budget	(5.1)	(3.9)	(4.1)	(4.7)	(5.1)	(5.5)	(6.0)	(3.8)	(4.0)	(4.7)	(5.2)	(5.6)	(6.0)
Off-budget	(279.9)	(306.6)	(338.3)	(365.7)	(398.7)	(430.0)	(459.0)	(302.8)	(336.6)	(362.1)	(395.1)	(426.1)	(455.1)
Veterans benefits and services	30.0	30.0	31.1	31.7	32.5	33.4	34.4	30.6	31.9	32.8	33.5	34.2	35.0
Administration of justice	10.0	12.2	13.7	14.2	14.8	15.3	15.8	12.4	14.0	14.5	15.1	15.6	16.1
General government	10.6	10.5	11.1	11.5	11.9	12.1	12.6	12.0	12.8	13.3	13.7	13.9	14.5
Net interest	169.1	175.6	174.3	167.6	163.9	158.4	151.1	181.4	195.6	199.0	199.3	197.3	193.6
On-budget	(180.5)	(191.2)	(194.8)	(193.0)	(194.7)	(195.2)	(194.1)	(197.2)	(216.9)	(225.8)	(231.6)	(234.9)	(237.1)
Off-budget	(–11.4)	(–15.6)	(–20.5)	(–25.4)	(–30.8)	(–36.8)	(–43.0)	(–15.8)	(–21.3)	(–26.8)	(–32.3)	(–37.6)	(–43.5)
Undistributed offsetting receipts:													
Employer share, employee retirement (on-budget)	–29.4	–28.3	–29.5	–30.3	–31.7	–33.1	–34.3	–28.3	–29.4	–30.2	–31.6	–33.0	–34.2
Employer share, employee retirement (off-budget)	–4.9	–5.6	–6.0	–6.5	–7.1	–7.7	–8.3	–5.6	–5.9	–6.4	–7.0	–7.7	–8.3
Rents and royalties on the Outer Continental Shelf	–2.9	–2.6	–3.0	–3.4	–3.1	–3.3	–3.5	–2.9	–3.4	–3.6	–3.3	–3.6	–3.5
Total, undistributed offsetting receipts	–37.2	–36.5	–38.4	–40.2	–41.8	–44.1	–46.2	–36.7	–38.7	–40.2	–41.9	–44.3	–46.1
On-budget	(–32.4)	(–30.9)	(–32.5)	(–33.7)	(–34.8)	(–36.5)	(–37.9)	(–31.2)	(–32.7)	(–33.8)	(–34.8)	(–36.7)	(–37.8)
Off-budget	(–4.9)	(–5.6)	(–6.0)	(–6.5)	(–7.1)	(–7.7)	(–8.3)	(–5.6)	(–5.9)	(–6.4)	(–7.0)	(–7.7)	(–8.3)
Total, budget authority	1,390.9	1,333.6	1,410.2	1,478.2	1,555.1	1,629.3	1,697.3	1,337.6	1,469.6	1,547.3	1,618.3	1,686.0	1,754.1
ADDENDUM													
On-budget	1,044.6	1,048.1	1,098.4	1,144.4	1,194.3	1,243.8	1,289.7	1,056.1	1,160.2	1,218.4	1,262.5	1,305.2	1,350.8
Off-budget	265.3	285.4	311.8	333.8	360.8	385.5	407.6	281.5	309.4	328.8	355.8	380.8	403.3

Table D-9. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE NEW DIRECT LOAN OBLIGATIONS BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Funds Appropriated to the President	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5
Department of Agriculture	12.7	13.3	14.2	14.4	14.3	14.4	14.4	11.8	12.7	13.1	13.5	13.9	13.9
Department of Education	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of Housing and Urban Development	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7
Department of Interior	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of Labor	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of State	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of Transportation	*	*	*	*	0.1	0.1	0.1	*	*	*	0.1	0.1	0.1
Department of Veterans Affairs	1.1	0.9	0.8	0.7	0.6	0.5	0.5	1.0	1.1	1.1	1.0	1.0	0.9
Environmental Protection Agency	*	*	*	*	*	*	*	*	*	*	*	*	*
Small Business Administration	0.2	1.9	0.4	0.4	0.5	0.5	0.5	1.5	0.4	0.4	0.5	0.5	0.5
Other Independent Agencies:													
Export-Import Bank	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7
National Credit Union Administration	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.2	0.3	0.1	0.1	0.1	0.1
Tennessee Valley Authority	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4
Total, new direct loan obligations	16.2	18.4	17.8	17.9	17.8	17.9	18.0	16.6	16.6	16.9	17.4	17.9	17.8

*$50 million or less.

Table D-10. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE NEW DIRECT LOAN OBLIGATIONS BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
International affairs	1.9	1.8	1.9	2.0	2.1	2.1	2.2	1.8	1.9	2.0	2.1	2.1	2.2
Energy	1.2	2.1	2.2	2.2	2.4	2.5	2.5	1.3	2.2	2.2	2.4	2.5	2.5
Natural resources and environment	0.1	0.1	*	*	*	*	*	0.1	*	*	*	*	*
Agriculture	8.2	7.8	8.5	8.5	8.2	8.0	7.9	7.0	7.0	7.2	7.4	7.6	7.4
Commerce and housing credit	3.0	3.0	3.2	3.1	3.2	3.3	3.4	3.0	3.1	3.1	3.2	3.3	3.4
Transportation	*	*	*	*	0.1	0.1	0.1	*	*	*	0.1	0.1	0.1
Community and regional development	0.8	2.6	1.1	1.2	1.2	1.2	1.3	2.2	1.1	1.2	1.2	1.2	1.3
Education, training, employment, and social services	*	*	*	*	*	*	*	*	*	*	*	*	*
Income security	*	*	*	*	*	*	*	*	*	*	*	*	*
Veterans benefits and services	1.1	0.9	0.8	0.7	0.6	0.5	0.5	1.0	1.1	1.1	1.0	1.0	0.9
Total, new direct loan obligations	16.2	18.4	17.8	17.9	17.8	17.9	18.0	16.6	16.6	16.9	17.4	17.9	17.8

*$50 million or less.

Table D–11. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE NEW GUARANTEED LOAN COMMITMENTS BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Funds Appropriated to the President	5.4	2.1	0.4	0.4	0.5	0.5	0.5	2.1	0.4	0.4	0.5	0.5	0.5
Department of Agriculture	5.5	8.8	8.9	9.0	9.1	9.3	9.4	7.0	8.9	9.0	9.1	9.3	9.4
Department of Commerce	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Department of Education	11.9	12.7	12.9	13.9	14.6	15.3	16.0	12.6	12.9	13.8	14.5	15.2	15.9
Department of Health and Human Services	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Department of Housing and Urban Development	54.5	63.7	77.1	80.2	83.1	86.0	88.6	63.8	77.5	80.2	83.1	86.0	88.6
Department of Interior	0.1	*	*	*	*	*	*	*	*	*	*	0.1	0.1
Department of the Treasury	0.4	0.6	0.5	0.7	—	—	—	0.5	0.5	0.7	—	—	—
Department of Veterans Affairs	14.4	15.0	16.2	14.9	14.7	14.9	15.1	16.5	18.3	17.1	15.7	14.8	15.1
Small Business Administration	3.7	4.5	4.7	4.8	5.0	5.1	5.3	4.5	4.7	4.8	5.0	5.1	5.3
Other Independent Agencies:													
Export-Import Bank	5.6	10.2	10.6	11.0	11.5	11.8	12.2	10.2	10.6	11.0	11.5	11.8	12.2
Federal Home Loan Bank Board	3.5	—	—	—	—	—	—	—	—	—	—	—	—
National Credit Union Administration	*	*	*	*	*	*	*	*	*	*	*	*	*
Total, new guarantee commitments	105.4	118.1	131.7	135.5	138.9	143.3	147.5	117.7	134.2	137.4	139.9	143.2	147.5
ADDENDUM													
Secondary guaranteed loans	55.1	81.7	85.1	88.5	91.7	94.9	97.8	81.7	87.1	90.7	92.7	94.9	97.8

*$50 million or less.

Table D-12. MID-SESSION REVIEW: ADJUSTED CONSOLIDATED BASELINE NEW GUARANTEED LOAN COMMITMENTS BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
International affairs	11.0	12.3	11.0	11.5	11.9	12.3	12.7	12.3	11.0	11.5	11.9	12.3	12.7
Agriculture	5.4	8.5	8.7	8.8	8.9	9.0	9.1	6.8	8.7	8.8	8.9	9.0	9.1
Commerce and housing credit	61.7	68.2	81.7	84.9	88.1	91.0	93.9	68.3	82.1	84.9	88.1	91.0	93.9
Community and regional development	0.3	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.5
Education, training, employment, and social services	11.9	12.7	12.9	13.9	14.6	15.3	16.0	12.6	12.9	13.8	14.5	15.2	15.9
Health	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Veterans benefits and services	14.4	15.0	16.2	14.9	14.7	14.9	15.1	16.5	18.3	17.1	15.7	14.8	15.1
General government	0.4	0.6	0.5	0.7	—	—	—	0.5	0.5	0.7	—	—	—
Total, new guarantee commitments	105.4	118.1	131.7	135.5	138.9	143.3	147.5	117.7	134.2	137.4	139.9	143.2	147.5
ADDENDUM													
Secondary guaranteed loans	55.1	81.7	85.1	88.5	91.7	94.9	97.8	81.7	87.1	90.7	92.7	94.9	97.8

*$50 million or less.

Table D-13. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED RECEIPTS BY MAJOR SOURCE

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Individual income taxes	445.7	489.4	528.5	561.5	593.6	632.4	668.7	476.1	508.4	538.3	570.2	609.4	642.7
Corporation income taxes	103.3	112.0	129.7	140.6	154.7	159.9	169.7	98.2	115.1	126.1	135.9	146.9	158.0
Social insurance taxes and contributions	359.4	385.4	421.4	449.7	481.4	514.6	542.5	380.2	418.1	444.0	476.8	511.4	540.8
On-budget	(95.8)	(99.9)	(106.9)	(112.3)	(119.5)	(126.2)	(131.8)	(98.7)	(106.0)	(111.6)	(119.9)	(127.7)	(134.5)
Off-budget	(263.7)	(285.4)	(314.5)	(337.4)	(361.9)	(388.4)	(410.7)	(281.5)	(312.1)	(332.4)	(356.9)	(383.7)	(406.3)
Excise taxes	34.4	36.2	37.6	39.2	40.8	42.2	43.7	36.7	37.2	38.2	39.8	41.2	42.6
Estate and gift taxes	8.7	9.3	9.8	10.3	10.4	11.0	11.4	10.7	11.4	12.5	13.2	12.9	13.8
Customs duties and fees	16.3	16.8	18.6	20.1	21.5	23.0	24.8	16.9	18.6	19.9	20.9	22.0	23.0
Miscellaneous receipts	22.8	24.4	24.6	25.0	25.2	25.5	25.6	25.5	26.7	26.9	26.2	26.2	26.1
Total, receipts	990.7	1,073.5	1,170.2	1,246.4	1,327.6	1,408.6	1,486.3	1,044.2	1,135.4	1,206.0	1,283.0	1,370.0	1,447.1
ADDENDUM													
On-budget	727.0	788.0	855.7	909.0	965.6	1,020.2	1,075.6	762.8	823.2	873.6	926.1	986.3	1,040.7
Off-budget	263.7	285.4	314.5	337.4	361.9	388.4	410.7	281.5	312.1	332.4	356.9	383.7	406.3

Table D–14. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED OUTLAYS BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Legislative Branch	2.1	2.3	2.7	2.8	2.7	2.8	2.8	2.3	2.7	2.8	2.7	2.9	2.9
The Judiciary	1.5	1.7	2.0	2.2	2.3	2.4	2.4	1.7	2.0	2.2	2.3	2.3	2.4
Executive Office of the President	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.2	0.3	0.4	0.4	0.4	0.4
Funds Appropriated to the President	4.3	9.2	12.2	13.2	12.5	12.5	13.3	10.7	12.1	12.9	12.5	12.7	13.4
Department of Agriculture	48.3	48.2	48.7	50.3	48.7	47.8	47.4	47.5	46.6	47.6	48.9	48.9	48.3
Department of Commerce	2.6	3.9	2.8	2.7	2.6	2.6	2.3	3.9	2.8	2.7	2.6	2.6	2.3
Department of Defense—Military	294.9	286.8	292.1	296.9	299.0	302.3	304.8	290.2	292.2	297.4	299.1	306.2	306.7
Department of Defense—Civil	23.5	24.8	25.5	26.6	27.7	28.8	29.9	24.8	25.5	26.7	27.9	29.0	30.1
Department of Education	21.6	22.3	23.7	24.1	24.1	24.3	24.5	22.9	24.8	24.9	24.4	24.6	25.0
Department of Energy	11.4	12.3	13.4	15.7	16.5	17.2	17.7	12.3	13.4	15.7	16.5	17.2	17.7
Department of Health and Human Services, except Social Security	172.3	191.2	204.1	222.6	241.2	262.9	283.9	192.4	210.4	230.9	251.6	275.4	298.0
Department of Health and Human Services, Social Security	227.5	244.6	260.1	275.3	291.7	308.2	324.6	244.9	262.2	278.3	295.1	311.5	328.0
Department of Housing and Urban Development	19.7	22.8	23.0	23.9	24.3	25.0	26.1	21.4	23.1	23.8	24.2	24.4	24.8
Department of the Interior	5.2	5.8	5.7	5.7	5.8	5.8	5.7	6.1	5.6	5.7	5.8	5.9	5.8
Department of Justice	6.2	6.9	9.0	10.1	9.9	9.7	9.9	6.9	9.1	10.2	10.1	9.8	9.9
Department of Labor	22.7	24.9	26.3	27.0	27.8	28.7	29.8	25.5	28.0	28.9	29.7	30.7	31.6
Department of State	3.7	3.8	4.1	4.3	4.4	4.5	4.6	3.8	4.1	4.3	4.4	4.5	4.6
Department of Transportation	26.6	28.3	28.8	29.1	29.7	30.2	30.2	28.5	29.0	29.2	29.5	29.9	30.3
Department of the Treasury	230.6	247.2	254.9	257.7	274.5	315.1	361.9	252.4	277.8	292.1	298.5	302.3	304.4
Department of Veterans Affairs	30.0	28.7	30.1	30.8	33.1	32.5	31.6	29.3	30.8	31.7	32.4	34.5	33.9
Environmental Protection Agency	4.9	5.5	5.8	5.7	5.6	5.4	5.2	5.3	5.8	5.7	5.6	5.4	5.2
General Services Administration	–0.5	0.3	*	0.3	0.3	0.2	0.1	0.4	0.5	1.2	1.2	1.1	0.5
National Aeronautics and Space Administration	11.0	12.0	14.1	16.4	18.1	19.4	20.1	12.1	14.1	16.4	18.1	19.4	20.1
Office of Personnel Management	29.1	33.2	33.6	34.8	37.4	39.8	42.3	32.8	33.6	34.8	37.4	39.9	42.3
Small Business Administration	0.1	1.1	0.3	0.1	0.2	0.3	0.4	0.7	0.3	0.2	0.3	0.4	0.4
Other Independent Agencies	32.5	26.6	23.5	16.4	16.0	14.4	13.3	82.9	82.1	59.6	12.7	–26.2	–6.4
On-budget	(32.8)	(24.2)	(21.8)	(15.7)	(15.9)	(14.5)	(13.7)	(81.0)	(82.4)	(59.6)	(12.7)	(–25.7)	(–5.5)
Off-budget	(–0.3)	(2.4)	(1.7)	(0.7)	(0.1)	(–0.1)	(–0.4)	(1.9)	(–0.3)	(0.1)	(*)	(–0.5)	(–0.9)
Allowances:													
Civilian pay reform	—	—	—	—	—	—	—	—	—	0.2	0.3	0.5	0.8
Employee health benefits reform	—	—	–0.8	–0.9	–1.0	–1.0	–1.1	—	–0.8	–0.9	–1.0	–1.0	–1.1
Reduced Government mail rates	—	—	–0.2	–0.2	–0.2	–0.2	–0.2	—	–0.2	–0.2	–0.2	–0.2	–0.2
Total, allowances	—	—	–1.1	–1.1	–1.2	–1.2	–1.3	—	–1.1	–0.9	–0.9	–0.7	–0.5
Undistributed offsetting receipts	–89.2	–97.3	–112.6	–122.5	–133.7	–144.0	–156.8	–97.8	–114.6	–125.8	–137.1	–146.6	–158.6
On-budget	(–72.9)	(–76.1)	(–86.8)	(–91.4)	(–96.5)	(–100.0)	(–105.6)	(–76.4)	(–88.0)	(–93.4)	(–98.5)	(–101.8)	(–106.9)
Off-budget	(–16.3)	(–21.2)	(–25.9)	(–31.1)	(–37.2)	(–44.0)	(–51.1)	(–21.3)	(–26.6)	(–32.4)	(–38.6)	(–44.8)	(–51.6)
Subtotal, January proposal outlays	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9	1,264.3	1,323.4	1,359.6	1,355.8	1,368.2	1,423.6
6/20 proposals	—	—	—	—	—	—	—	—	–11.7	–19.7	–23.7	–29.7	–31.9
Total, outlays	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9	1,264.3	1,311.7	1,339.8	1,332.2	1,338.5	1,391.7
ADDENDUM													
On-budget	931.7	971.5	997.4	1,026.5	1,067.1	1,133.9	1,203.8	1,038.8	1,076.3	1,093.9	1,075.7	1,072.4	1,116.3
Off-budget	210.9	225.8	236.0	244.9	254.7	264.1	273.1	225.5	235.4	246.0	256.4	266.2	275.4

*$50 million or less

Table D—15. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED OUTLAYS BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
National defense	303.6	296.3	303.3	309.2	311.9	315.7	318.6	299.8	303.3	309.6	311.9	319.6	320.4
Defense—Military	(294.9)	(286.8)	(292.1)	(296.9)	(299.0)	(302.3)	(304.8)	(290.2)	(292.2)	(297.4)	(299.1)	(306.2)	(306.7)
Other	(8.7)	(9.6)	(11.1)	(12.3)	(12.9)	(13.4)	(13.7)	(9.6)	(11.0)	(12.3)	(12.9)	(13.4)	(13.7)
International affairs	9.6	14.6	18.2	19.4	18.8	18.9	19.7	15.5	18.2	19.1	18.8	19.0	19.8
General science, space, and, technology	12.8	14.1	16.6	19.4	21.4	22.9	24.0	14.2	16.6	19.4	21.4	22.9	24.0
Energy	3.7	3.2	3.0	3.1	3.2	3.0	2.6	3.3	3.0	3.4	3.4	3.2	2.7
Natural resources and environment	16.2	17.5	18.2	18.9	18.4	18.3	17.8	17.8	17.9	18.3	18.2	18.2	17.7
Agriculture	16.9	14.6	14.9	15.6	13.5	11.8	10.4	12.5	11.2	11.2	11.5	10.8	9.4
Commerce and housing credit	27.7	22.7	17.2	10.3	9.6	7.7	6.2	77.6	75.7	53.6	6.3	-33.5	-14.4
On-budget	(28.0)	(20.3)	(15.5)	(9.6)	(9.5)	(7.8)	(6.6)	(75.7)	(76.0)	(53.6)	(6.2)	(-33.0)	(-13.5)
Off-budget	(-0.3)	(2.4)	(1.7)	(0.7)	(0.1)	(-0.1)	(-0.4)	(1.9)	(-0.3)	(0.1)	(*)	(-0.5)	(-0.9)
Transportation	27.6	29.2	29.8	30.2	30.7	31.3	31.3	29.5	29.9	30.3	30.6	31.0	31.4
Community and regional development	5.4	8.8	7.8	6.5	6.1	5.9	6.2	8.3	7.8	6.5	6.1	5.8	5.8
Education, training, employment, and social services	36.7	37.7	41.0	42.9	43.5	44.1	44.9	38.3	42.1	44.1	43.9	44.7	45.6
Health	48.4	57.8	63.7	69.9	75.9	82.0	88.3	58.2	66.2	74.3	81.8	89.2	96.6
Medicare	85.0	96.6	98.6	110.1	121.9	135.0	149.1	96.9	99.6	112.4	124.6	138.3	153.2
Income security	136.0	146.6	153.7	159.6	166.3	174.6	181.4	148.5	160.5	165.7	173.4	182.3	188.8
Social security	232.5	248.5	264.8	280.9	297.7	314.6	331.4	248.7	266.9	284.0	301.1	317.9	334.9
On-budget	(5.1)	(3.9)	(4.7)	(5.6)	(6.0)	(6.4)	(6.9)	(3.8)	(4.7)	(5.6)	(6.0)	(6.5)	(6.9)
Off-budget	(227.5)	(244.6)	(260.1)	(275.3)	(291.7)	(308.2)	(324.6)	(244.9)	(262.2)	(278.3)	(295.1)	(311.5)	(328.0)
Veterans benefits and services	30.1	28.9	30.3	31.0	33.3	32.6	31.7	29.4	30.9	31.8	32.5	34.7	34.0
Adminstration of justice	9.4	10.5	12.6	13.9	14.2	14.3	14.6	10.5	12.8	14.2	14.4	14.5	14.8
General government	9.1	10.6	11.3	11.9	25.8	65.2	113.5	10.6	12.0	13.0	12.8	12.5	12.2
Net interest	169.1	175.6	173.0	163.5	157.0	147.8	136.1	181.4	193.7	193.5	190.2	184.4	176.4
On-budget	(180.5)	(191.2)	(192.9)	(188.1)	(187.1)	(184.1)	(178.9)	(197.2)	(214.3)	(219.4)	(221.8)	(221.6)	(219.8)
Off-budget	(-11.4)	(-15.6)	(-19.9)	(-24.6)	(-30.1)	(-36.3)	(-42.8)	(-15.8)	(-20.6)	(-26.0)	(-31.6)	(-37.2)	(-43.3)
Allowances:													
Civilian pay reform	—	—	—	—	—	—	—	—	—	0.2	0.3	0.5	0.8
Employee health benefits reform	—	—	-0.8	-0.9	-1.0	-1.0	-1.1	—	-0.8	-0.9	-1.0	-1.0	-1.1
Reduced Government mail rates	—	—	-0.2	-0.2	-0.2	-0.2	-0.2	—	-0.2	-0.2	-0.2	-0.2	-0.2
Total, allowances	—	—	-1.1	-1.1	-1.2	-1.2	-1.3	—	-1.1	-0.9	-0.9	-0.7	-0.5
Undistributed offsetting receipts:													
Employer share, employee retirement (on-budget)	-29.4	-28.3	-30.1	-30.8	-32.1	-33.9	-35.0	-28.3	-30.0	-30.7	-32.0	-33.7	-34.8
Employer share, employee retirement (off-budget)	-4.9	-5.6	-6.0	-6.5	-7.1	-7.7	-8.3	-5.6	-5.9	-6.4	-7.0	-7.7	-8.3
Rents and royalties on the Outer Continental Shelf	-2.9	-2.6	-3.0	-3.4	-3.1	-3.3	-3.3	-2.9	-3.4	-3.6	-3.3	-3.6	-3.3
Sale of major assets	—	—	-1.3	-1.6	-1.6	-1.6	-1.6	—	-1.3	-1.6	-1.6	-1.6	-1.6
Other undistributed offsetting receipts	—	—	-3.3	-1.5	-2.3	-0.1	-1.3	—	-3.3	-1.5	-2.3	-0.1	-1.3
Total, undistributed offsetting receipts	-37.2	-36.5	-43.6	-43.8	-46.2	-46.6	-49.5	-36.7	-43.8	-43.8	-46.2	-46.7	-49.4
On-budget	(-32.4)	(-30.9)	(-37.6)	(-37.4)	(-39.1)	(-38.9)	(-41.2)	(-31.2)	(-37.9)	(-37.4)	(-39.2)	(-39.0)	(-41.1)
Off-budget	(-4.9)	(-5.6)	(-6.0)	(-6.5)	(-7.1)	(-7.7)	(-8.3)	(-5.6)	(-5.9)	(-6.4)	(-7.0)	(-7.7)	(-8.3)
Subtotal, January proposal outlays	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9	1,264.3	1,323.4	1,359.6	1,355.8	1,368.2	1,423.6

6/20 proposals	—	—	—	—	—	—	—	—	−11.7	−19.7	−23.7	−29.7	−31.9
Total, outlays	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9	1,264.3	1,311.7	1,339.8	1,332.2	1,338.5	1,391.7
ADDENDUM													
On-budget	931.7	971.5	997.4	1,026.5	1,067.1	1,133.9	1,203.8	1,038.8	1,076.3	1,093.9	1,075.7	1,072.4	1,116.3
Off-budget	210.9	225.8	236.0	244.9	254.7	264.1	273.1	225.5	235.4	246.0	256.4	266.2	275.4

*$50 million or less.

Table D–16. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED OUTLAYS BY CATEGORY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
se	303.6	296.3	303.3	309.2	311.9	315.7	318.6	299.8	303.3	309.6	311.9	319.6	320.4
iational discretionary	16.6	17.3	19.2	20.3	19.7	20.2	20.8	18.5	19.2	20.0	19.8	20.3	20.9
stic discretionary	169.0	184.2	194.4	202.3	207.5	212.2	215.7	185.3	194.9	203.6	209.2	214.0	217.4
atory	528.6	562.5	589.7	622.1	674.7	751.9	838.8	616.7	659.1	678.9	673.6	679.7	741.1
sales and prepayments	–7.0	–2.3	–1.6	–1.4	–1.5	–1.4	–1.4	–0.6	–1.9	–1.4	–1.5	–1.4	–1.4
ees and other collections	—	—	–5.6	–3.8	–5.2	–3.4	–4.9	—	–5.5	–3.8	–5.1	–3.3	–4.8
iterest	169.1	175.6	173.0	163.5	157.0	147.8	136.1	181.4	193.7	193.5	190.2	184.4	176.4
undistributed offsetting receipts	–37.2	–36.5	–39.0	–40.7	–42.3	–44.9	–46.6	–36.7	–39.3	–40.7	–42.3	–45.0	–46.5
ibtotal, January proposals	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9	1,264.3	1,323.4	1,359.6	1,355.8	1,368.2	1,423.6
roposals	—	—	—	—	—	—	—	—	–11.7	–19.7	–23.7	–29.7	–31.9
ital, outlays	1,142.6	1,197.2	1,233.3	1,271.4	1,321.8	1,398.0	1,476.9	1,264.3	1,311.7	1,339.8	1,332.2	1,338.5	1,391.7

Table D-17. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Legislative Branch	2.3	2.2	2.7	2.7	2.7	2.8	2.9	2.2	2.7	2.7	2.8	2.9	2.9
The Judiciary	1.5	1.7	2.1	2.3	2.3	2.4	2.5	1.7	2.1	2.3	2.3	2.4	2.5
Executive Office of the President	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Funds Appropriated to the President	11.0	12.4	12.4	12.7	13.1	13.3	13.9	12.4	12.6	24.4	13.3	13.5	14.2
Department of Agriculture	55.7	55.1	55.3	56.2	55.3	53.4	55.9	54.2	55.0	55.9	56.5	57.0	56.9
Department of Commerce	2.8	3.6	2.5	2.4	2.5	2.4	2.2	3.7	2.5	2.4	2.5	2.4	2.2
Department of Defense—Military	290.8	291.4	295.1	300.0	304.3	308.0	311.8	289.0	295.0	299.8	304.2	307.9	311.6
Department of Defense—Civil	37.2	36.7	38.4	40.1	42.3	44.6	46.7	36.7	38.5	40.5	42.9	45.3	47.6
Department of Education	23.0	24.1	24.6	24.2	24.4	24.5	24.7	24.7	26.0	24.9	24.5	24.9	25.2
Department of Energy	11.7	14.3	14.8	16.9	17.6	17.8	18.0	14.3	14.8	16.9	17.6	17.8	18.0
Department of Health and Human Services, except Social Security	196.6	212.3	232.4	249.3	270.7	293.5	314.3	213.2	235.0	251.7	275.1	298.8	319.4
Department of Health and Human Services, Social Security	279.9	306.6	340.4	368.4	399.1	432.4	461.8	302.8	338.7	364.8	395.5	428.6	458.0
Department of Housing and Urban Development	14.3	18.4	23.7	22.2	22.2	21.9	22.1	17.9	24.0	22.4	22.3	21.7	22.6
Department of the Interior	5.5	6.2	5.6	5.7	5.7	5.8	5.7	6.6	5.5	5.7	5.7	5.9	5.8
Department of Justice	6.7	8.6	8.9	9.3	9.8	9.8	10.1	8.8	9.0	9.4	9.9	9.8	10.2
Department of Labor	29.9	32.5	32.1	32.3	33.0	33.5	33.9	32.1	32.0	33.1	34.8	36.6	38.0
Department of State	4.1	4.2	5.5	4.7	4.8	4.9	5.1	4.3	5.5	4.7	4.8	4.9	5.1
Department of Transportation	28.5	30.2	29.3	30.3	30.7	30.7	31.3	30.2	29.3	30.4	30.7	30.8	31.3
Department of the Treasury	232.1	248.5	256.1	258.9	275.9	316.5	363.2	254.4	278.9	293.1	299.6	303.6	305.7
Department of Veterans Affairs	29.9	29.9	30.9	31.4	32.0	32.7	33.5	30.5	31.5	32.3	32.8	33.3	33.9
Environmental Protection Agency	5.1	5.4	5.4	5.2	5.0	4.4	3.9	5.4	5.4	5.2	5.0	4.4	3.9
General Services Administration	0.2	0.1	*	0.1	0.1	0.1	0.1	1.8	1.4	0.8	0.4	0.1	0.1
National Aeronautics and Space Administration	11.0	12.3	15.2	17.6	19.3	20.3	21.0	12.3	15.2	17.6	19.3	20.3	21.0
Office of Personnel Management	51.2	55.6	58.2	61.3	64.5	68.0	70.8	55.6	58.5	62.0	65.4	68.8	71.6
Small Business Administration	0.4	0.9	0.4	0.5	0.5	0.5	0.6	0.9	0.4	0.5	0.5	0.6	0.6
Other Independent Agencies	67.5	21.3	17.8	19.6	19.6	21.5	20.0	22.8	48.2	51.0	38.5	26.0	22.6
On-budget	(65.9)	(17.2)	(14.9)	(17.4)	(17.9)	(19.9)	(18.6)	(18.9)	(46.4)	(49.0)	(36.8)	(24.5)	(21.0)
Off-budget	(1.6)	(4.1)	(3.0)	(2.2)	(1.7)	(1.5)	(1.4)	(3.9)	(1.8)	(2.0)	(1.8)	(1.6)	(1.6)
Allowances													
Civilian pay reform	—	—	—	—	—	—	—	—	—	0.2	0.3	0.5	0.8
Employee health benefits reform	—	—	-0.8	-0.9	-1.0	-1.0	-1.1	—	-0.8	-0.9	-1.0	-1.0	-1.1
Reduced Government mail rates	—	—	-0.2	-0.2	-0.2	-0.2	-0.2	—	-0.2	-0.2	-0.2	-0.2	-0.2
Total, allowances	—	—	-1.1	-1.1	-1.2	-1.2	-1.3	—	-1.1	-0.9	-0.9	-0.7	-0.5
Undistributed offsetting receipts	-89.2	-97.3	-112.6	-122.5	-133.7	-144.0	-156.8	-97.8	-114.6	-125.8	-137.1	-146.6	-158.6
On-budget	(-72.9)	(-76.1)	(-86.8)	(-91.4)	(-96.5)	(-100.0)	(-105.6)	(-76.4)	(-88.0)	(-93.4)	(-98.5)	(-101.8)	(-106.9)
Off-budget	(-16.3)	(-21.2)	(-25.9)	(-31.1)	(-37.2)	(-44.0)	(-51.1)	(-21.3)	(-26.6)	(-32.4)	(-38.6)	(-44.8)	(-51.6)
Subtotal, January proposals budget authority	1,309.9	1,337.6	1,396.5	1,451.1	1,522.7	1,620.9	1,718.1	1,341.1	1,452.4	1,528.2	1,569.2	1,621.4	1,672.0
6/20 proposals	—	—	—	—	—	—	—	—	-14.9	-17.0	-19.5	-21.7	-24.0
Total, budget authority	1,309.9	1,337.6	1,396.5	1,451.1	1,522.7	1,620.9	1,718.1	1,341.1	1,437.5	1,511.2	1,549.7	1,599.7	1,648.1
ADDENDUM													
On-budget	1,044.6	1,048.1	1,079.0	1,111.6	1,159.1	1,231.0	1,306.0	1,055.8	1,123.6	1,176.8	1,191.1	1,214.4	1,240.1
Off-Budget	265.3	289.5	317.5	339.6	363.6	389.9	412.1	285.3	313.9	334.4	358.7	385.3	407.9

*$50 million or less.

Table D-18. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
National defense	299.6	301.6	306.9	312.5	317.5	321.6	325.7	299.3	306.6	312.4	317.3	321.5	325.5
Defense—Military	(290.8)	(291.4)	(295.1)	(300.0)	(304.3)	(308.0)	(311.8)	(289.0)	(295.0)	(299.8)	(304.2)	(307.9)	(311.6)
Other	(8.7)	(10.3)	(11.7)	(12.6)	(13.1)	(13.6)	(13.9)	(10.3)	(11.7)	(12.6)	(13.1)	(13.6)	(13.9)
International affairs	17.3	18.6	20.0	19.6	20.1	20.5	21.6	19.0	20.2	31.3	20.3	20.8	21.9
General science, space, and technology	12.9	14.6	17.9	20.8	22.7	24.1	25.0	14.6	17.8	20.8	22.7	24.1	25.0
Energy	4.1	5.6	3.3	4.1	4.6	4.4	4.2	4.9	3.6	4.1	4.5	4.2	3.9
Natural resources and environment	17.0	17.0	17.6	18.0	17.5	17.2	16.4	17.7	17.4	17.3	17.6	17.2	16.5
Agriculture	21.3	18.0	20.1	21.1	18.9	14.9	15.1	13.9	17.1	17.3	17.1	14.3	14.1
Commerce and housing credit	61.9	19.6	14.3	13.9	13.8	15.5	14.4	21.8	44.9	47.3	33.4	22.0	16.7
On-budget	(60.3)	(15.5)	(11.3)	(11.7)	(12.1)	(13.9)	(13.0)	(17.9)	(43.1)	(45.3)	(31.7)	(20.4)	(15.1)
Off-budget	(1.6)	(4.1)	(3.0)	(2.2)	(1.7)	(1.5)	(1.4)	(3.9)	(1.8)	(2.0)	(1.8)	(1.6)	(1.6)
Transportation	29.3	31.2	30.3	31.3	31.7	31.7	32.4	31.2	30.3	31.4	31.7	31.8	32.4
Community and regional development	7.9	9.0	7.0	6.2	6.2	6.1	6.1	9.8	7.0	6.1	6.1	6.1	6.0
Education, training, employment, and social services	38.8	39.6	42.0	42.9	43.7	44.4	45.0	40.4	43.3	43.7	44.0	45.0	45.9
Health	51.7	60.3	64.8	70.9	76.8	83.0	89.6	61.1	67.3	75.2	82.7	90.3	97.9
Medicare	107.3	116.9	125.2	136.4	150.8	164.9	178.8	116.2	122.7	133.0	147.6	161.1	173.9
Income security	173.4	183.2	198.9	204.4	211.9	221.1	227.7	184.9	204.7	210.8	220.2	231.2	239.7
Social security	285.0	310.5	345.1	374.0	405.1	438.8	468.7	306.6	343.4	370.5	401.6	435.0	464.9
On-budget	(5.1)	(3.9)	(4.7)	(5.6)	(6.0)	(6.4)	(6.9)	(3.8)	(4.7)	(5.6)	(6.0)	(6.5)	(6.9)
Off-budget	(279.9)	(306.6)	(340.4)	(368.4)	(399.1)	(432.4)	(461.8)	(302.8)	(338.7)	(364.8)	(395.5)	(428.6)	(458.0)
Veterans benefits and services	30.0	30.0	31.0	31.5	32.1	32.8	33.6	30.6	31.7	32.4	32.9	33.4	34.0
Administration of justice	10.0	12.2	12.6	13.2	14.2	14.4	14.9	12.4	12.7	13.4	14.4	14.7	15.1
General government	10.6	10.5	11.4	11.6	25.7	65.3	113.7	12.0	12.9	12.4	12.0	11.8	12.0
Net interest	169.1	175.6	173.0	163.5	157.0	147.8	136.1	181.4	193.7	193.5	190.2	184.4	176.4
On-budget	(180.5)	(191.2)	(192.9)	(188.1)	(187.1)	(184.1)	(178.9)	(197.2)	(214.3)	(219.4)	(221.8)	(221.6)	(219.8)
Off-budget	(–11.4)	(–15.6)	(–19.9)	(–24.6)	(–30.1)	(–36.3)	(–42.8)	(–15.8)	(–20.6)	(–26.0)	(–31.6)	(–37.2)	(–43.3)
Allowances:													
Civilian pay reform	—	—	—	—	—	—	—	—	—	0.2	0.3	0.5	0.8
Employee health benefits reform	—	—	–0.8	–0.9	–1.0	–1.0	–1.1	—	–0.8	–0.9	–1.0	–1.0	–1.1
Reduced Government mail rates	—	—	–0.2	–0.2	–0.2	–0.2	–0.2	—	–0.2	–0.2	–0.2	–0.2	–0.2
Total, allowances	—	—	–1.1	–1.1	–1.2	–1.2	–1.3	—	–1.1	–0.9	–0.9	–0.7	–0.5
Undistributed offsetting receipts:													
Employer share, employee retirement (on-budget)	–29.4	–28.3	–30.1	–30.8	–32.1	–33.9	–35.0	–28.3	–30.0	–30.7	–32.0	–33.7	–34.8
Employer share, employee retirement (off-budget)	–4.9	–5.6	–6.0	–6.5	–7.1	–7.7	–8.3	–5.6	–5.9	–6.4	–7.0	–7.7	–8.3
Rents and royalties on the Outer Continental Shelf	–2.9	–2.6	–3.0	–3.4	–3.1	–3.3	–3.3	–2.9	–3.4	–3.6	–3.3	–3.6	–3.3
Sale of major assets	—	—	–1.3	–1.6	–1.6	–1.6	–1.6	—	–1.3	–1.6	–1.6	–1.6	–1.6
Other undistributed offsetting receipts	—	—	–3.3	–1.5	–2.3	–0.1	–1.3	—	–3.3	–1.5	–2.3	–0.1	–1.3
Total, undistributed offsetting receipts	–37.2	–36.5	–43.6	–43.8	–46.2	–46.6	–49.5	–36.7	–43.8	–43.8	–46.2	–46.7	–49.4
On-budget	(–32.4)	(–30.9)	(–37.6)	(–37.4)	(–39.1)	(–38.9)	(–41.2)	(–31.2)	(–37.9)	(–37.4)	(–39.2)	(–39.0)	(–41.1)
Off-budget	(–4.9)	(–5.6)	(–6.0)	(–6.5)	(–7.1)	(–7.7)	(–8.3)	(–5.6)	(–5.9)	(–6.4)	(–7.0)	(–7.7)	(–8.3)
Subtotal, January proposal budget authority	1,309.9	1,337.6	1,396.5	1,451.1	1,522.7	1,620.9	1,718.1	1,341.1	1,452.4	1,528.2	1,569.2	1,621.4	1,672.0

6/20 proposals	—	—	—	—	—	—	—	—	−14.9	−17.0	−19.5	−21.7	−24.0
Total, budget authority	1,309.9	1,337.6	1,396.5	1,451.1	1,522.7	1,620.9	1,718.1	1,341.1	1,437.5	1,511.2	1,549.7	1,599.7	1,648.1
ADDENDUM													
On-budget	1,044.6	1,048.1	1,079.0	1,111.6	1,159.1	1,231.0	1,306.0	1,055.8	1,123.6	1,176.8	1,191.1	1,214.4	1,240.1
Off-budget	265.3	289.5	317.5	339.6	363.6	389.9	412.1	285.3	313.9	334.4	358.7	385.3	407.9

*$50 million or less

Table D-19. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED NEW DIRECT LOAN OBLIGATIONS BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Funds Appropriated to the President	0.4	0.4	*	*	*	*	*	0.4	*	*	*	*	*
Department of Agriculture	12.7	13.3	10.8	10.5	10.0	9.6	9.3	11.8	9.3	9.3	9.3	9.3	8.9
Department of Education	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of Housing and Urban Development	0.5	0.6	0.4	0.5	0.5	0.5	0.5	0.6	0.4	0.5	0.5	0.5	0.5
Department of Interior	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of Labor	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of State	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of Transportation	*	*	*	*	*	*	*	*	*	*	*	*	*
Department of Veterans Affairs	1.1	0.9	0.7	0.6	0.5	0.5	0.5	1.0	1.0	1.0	1.0	0.9	0.8,
Environmental Protection Agency	*	*	—	—	—	—	—	*	*	—	—	—	—
Small Business Administration	0.2	1.9	0.3	0.3	0.3	0.3	0.3	1.5	0.3	0.3	0.3	0.3	0.3
Other Independent Agencies:													
Export-Import Bank	0.7	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.6	0.6
National Credit Union Administration	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.2	0.3	0.1	0.1	0.1	0.1
Tennessee Valley Authority	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4
Total, new direct loan obligations	16.2	18.4	13.4	13.0	12.4	12.1	11.7	16.6	12.2	12.1	12.2	12.2	11.7

*$50 million or less.

Table D-20. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED NEW DIRECT LOAN OBLIGATIONS BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
(In billions of dollars)													
International affairs	1.9	1.8	1.3	1.3	1.4	1.4	1.5	1.8	1.3	1.3	1.4	1.4	1.5
Energy	1.2	2.1	0.5	0.4	0.5	0.4	0.4	1.3	0.5	0.4	0.5	0.4	0.4
Natural resources and environment	0.1	0.1	*	*	*	—	—	0.1	*	*	*	—	—
Agriculture	8.2	7.8	7.9	7.8	7.4	7.2	6.9	7.0	6.6	6.7	6.8	6.9	6.6
Commerce and housing credit	3.0	3.0	2.1	1.9	1.9	1.8	1.7	3.0	2.0	1.8	1.8	1.7	1.7
Transportation	*	*	*	*	*	*	*	*	*	*	*	*	*
Community and regional development	0.8	2.6	0.8	0.8	0.8	0.7	0.7	2.2	0.8	0.8	0.8	0.7	0.7
Education, training, employment, and social services	*	*	*	*	*	*	*	*	*	*	*	*	*
Income security	*	*	*	*	*	*	*	*	*	*	*	*	*
Veterans benefits and services	1.1	0.9	0.7	0.6	0.5	0.5	0.5	1.0	1.0	1.0	1.0	0.9	0.8
Total, new direct loan obligations	16.2	18.4	13.4	13.0	12.4	12.1	11.7	16.6	12.2	12.1	12.2	12.2	11.7

*$50 million or less.

Table D–21. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED NEW GUARANTEED LOAN COMMITMENTS BY AGENCY

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
Funds Appropriated to the President	5.4	2.1	0.4	0.4	0.4	0.4	0.4	2.1	0.4	0.4	0.4	0.4	0.4
Department of Agriculture	5.5	9.3	10.3	10.4	10.6	10.7	10.8	7.2	10.7	10.4	10.6	10.7	10.8
Department of Commerce	0.1	0.1	—	—	—	—	—	0.1	—	—	—	—	—
Department of Education	11.9	12.7	12.6	13.4	14.2	14.9	15.5	12.6	12.6	13.5	14.2	14.9	15.6
Department of Health and Human Services	0.3	0.3	0.2	0.1	0.1	*	*	0.3	0.2	0.1	0.1	*	*
Department of Housing and Urban Development	54.5	63.7	75.0	67.0	67.0	67.0	67.0	63.8	75.0	74.0	79.7	82.5	85.5
Department of Interior	0.1	*	*	*	*	*	*	*	*	*	*	*	*
Department of the Treasury	0.4	0.6	0.5	0.7	—	—	—	0.5	0.5	0.7	—	—	—
Veterans Affairs	14.4	15.0	15.8	14.5	14.3	14.5	14.7	16.5	17.8	16.6	15.3	14.4	14.8
Small Business Administration	3.7	4.5	4.4	4.6	4.7	4.8	5.0	4.5	4.4	4.6	4.7	4.8	5.0
Other Independent Agencies:													
Export-Import Bank	5.6	10.2	10.6	11.0	11.4	11.8	12.2	10.2	10.6	11.0	11.4	11.8	12.2
Federal Home Loan Bank Board	3.5	—	—	—	—	—	—	—	—	—	—	—	—
National Credit Union Administration	*	*	*	*	*	*	*	*	*	*	*	*	*
Total, new guarantee commitments	105.4	118.6	129.8	122.2	122.7	124.2	125.7	117.9	132.2	131.3	136.4	139.6	144.3
ADDENDUM													
Secondary guaranteed loans	55.1	81.7	80.0	79.8	82.6	85.1	87.5	81.7	85.0	85.0	90.0	90.0	95.0

*$50 million or less.

Table D-22. MID-SESSION REVIEW: JANUARY/JUNE PROPOSED NEW GUARANTEED LOAN COMMITMENTS BY FUNCTION

(In billions of dollars)

	Actual 1989	January Estimates						Current Estimates					
		1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
International affairs	11.0	12.3	11.0	11.4	11.9	12.3	12.6	12.3	11.0	11.5	11.9	12.3	12.7
Energy	—	0.5	1.1	1.2	1.2	1.3	1.3	0.2	1.5	1.2	1.2	1.3	1.3
Agriculture	5.4	8.5	8.3	8.3	8.3	8.3	8.3	6.8	8.3	8.3	8.3	8.3	8.3
Commerce and housing credit	61.7	68.2	80.0	72.2	72.4	72.6	72.8	68.3	80.0	79.2	85.1	88.1	91.3
Community and regional development	0.3	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.5
Education, training, employment, and social services	11.9	12.7	12.6	13.4	14.2	14.9	15.5	12.6	12.6	13.5	14.2	14.9	15.6
Health	0.3	0.3	0.2	0.1	0.1	*	*	0.3	0.2	0.1	0.1	*	*
Veterans benefits and services	14.4	15.0	15.8	14.5	14.3	14.5	14.7	16.5	17.8	16.6	15.3	14.4	14.8
General government	0.4	0.6	0.5	0.7	—	—	—	0.5	0.5	0.7	—	—	—
Total, new guarantee commitments	105.4	118.6	129.8	122.2	122.7	124.2	125.7	117.9	132.2	131.3	136.4	139.6	144.3
ADDENDUM													
Secondary guaranteed loans	55.1	81.7	80.0	79.8	82.6	85.1	87.5	81.7	85.0	85.0	90.0	90.0	95.0

*$50 million or less.

Table D-23. MID-SESSION REVIEW: FEDERAL GOVERNMENT FINANCING AND DEBT

(In billions of dollars)

	Actual 1989	Estimates					
		1990	1991	1992	1993	1994	1995
Financing:							
Surplus or deficit (–)	–152.0	–220.1	–176.3	–133.9	–49.2	31.5	55.4
On-budget	(–204.7)	(–276.0)	(–253.1)	(–220.3)	(–149.7)	(–86.1)	(–75.5)
Off-budget	(52.8)	(56.0)	(76.8)	(86.4)	(100.5)	(117.6)	(130.9)
Means of financing other than borrowing from the public:							
Decrease or increase (–) in Treasury operating cash balance	3.4	11.0	—	—	—	—	—
Increase or decrease (–) in:							
Checks outstanding, etc.[1]	8.1	0.1	2.4	—	—	—	—
Deposit fund balances	0.7	–1.2	–0.7	–1.2	—	—	—
Seigniorage on coins	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Proceeds from the sale of loan assets with recourse [2]	*	—	—	—	—	—	—
Total, means of financing other than borrowing from the public	12.9	10.5	2.3	–0.6	0.6	0.5	0.5
Total, requirements for borrowing from the public	–139.1	–209.6	–174.1	–134.5	–48.7	32.0	55.9
Reclassification of debt [3]	—	—	—	—	–2.4	—	—
Change in debt held by the public [4]	139.1	209.6	174.1	134.5	51.1	–32.0	–55.9
Debt Outstanding, End of Year:							
Gross Federal debt:							
Debt issued by Treasury [4]	2,842.0	3,174.9	3,490.8	3,787.9	4,025.3	4,199.5	4,366.7
Debt issued by other agencies	24.2	31.2	30.7	30.7	33.1	31.9	30.6
Total, gross Federal debt [4]	2,866.2	3,206.1	3,521.5	3,818.6	4,058.5	4,231.4	4,397.2
Held by:							
Government accounts	676.9	807.2	948.4	1,111.1	1,299.9	1,504.8	1,726.6
The public [4]	2,189.3	2,399.0	2,573.0	2,707.5	2,758.6	2,726.6	2,670.7
Debt Subject to Statutory Limit, End of Year:							
Debt issued by Treasury [4]	2,842.0	3,174.9	3,490.8	3,787.9	4,025.3	4,199.5	4,366.7
Deduct (–): Treasury debt not subject to limit	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6
Agency debt subject to limit	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Unamortized discount or premium (–) on Treasury notes and bonds	3.1	2.9	2.9	2.9	2.9	2.9	2.9
Total, debt subject to statutory limit [6]	2,829.8	3,162.7	3,478.6	3,775.7	4,013.1	4,187.3	4,354.5

*$50 million or less.

[1] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit from the sale of gold.

[2] Proceeds from the sale of vendee loans with recourse are required by law are to be classified as offsetting collections rather than means of financing.

[3] The Farm Credit System Financial Assistance Corporation is estimated to be reclassified from a Government-sponsored enterprise to a Federal agency as of October 1, 1992, and its debt is accordingly reclassified as Federal agency debt.

[4] Treasury securities held by the public are measured at accrual value (i.e., sales price plus amortized discount or less amortized premiums).

[5] Consists primarily of Federal Financing Bank debt.

[6] The statutory debt limit is $3,122.7 billion.

U.S. Government Printing Office : 1990 O - 270-858 : QL 3

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
July 16, 1990

CONTACT: Office of Financing
202/376-4350

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $9,018 million of 13-week bills and for $9,021 million of 26-week bills, both to be issued on July 19, 1990, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 18, 1990			:	26-week bills maturing January 17, 1991		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.59% a/	7.85%	98.081	:	7.51%	7.92%	96.203
High	7.63%	7.89%	98.071	:	7.53%	7.94%	96.193
Average	7.62%	7.88%	98.074	:	7.52%	7.93%	96.198

a/ Excepting $900,000 at lower yields.

Tenders at the high discount rate for the 13-week bills were allotted 18%.
Tenders at the high discount rate for the 26-week bills were allotted 41%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 39,055	$ 39,045	:	$ 51,120	$ 51,120
New York	22,044,210	7,117,710	:	24,493,435	7,673,895
Philadelphia	35,360	35,360	:	25,260	25,260
Cleveland	49,245	49,245	:	55,950	55,950
Richmond	51,050	51,050	:	56,250	56,250
Atlanta	41,910	41,910	:	42,870	38,235
Chicago	2,555,635	735,135	:	1,802,440	256,040
St. Louis	38,475	19,375	:	30,880	24,520
Minneapolis	17,230	17,230	:	20,575	20,575
Kansas City	43,250	43,250	:	59,950	59,950
Dallas	35,420	26,320	:	37,160	29,210
San Francisco	786,210	304,210	:	615,415	235,915
Treasury	537,740	537,740	:	493,695	493,695
TOTALS	$26,274,790	$9,017,580	:	$27,785,000	$9,020,615
Type					
Competitive	$22,678,645	$5,421,435	:	$23,856,750	$5,092,365
Noncompetitive	1,460,770	1,460,770	:	1,375,665	1,375,665
Subtotal, Public	$24,139,415	$6,882,205	:	$25,232,415	$6,468,030
Federal Reserve	2,028,360	2,028,360	:	2,150,000	2,150,000
Foreign Official Institutions	107,015	107,015	:	402,585	402,585
TOTALS	$26,274,790	$9,017,580	:	$27,785,000	$9,020,615

An additional $140,985 thousand of 13-week bills and an additional $512,915 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

NB-875

PRESS RELEASE

OVERSIGHT BOARD
Resolution Trust Corporation

FOR IMMEDIATE RELEASE
July 17, 1990
OB 90-43

Contact: Diane Casey
(202) 786-9672

OVERSIGHT BOARD OPEN MEETING RESCHEDULED

The Oversight Board meeting scheduled for Wednesday, July 18, 1990 at 2:30 p.m. has been rescheduled to begin at 3:45 p.m.

The meeting, open to all members of the public and press, will be in the General Services Administration auditorium at 18th and F Streets, N.W., Washington, D.C.

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TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M.

July 17, 1990

CONTACT: Office of Financing
202/376-4350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $18,000 million, to be issued July 26, 1990. This offering will provide about $2,100 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $15,898 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, July 23, 1990. The two series offered are as follows:

91-day bills (to maturity date) for approximately $9,000 million, representing an additional amount of bills dated October 26, 1989, and to mature October 25, 1990 (CUSIP No. 912794 UR 3), currently outstanding in the amount of $18,008 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $9,000 million, to be dated July 26, 1990, and to mature January 24, 1991 (CUSIP No. 912794 VS 0).

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 July 26, 1990. 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 $1,085 million as agents for foreign and international monetary authorities, and $3,352 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-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 one-half hour prior to the closing time for receipt of tenders 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.

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.

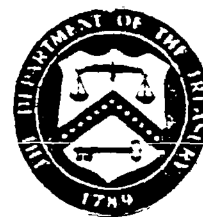
Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments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

If a bill is purchased at issue, and is held to maturity, the amount of discount is reportable as ordinary income on the Federal income tax return of the owner for the year in which the bill matures. 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, any gain in excess of the basis is treated as ordinary income.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76, 27-76, and 2-86, as applicable, 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.

8/89

TREASURY NEWS



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

TEXT AS PREPARED
FOR RELEASE UPON DELIVERY
EXPECTED AT 10:30 A.M.
JULY 18, 1990

STATEMENT BY
THE HONORABLE DAVID C. MULFORD
UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEES ON THE WESTERN HEMISPHERE,
HUMAN RIGHTS AND INTERNATIONAL ORGANIZATIONS,
AND INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittees:

I want to thank you for giving me the opportunity today to discuss with you President Bush's new "Enterprise for the Americas" initiative.

The President's announcement on June 27 followed a three month review led by Secretary Brady for the Economic Policy Council of U.S. economic policy toward Latin America and the Caribbean. This review concluded that decisive action was necessary to build a stronger and more comprehensive economic partnership with our neighbors -- in order to support the process of democratic change and growing economic realism in many countries.

The President's "Enterprise for the Americas" initiative calls for action on trade, investment, debt, and the environment. Through a broad-based trade program, the initiative defines the vision and sets out the challenge for movement toward a broad system of free and fair trade within the hemisphere. Through a range of investment-related measures, the initiative will also promote capital flows, reduce debt burdens, and improve the environment. This initiative will be in addition to existing programs for the region.

A Broad Program to Expand Trade

Barriers to trade represent a serious obstacle to growth. Trade within our hemisphere has lagged the pace of growth in world trade during the 1980's. Limited trade opportunities have constrained the growth of the hemisphere's most competitive industries and the spawning of new companies, products, and services. To achieve broader economic growth in all our economies, we must expand the potential for trade.

The successful completion of the Uruguay Round is the most effective means of promoting long-term trade growth in Latin America and the Caribbean and advancing the region's integration into the global trading system. The negotiation of reciprocal reductions in trade barriers, stronger trade rules, and expansion of these rules into currently ungoverned areas can provide important benefits to all countries. In addition, many countries of the region have an especially important stake in achieving a meaningful agreement on agriculture.

Ambassador Hills and the Administration as a whole have been working closely with Latin American and Caribbean countries throughout the Uruguay Round talks. As part of the President's new initiative, we will now be taking special steps to address the needs of our neighbors. In particular, we will analyze U.S. trade flows to identify products of special interest to Latin American and Caribbean countries and will initiate offers to cut these tariffs without waiting for these countries to make requests.

Looking beyond the conclusion of the Uruguay Round, the "Enterprise for the Americas" initiative envisions a hemisphere-wide open trade system that links all of the Americas -- North, Central, South, and the Caribbean. To move toward this long-term goal, the initiative provides for the negotiation of free trade agreements with other markets in Latin America and the Caribbean -- particularly with groups of countries that have associated for the purposes of trade liberalization. As we have seen in the case of Canada, these agreements can offer significant and lasting benefits for both sides.

These free trade agreements should be comprehensive -- providing for the free flow of goods, services, and investment between participants. They should also ensure the protection of intellectual property rights and provide for the fair and expeditious settlement of disputes. The countries involved must demonstrate a commitment to economic reform, including trade and investment liberalization and sound macroeconomic policies.

In addition, the United States is willing to enter into framework agreements, like those already concluded with Mexico and Bolivia. Such agreements give us the opportunity to negotiate with individual countries the step-by-step elimination of specific trade barriers and problems. They can also serve to set out general principles of trade relations between countries, to establish a broad mechanism for discussing problems, and to facilitate approaches to sectoral issues.

By opening their borders to trade, the nations of the Americas can all boost economic activity -- creating more jobs, higher incomes, and new opportunities to expand growth. Each of the steps I have discussed -- a successfully completed Uruguay Round, the negotiation of bilateral framework agreements, and the achievement of Free Trade Agreements, beginning with Mexico --

will help move us toward a long-term vision of a truly open hemispheric trading system.

Mexican-U.S. Free Trade Agreement

A Free Trade Agreement (FTA) between the United States and Mexico would be a giant step forward in the process of eliminating barriers to trade and investment in the Hemisphere. In accordance with the June 11 statement by Presidents Bush and Salinas, the Administration is now actively engaged in the consultations and preparatory work needed to initiate talks. Immediately following the announcement, USTR began coordinating inter-agency preparation of profiles of key FTA subjects and consulting with Congress and the private sector.

An FTA with Mexico would build on the close trade and investment links between our countries and the excellent progress Mexico has made in liberalizing its trade regime. Mexico is not only our third largest trading partner, it is also one of our fastest growing export markets. Our exports to Mexico totalled $25 billion in 1989, after having grown by an average of 18 percent annually from 1983 to 1989. U.S. imports from Mexico grew more slowly, averaging 8 percent annually.

Mexico has demonstrated its commitment to open markets, not just in rhetoric but by action. Its tariff and nontariff barriers have been slashed since 1985.

- Mexico applies no tariff higher than 20 percent, an achievement that few industrial countries can match. The maximum tariff in 1985 was 100 percent.

- Its average tariff is about 10 percent, down from an average of 25 percent in 1985.

- Only 7 percent of U.S. exports to Mexico face the nontariff barrier of import licensing requirements, compared to 100 percent in 1983.

We have an historic opportunity to make these reforms permanent, remove remaining barriers to trade in goods, and guarantee that Mexican markets are open to U.S. exporters.

FTA negotiations also provide an opportunity to address investment issues of interest to U.S. companies. Mexico has made important strides in liberalizing its investment regime, and we intend to build on this progress to ensure that U.S. companies can invest in the Mexican market.

The talks can serve as an effective means to address barriers to services trade and investment in key sectors like financial services. Mexico has recently announced legislation to privatize its banking system. We need to ensure that the

doors are opened to U.S. banks and securities firms as well as to private Mexican firms.

Let me emphasize that the long-term benefits of an FTA are not just in the form of increased U.S. exports or returns on foreign investment. Equally important, an FTA will contribute substantially to Mexican growth and to the increased wages and lower capital costs which accompany such growth. In the long term, increased income levels in Mexico are essential to eliminating bilateral trade and other frictions.

Increasing Investment in Latin America and the Caribbean

In a world short of resources, financing economic growth depends on unlocking the potential for domestic and foreign investment in Latin America and the Caribbean.

The competition today for capital is particularly fierce. More and more countries are building market economies which will appeal to both domestic and foreign investors. To increase the flow of investment resources from home and abroad, Latin American and Caribbean countries must turn around the conditions that have, over the last decade, led investors to look away from the region to other markets -- a diversion of capital flows that led to less investment and more debt.

Economic policy reform -- particularly liberalization of investment regimes -- is a vital part of attracting resources, including the repatriation of flight capital. To move countries toward action in this area and to help them attract indispensable capital, the "Enterprise for the Americas" initiative contemplates the establishment of two new vehicles in the Inter-American Development Bank.

First, we propose to work with the regional governments and the President of the Inter-American Development Bank (IDB) to develop a new investment sector loan program within the IDB. Through such sector loans, countries undertaking necessary reforms could receive both technical advice and financial support for liberalization of investment regimes and privatization efforts. This program will be undertaken over the next two years in conjunction with the World Bank while the IDB gains experience in policy-based lending activities.

In a parallel effort, a five-year multilateral investment fund administered by the IDB will be established to support the efforts of Latin American and Caribbean nations to carry out investment reforms already agreed as part of IDB sector loans. Financing from the fund, which could be provided on a grant basis, will be targeted to provide technical assistance to help carry out specific privatization and other investment regime liberalization efforts. The fund could also support human capital development by providing training and education in financial and investment-related areas and help build business

infrastructure (e.g., telecommunications). We would expect that the Fund would place particular emphasis on Central America and the Caribbean.

We envision that this $1.5 billion fund could provide up to $300 million annually for increased support of countries' efforts to reform their investment regimes. We will be discussing the framework for creating such a fund with the President and other members of the Inter-American Development Bank. We will also work closely with Congress concerning establishment of the five-year fund and U.S. contributions of $100 million annually. We have already begun to discuss with other industrial countries their participation in the Fund and feel confident of their support. I have been asked by the Finance Ministers of the Group of Seven to consult with their Deputies in pursuing this matter.

Easing Debt Burdens

To support further the process of investment reform, we intend to build on the progress already being made in addressing the debt problems of the region. Heavy debt burdens themselves have a tremendous impact on overall confidence in Latin American and Caribbean economies. For this reason, we initiated last year a major international effort to reduce commercial bank debt burdens. As we have already seen in cases such as Mexico and Chile, reduced debt servicing burdens, in combination with strong domestic economic reforms, can have a profound impact on capital flows and confidence.

To support this process, we will encourage the IDB to join the IMF and World Bank in supporting debt and debt service reduction transactions negotiated by Latin American and Caribbean countries with commercial banks under the debt strategy. As in the IMF and World Bank, the availability of IDB resources will be directly linked to economic reform efforts.

We also recognize that many countries in the region are burdened by large official bilateral debt, which has been increasingly difficult to service on a timely basis. In many countries, U.S. bilateral obligations account for a significant portion of such debt. To address this problem, the President has proposed to take steps to reduce the burden of debt owed to the U.S. Government through one special Facility. The Administration is drafting legislation and implementation plans for this and other aspects of the initiative.

Action will be taken on a case-by-case basis for those countries in the region which adopt strong economic reform programs in conjunction with the IMF and World Bank, are pursuing comprehensive investment reforms with the Inter-American Development Bank or other multilateral institutions, and have concluded financing packages with their commercial banks including debt and debt service reduction, as appropriate.

We will pursue different approaches to concessional and commercial-type debt owed to the United States Government. First, we propose to reduce and restructure the concessional AID and PL-480 debt of eligible countries. Outstanding concessional AID and PL-480 debt totals $7 billion for the Latin American and Caribbean region. We will undertake case-by-case reduction of this debt -- while preserving necessary reflows to offset current spending in these and other programs. Reduced principal obligations would be repaid in annual installments over several years, depending on the individual circumstances of each country. Interest payments on the restructured debt would be made in local currency at an agreed concessional rate and would be deposited in a trust fund for each country to support local environmental projects.

We expect this program to produce substantial debt reduction on U.S. loans, particularly for the smaller countries of the region and to generate local currency resources to support local environmental projects. At the same time, the effect of this proposal would not reduce new flows of U.S. foreign assistance to the region.

We also propose to sell a portion of outstanding commercial loans held by the United States Export-Import Bank and the Commodity Credit Corporation in order to facilitate foreign investment and to fund action in support of the environment. Interested investors or environmental groups would be able to purchase the Ex-Im and CCC obligations of those countries that have set up or expanded specific debt/equity or debt/nature swap programs.

Reduction of official debt burdens can produce broad benefits for Latin America and the Caribbean, provided countries undertake vital economic reforms. Among these benefits will be an increased ability to attract new resource flows and encourage the return of capital held by their nationals overseas. If economic reforms are sustained, this capital will provide a powerful stimulant for growth.

Preserving the Environment

To underscore our commitment to sustainable natural resource management as a key component of a hemispheric growth strategy, the President has made dedication of resources to the environment an important part of the "Enterprise for the Americas" initiative. We hope to help channel resources to environmental programs in Latin American and the Caribbean through the sale of a portion of Ex-Im Bank and CCC loans. In addition, we propose to provide funding for the environment by setting aside in trust funds the local currency received as interest payments on restructured bilateral concessional loans.

The environmental trust funds will provide an ongoing mechanism for financing environmental projects in Latin America and the Caribbean. We will negotiate agreements with individual

countries to use these financial resources to provide support for lasting projects and programs to conserve natural resources and protect the environment.

Implementing a Comprehensive Initiative

As I am sure you all understand, the various provisions of the "Enterprise for the Americas" initiative will require the development of extensive implementation plans. We are working on these details to facilitate timely operation of the initiative. Inter-agency discussion will be required to establish a framework for moving forward.

The Administration will seek legislative authority this year to implement many of the provisions of the "Enterprise for the Americas" initiative. We will want to consult and work cooperatively with you in Congress to bring to fruition this new effort to strengthen our ties with and promote growth in Latin America and the Caribbean.

One of the important features of the President's initiative is the combining of trade, investment, debt, and environmental measures into a unified approach. It will be important to implement the initiative as a whole in order to preserve its potential to promote sustainable growth and to avoid letting it fragment into independent, inefficient components.

One factor which we must take into account in this context is the status of bills currently before the Congress which contemplate similar action in some of the same areas. Many of these bills represent innovative approaches to some of the same problems the President has addressed in his initiative.

You have asked me today to comment specifically on two bills now before your committee. Both H.R. 5088 (AID and PL-480 debts) and H.R. 5196 (AID debts) contemplate waiving countries' obligations to pay the U.S. Government if those countries make funds available in local currency to support environmental or developmental aims. The intent of these bills parallels many of the Administration's goals in the "Enterprise for the Americas" initiative. I would like to raise several issues, however.

- We feel strongly that economic reforms, particularly in the investment area, must precede any step to reduce debt burdens, since no amount of debt forgiveness can produce lasting economic growth without sound policies. Moreover, we believe that by rewarding performing countries we can establish incentives for important economic reforms.

- We are not prepared to provide complete forgiveness of obligations to repay the U.S. government. While such an approach may appear to maximize resources dedicated to the environment or development, it could have a more sizable impact on ongoing U.S. programs. Furthermore, we believe

it is preferable for the U.S. government to adjust the amount of relief provided according to each country's circumstances.

- H.R. 5088 makes specific decisions about the exchange of local currency bonds for debt relief and about the management of trusts established to receive these bonds. We believe it is premature to make such decisions and would want to discuss these issues in order to avoid undue restrictions on the operation of debt restructuring programs.

- H.R. 5196 would allow the release of local currency resources to fund a broad range of development programs and would limit action to the Caribbean. We have focused the local currency payments to be made available through the President's initiative on the environment. We visualize that this program will be available throughout the region as part of the President's comprehensive initiative for the Hemisphere.

I recognize that these and other bills signal similarities in the intent of the Administration and Congress. I want to note in particular that we agree that it will be important to consult with non-governmental organizations regarding this program.

We do not believe, however, that these bills currently contain the authority we may need to implement all aspects of the President's initiative related to debt. For instance, it may be advisable to provide explicit authority for the sale of a portion of Ex-Im Bank and CCC loans in connection with the President's initiative.

I am confident that through close consultation, the Administration and Congress can accomplish these goals and establish a comprehensive program that will serve the interests of the United States and support our neighbors' efforts to expand trade, attract capital, and achieve sustainable growth. I look forward to working with you on specific legislative mechanisms.

Conclusion

President Bush has articulated a challenge for the nations of the Americas -- to secure the dream of freedom, democracy, and economic prosperity for all of their people.

Like all successful efforts among neighbors, first steps begin at home, but success is assured by many hands working together. We will look to our neighbors to commit themselves to work toward our common goals, but we must be prepared ourselves to respond to their efforts. I hope we can count on your support.

TREASURY NEWS

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

STATEMENT BY THE HONORABLE
DAVID C. MULFORD
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE FOREIGN RELATIONS COMMITTEE
July 18, 1990

Introduction

Mr. Chairman and Members of the Committee:

I welcome this opportunity to present the Administration's views on the new European Bank for Reconstruction and Development (EBRD).

U.S. participation in the EBRD is central to the conduct of our foreign and economic policies in the new democracies of Eastern Europe. We believe that the EBRD, acting in cooperation with private investors and other multilateral and bilateral donors, can play a vital role in assisting the nations of Eastern Europe which embrace political pluralism make the difficult transition to private sector, market oriented economies. Additionally, we expect the EBRD to assist these countries in coping with their very serious environmental problems. Finally, our participation in the Bank should create important trade and investment opportunities for American business.

The United States played a key role in shaping the EBRD's charter in such vital areas as its strong private sector focus, human rights, the environment, and Soviet borrowing. I am pleased to report that we realized all our major objectives during the negotiations.

Current Status

The negotiations which began in mid-January and included 40 countries, the European Community (EC), and the European Investment Bank (EIB), concluded in early April with agreement on a charter. Secretary Brady signed the charter on behalf of the United States in Paris on May 29. This is an extremely short time in which to develop the basic document for an institution of this type. This speed clearly demonstrates the commitment of participants to the establishment of the Bank.

When the charter is ratified, the EBRD, with a capitalization of ECU 10 billion, will have the capability of lending as much as $12 billion in its first five years of operations. The charter provides that it will become effective and enter into force when members representing not less than two-thirds of the EBRD's total subscriptions, and including at least two countries from Eastern Europe, have deposited the necessary instruments.

The EBRD is still at a relatively early stage of formation. The Bank will be located in London, and its President-designate is Mr. Jacques Attali. Mr. Attali is currently counselor to President Mitterrand of France.

We anticipate that the EBRD will make its first investments in the spring of 1991. In our view, the EBRD's strong focus on the private sector means that it should probably have a broad similarity to the World Bank's International Finance Corporation. The EBRD should have a relatively small high quality staff drawn primarily from individuals with significant international banking experience. We expect the EBRD and IFC to work together closely in such areas as privatization, capital markets development, and promotion of foreign investment. The EBRD should also cooperate closely with the IBRD on lending for the environment and basic infrastructure.

Major Elements of the EBRD

Since the outset of the negotiations the United States has supported the concept of a multilateral bank that would facilitate the transition of borrowing countries in Eastern Europe to political pluralism and market oriented economies. The EBRD will be a unique institution for several reasons. Compared to the other multilateral development banks (MDBs), it will have a small number of potential borrowing countries, and the average per capita incomes of its borrowers will be higher. The EBRD's mission, therefore, is not to provide concessional loans or loans for broad development purposes. Instead, it should provide financial support for the development of strong and dynamic private sectors in these countries.

We believe we have succeeded in laying the basis for this essential mission in the new charter. We must now ensure that the charter is implemented effectively. I would like to summarize the charter's key elements.

Capital -- The capitalization of the EBRD will be ECU 10 billion (approximately $12 billion), subscribed over five years. Thirty percent of the capital will be paid-in capital, with the remainder callable capital. With this capital base the EBRD theoretically could support approximately $2.4 billion of lending annually for each of

its first five years of operation. We anticipate, however, that actual lending levels will be considerably lower during the EBRD's first years of operations.

Shareholding Schedule -- The U.S. will take a 10 percent share and be the largest single shareholder. Our purpose in seeking the largest shareholding position was to underline the importance we attach to the objectives of this Bank and our strong sense of partnership and kinship with both Eastern and Western Europe. The EC members, together with the EC and EIB, will hold a majority of the EBRD's shares.

Supporting Political and Economic Reform -- The purpose of the Bank is to: "... foster the transition towards open market oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multi-party democracy, pluralism, and market economics."

Backsliding -- The charter also has specific provisions to address countries that retreat from these commitments. In exceptional circumstances, or in cases where a member is implementing policies not consistent with the Bank's purpose, the Board of Directors may recommend that Governors suspend or modify the member's access to Bank resources. A decision to take such action will require a majority of not less than two-thirds of Governors representing at least three-fourths of the total voting power.

Private Sector -- The development of the private sector is fundamental to the development of open, market oriented economic systems in Eastern European countries. Largely at our strong insistence, the EBRD has a significant private sector orientation in its charter. The charter requires that at least 60 percent of the EBRD's aggregate annual lending must be to the private sector. In addition, at least 60 percent of the EBRD's lending by country over the first five years must be to the private sector or to state-owned enterprises that are converting to private ownership and control. The remaining resources can be lent for infrastructure and environmental projects that support the development of the private sector, or to state-owned enterprises that operate competitively, i.e., are autonomous of their governments and subject to bankruptcy laws.

Subscription Payment -- Payments of subscriptions can be made in European Currency Units (ECU), the U.S. dollar, or the Japanese yen. The United States will have a fixed dollar funding commitment to the EBRD, as it does in the other MDBs. The dollar valuation will be set at average dollar-ECU exchange rates for the period September 30, 1989, to March 31, 1990, i.e., $1.16701 to the ECU. With a 10 percent share of the EBRD, the U.S. will have a funding commitment fixed in dollars over five years of $350 million for paid-in capital. The callable capital portion of our subscription is also fixed at $817 million. This translates into an annual commitment of $70 million of budget authority for paid-in capital and $163.4 million of program limitations for callable capital.

Environment -- The environment is a serious problem in Eastern Europe, and a major concern of all EBRD members. The EBRD is the only multilateral development bank which has environmental provisions in its charter, due in large measure to U.S. efforts. Under the charter the EBRD will "promote in the full range of its activities environmentally sound and sustainable development" and "report annually on the environmental impact of its activities."

Soviet Borrowing -- A key issue for the United States was borrowing by the Soviet Union. We argued strongly for limitations on Soviet access to the EBRD's resources. Agreement was reached ultimately to limit for the first three years any Soviet borrowing to the level of its paid-in capital to the EBRD. The Soviet Union will subscribe to six percent of the EBRD's capital, and its paid-in portion will be in "hard" currency. Lending to the Soviet Union also will be confined to the private sector (including privatization), or to help enterprises operating competitively and moving to a market orientation.

If the Soviets therefore made all their paid-in contribution in the first three years (vs. a five year payment schedule) they could borrow a maximum of $216 million. With EBRD capital of approximately $12 billion, total lending to all potential borrowers over the first three year period could theoretically reach $7.2 billion. Thus, Soviet borrowing will represent a relatively small proportion of possible EBRD lending.

In addition, any change in the U.S.S.R.'s borrowing status at the end of the three-year period will require the agreement of three-quarters of the members representing at least 85 percent of the voting power.

Restricting Soviet borrowing to their own paid-in capital for the first three years <u>means that U.S. taxpayer funds will not be used for Soviet borrowing during this period</u>.

<u>Board of Directors</u> -- There will be a resident Board of 23 Executive Directors, 11 representing the European Community and 12 representing the non-EC member countries. The United States will have our own Executive Director, as we do in the four other MDBs to which we belong.

<u>Conclusion</u>

The Administration believes strongly that it is in the interest of the United States to join the EBRD as a charter member. It will demonstrate our solidarity with Europe and our support for the sweeping political and economic reforms now being made in Eastern Europe, and will give us more influence over the structure and operations of the Bank. The Administration strongly urges the Congress to support legislation for the U.S. to become a charter member of the EBRD.

Thank you.

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

FOR IMMEDIATE RELEASE

July 18, 1990

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of June 1990.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $157.7 billion on June 30, 1990, posting an increase of $16.1 billion from the level on May 31, 1990. This net change was the result of increases in holdings of agency debt of $15,892.0 million and in holdings of agency assets of $307.0 million, while holdings of agency-guaranteed debt decreased by $50.2 million. FFB made 30 disbursements during June.

Attached to this release are tables presenting FFB June loan activity and FFB holdings as of June 30, 1990.

NB-879

FEDERAL FINANCING BANK

JUNE 1990 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
AGENCY DEBT					
EXPORT-IMPORT BANK					
Note #86	6/1	$ 338,000,000.00	9/1/00	8.720%	8.627% qtr.
Note #87	6/1	24,000,000.00	9/2/14	8.716%	8.906% ann.
Note #88	6/1	321,000,000.00	12/3/90	8.249%	
RESOLUTION TRUST CORPORATION					
Note No. 90-03					
Advance #18	6/1	1,000,000,000.00	7/2/90	8.138%	
Advance #19	6/5	200,000,000.00	7/2/90	8.078%	
Advance #20	6/4	168,000,000.00	7/2/90	8.059%	
Advance #21	6/7	34,000,000.00	7/2/90	8.087%	
Advance #22	6/8	1,064,656,000.00	7/2/90	8.085%	
Advance #23	6/11	2,619,758,069.00	7/2/90	8.080%	
Advance #24	6/12	141,700,000.00	7/2/90	8.110%	
Advance #25	6/13	548,120,000.00	7/2/90	8.119%	
Advance #26	6/18	3,525,964,000.00	7/2/90	8.069%	
Advance #27	6/19	423,825,000.00	7/2/90	8.047%	
Advance #28	6/21	640,869,000.00	7/2/90	8.150%	
Advance #29	6/25	2,900,000,000.00	7/2/90	8.164%	
Advance #30	6/26	498,458,000.00	7/2/90	8.173%	
Advance #31	6/27	32,200,000.00	7/2/90	8.192%	
Advance #32	6/29	2,600,000,000.00	7/2/90	8.127%	
TENNESSEE VALLEY AUTHORITY					
Short-term Bond #39	6/8	165,000,000.00	6/20/90	8.087%	
Short-term Bond #40	6/15	92,000,000.00	6/25/90	8.055%	
Short-term Bond #41	6/20	123,000,000.00	6/30/90	8.047%	
Short-term Bond #42	6/30	111,000,000.00	7/9/90	8.127%	
AGENCY ASSETS					
FARMER'S HOME ADMINISTRATION					
RHIF - CBO #57541	6/1	165,000,000.00	10/1/91	8.457%	8.636% ann.
RHIF - CBO #57542	6/30	145,000,000.00	10/1/91	8.214%	8.383% ann.

FEDERAL FINANCING BANK

JUNE 1990 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
GOVERNMENT - GUARANTEED LOANS					
RURAL ELECTRIFICATION ADMINISTRATION					
Alabama Electric #244A	6/8	$ 646,000.00	1/2/24	8.561%	8.471% qtr.
Old Dominion Electric #267	6/15	1,203,000.00	6/30/92	8.363%	8.277% qtr.
United Power Assoc. #159A	6/18	1,442,000.00	12/31/19	8.567%	8.477% qtr.
ALLTEL of Florida #340	6/29	8,111,000.00	1/2/18	8.583%	8.493% qtr.
New Hampshire Electric #270	6/29	447,000.00	1/2/18	8.582%	8.492% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-90-10	6/29	546,335,197.83	9/28/90	8.172%	

FEDERAL FINANCING BANK HOLDINGS
(in millions)

Program	June 30, 1990	May 31, 1990	Net Change 6/1/90-6/30/90	FY '90 Net Change 10/1/89-6/30/90
Agency Debt:				
Export-Import Bank	$ 11,143.9	$ 11,010.5	$ 133.4	$ 160.3
NCUA-Central Liquidity Facility	54.9	64.9	-10.0	-56.5
Resolution Trust Corporation	26,367.1	9,969.5	16,397.6	26,367.1
Tennessee Valley Authority	14,936.0	15,565.0	-629.0	-2,531.0
U.S. Postal Service	5,897.8	5,897.8	-0-	-297.2
sub-total*	58,399.6	42,507.7	15,892.0	23,642.6
Agency Assets:				
Farmers Home Administration	51,901.0	51,591.0	310.0	-1,410.0
DHHS-Health Maintenance Org.	74.7	74.7	-0-	-0-
DHHS-Medical Facilities	90.1	93.0	-2.9	2.0
Rural Electrification Admin.-CBO	4,135.2	4,135.2	-0-	-47.5
Small Business Administration	9.1	9.2	-0.2	-2.5
sub-total*	56,210.1	55,903.1	307.0	-1,458.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	9,887.0	9,904.3	-17.3	-301.6
DEd.-Student Loan Marketing Assn.	4,880.0	4,880.0	-0-	-30.0
DHUD-Community Dev. Block Grant	259.0	260.4	-1.5	-24.4
DHUD-Public Housing Notes +	1,950.8	1,950.8	-0-	-44.5
General Services Administration +	367.3	371.8	-4.4	-10.8
DOI-Guam Power Authority	30.3	30.3	-0-	-0.6
DOI-Virgin Islands	25.4	25.4	-0-	-0.5
NASA-Space Communications Co. +	1,095.9	1,095.9	-0-	100.7
DON-Ship Lease Financing	1,672.4	1,672.4	-0-	-48.2
Rural Electrification Administration	19,167.5	19,182.0	-14.4	-107.4
SBA-Small Business Investment Cos.	452.9	472.8	-19.9	-102.4
SBA-State/Local Development Cos.	757.3	761.8	-4.5	-42.1
TVA-Seven States Energy Corp.	2,328.4	2,316.4	12.0	33.6
DOT-Section 511	23.7	23.8	-0.1	-13.5
DOT-WMATA	177.0	177.0	-0-	-0-
sub-total*	43,075.0	43,125.2	-50.2	-591.7
grand total*	$ 157,684.7	$ 141,536.0	$ 16,148.7	$ 21,592.9

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

TREASURY NEWS

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

STATEMENT BY THE HONORABLE
DAVID C. MULFORD
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE FOREIGN RELATIONS COMMITTEE
July 18, 1990

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today. I am here to testify on the Administration's request for authorization to participate in the ninth replenishment of the resources of the International Development Association (IDA).

International Development Association

IDA, an affiliate of the International Bank for Reconstruction and Development (IBRD), is the principal vehicle to provide support for the low-income developing countries. It is the world's single largest source of MDB lending on concessional terms. IDA plays a pivotal role in alleviating poverty and enhancing development and growth in the poorest nations. Only countries with per capita incomes of $650 (in 1988 dollars) or less are currently receiving IDA credits. However, the majority of IDA lending goes to countries with per capita incomes of less than $400. (See Annex I for a list of all IDA eligible countries.)

Negotiations on the ninth replenishment of IDA resources (IDA-9) began in early 1989 and were completed in December 1989. The IDA Executive Board approved the IDA Deputies' Report on January 30, 1990. This report, which contains the results of the negotiations for the IDA-9 replenishment, has also been approved by the IDA Board of Governors. We are seeking Congressional authorization for U.S. participation in the replenishment.

An important goal of the replenishment is to maintain the size of IDA lending in real terms. To assist in attaining that goal, the Administration is requesting authorization for a U.S. contribution to IDA-9 of $3,180 million, or $1,060 million annually for three years. This contribution to IDA-9 would maintain the amount of our IDA-8 contribution in real terms. The U.S. contribution to IDA-8 was $2,875 million over three years, or $958 million annually. Thus, the U.S. contribution would increase by $102 million a year. Still, the U.S. share of IDA-9 will decline to 21.6 percent compared to a U.S. share of 23.2 percent of IDA-8.

IDA-9 -- intended to fund credits to be committed during the three-year period July 1, 1990, to June 30, 1993 -- will total $15.5 billion. Contributions from 34 donors, combined with reflows from earlier loans, will support an annual lending program of about $5.5 billion. This means that every U.S. dollar contributed to IDA-9 will support almost 5 dollars of new IDA credits.

Although extended on concessional terms, IDA credits have the same standards as IBRD loans. All credits must be technically, economically, financially, and environmentally sound, compatible with a sound development plan, and of high priority for the economic development of the country.

During the IDA-9 negotiations, the United States worked for measures to ensure that IDA's resources are used in the most effective and efficient manner. In this regard, the United States achieved all its major policy objectives:

- A borrowing country's economic performance, will receive greater weight as a basis for allocation of resources;

- Poverty reduction will be given even greater attention;

- Important new measures to address environmental concerns will be factored into IDA lending; and

- IDA and IMF collaboration will be strengthened.

Economic Performance

During IDA-9 greater emphasis will be placed on macroeconomic performance as a condition for lending. This is necessary because there are insufficient resources to fund

fully all potential IDA recipients. Scarce resources must be used effectively, and all countries should compete for scarce resources on the basis of transparent, objective criteria.

Sound macroeconomic performance should be required for all borrowers. In order to ensure that IDA credits are approved in the context of adequate policies, an assessment and determination of each borrower's performance will be made annually. This is a significant new policy which should go a long way toward ensuring that IDA resources are used to promote major economic reforms in borrowing countries. Performance criteria will include macroeconomic and sectoral management, and policies on poverty reduction and the environment.

The IDA-9 Deputies Report states that IDA's programs should not be regarded as entitlements. IDA will cut back its lending programs in those countries where lending operations are seriously prejudiced by unsound macroeconomic and sector policies.

Poverty Reduction

Poverty reduction remains central to IDA's mandate. A number of measures are included in the IDA-9 Deputies' Report dealing with poverty reduction. They are:

- Giving increased weight in the performance criteria for the allocation of IDA resources to an effective commitment to poverty reduction by governments;

- Making poverty reduction central to IDA's policy dialogue with recipient countries;

- Strengthening efforts to protect the poor during the adjustment process and to involve the poor in an equitable development process; and

- Developing recipient countries' national plans and strategies to eliminate the causes of poverty.

Environment

Under IDA-9, increasing attention will be paid to environmental concerns and greater efforts will be made to ensure that a borrowing country's basic development strategy is environmentally sound in order to assure the sustainability of the resource base, economic growth, and poverty alleviation. One of our most significant

accomplishments in the IDA replenishment negotiations was the inclusion of more stringent environmental provisions. The IDA-9 Deputies Report provides for:

- Implementation of environmental impact assessment (EIA) procedures, thereby helping to assure that environmental costs and benefits are weighed carefully early in the project appraisal process.
    - Projects which are expected to have significant environmental consequences will receive rigorous technical reviews at sufficiently early stages of project preparation to ensure that their environmental impacts are fully factored into decisions on site selection and project design.
    - As part of this process, environmental impact assessments on significant projects will be made available to the Executive Board and NGOs at least 180 days in advance of Board action.
- Increasing public access to environmental information, including environmental impact assessments or summaries of them, thereby promoting more participation by local community groups and non-governmental organizations;
- Closer collaboration and cooperation with non-governmental organizations in borrowing countries;
- Greater emphasis on energy efficiency and conservation, including end-use efficiencies, renewable energy technologies, and least-cost planning in borrowing countries;
- More support for debt for nature swaps; and
- More rapid progress on environmental action plans. Environmental action plans will be completed on all IDA borrowers as soon as feasible.

In summary, EIAs will be carried out on all environmentally sensitive projects. Greater efforts will be made to involve local non-governmental organizations (NGOs) in the assessment of these sensitive projects. Environmental action plans will be prepared for all IDA recipients, with priority given to those countries where major problems have been identified.

IDA and IMF

In the area of collaboration between IDA and the IMF, IDA will take steps to become more involved in the process of developing and negotiating country Policy Framework Papers (PFPs). In addition, there will be an examination of ways to further coordinate the operations of IDA and the IMF where both institutions are engaged in adjustment lending and where their operations depend on each other for success.

Africa

Close to fifty percent of the IDA-8 resources was allocated to Sub-Saharan Africa. The share of IDA-9 resources allocated to Sub-Saharan Africa will be between forty-five and fifty percent, if performance continues to warrant that level of support.

Burden Sharing

Japan, Germany, France, the United Kingdom, Italy, and Canada have agreed to provide about 57 percent of IDA-9 resources. Since other countries share the costs of providing IDA credits, IDA is an extremely cost-efficient way for the United States to express its humanitarian concern for the poorest of the world. There is a close correlation between our broader national interests and IDA lending to countries such as Bolivia, Ghana, Senegal, Bangladesh, and Pakistan.

IDA and Debt

On the debt front, IDA has undertaken an initiative to help ease the burden of commercial bank debt on the poorest countries. In June 1989, the World Bank allocated $100 million of FY 1989 IBRD net income to IDA. These funds will be targeted to finance commercial bank debt reduction in IDA-only countries. Eligibility of countries for using these resources is conditioned on strong economic reform programs and sound debt management strategies.

This effort is now getting under way. Bolivia may be one of the first countries to be considered for access to these resources. Bolivia has already reduced its medium and long-term commercial bank obligations by fifty percent through buyback operations, and is now seeking to eliminate this debt entirely. If provided to Bolivia, IDA funds would catalyze bilateral donor resources and significantly contribute to Bolivia's ongoing efforts to normalize its

relations with the international financial community and revitalize economic growth and development. Some African countries may also benefit from this program this year.

U.S. Debt Relief

Finally, Mr. Chairman, in the context of aiding the poorest of the world, the United States and other official creditors are taking measures to assist the least developed countries that pursue sound economic reform programs, as evidenced by an IMF or World Bank economic reform program. These measures include both special treatment ("Toronto terms") for the poorest countries in Paris Club reschedulings and bilateral actions to convert old development assistance loans into grants. Section 572 of the FY 1989 Foreign Operations Appropriations Act allows forgiveness of economic assistance loans to Sub-Saharan African countries pursuing economic reform. So far fourteen countries are eligible. Their total debt relief could be as much as $852 million. (See Annex II.)

Conclusion

The IDA-9 replenishment deserves the strong support of the United States. IDA better fulfills its mandate to assist the poorest countries because all major U.S. policy goals were achieved during the negotiations. These policies include provisions regarding economic policies, poverty alleviation, the environment, and coordination with the IMF. In addition, IDA will continue to provide vital support to Sub-Saharan African countries.

Thank you.

TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M.
July 18, 1990

CONTACT: Office of Financing
202/376-4350

TREASURY TO AUCTION $11,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $11,500 million of 2-year notes to refund $9,493 million of 2-year notes maturing July 31, 1990, and to raise about $2,000 million new cash. The public holds $9,493 million of the maturing 2-year notes, including $615 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $11,500 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average price of accepted competitive tenders.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $1,478 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders.

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

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Attachment

NB-881

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JULY 31, 1990

July 18, 1990

Amount Offered:

To the public	$11,500 million

Description of Security:

Term and type of security	2-year notes
Series and CUSIP designation	AC-1992 (CUSIP No. 912827 ZC 9)
Maturity date	July 31, 1992
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	January 31 and July 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 Terms:

Payment by non-institutional investors	Full payment to be submitted with tender
Deposit guarantee by designated institutions	Acceptable

Key Dates:

Receipt of tenders	Wednesday, July 25, 1990, prior to 1:00 p.m., EDST
Settlement (final payment due from institutions):	
a) funds immediately available to the Treasury ..	Tuesday, July 31, 1990
b) readily-collectible check ..	Friday, July 27, 1990

April 26 7 p.m.

AGREEMENT ESTABLISHING THE

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONTENTS

Chapters

I- Purpose, functions and membership

II- Capital

III- Operations

IV- Borrowing and other miscellaneous powers

V- Currencies

VI- Organization and management

VII- Withdrawal and suspension of membership, temporary suspension and termination of operations

VIII- Status, immunities, privileges and exemptions

IX- Amendments, interpretation, arbitration

X- Final provisions.

Annex A

Annex B

AGREEMENT ESTABLISHING
THE EUROPEAN BANK FOR RECONSTRUCTION
AND DEVELOPMENT

The contracting parties,

Committed to the fundamental principles of multiparty democracy, the rule of law, respect for human rights and market economics ;

Recalling the Final Act of the Helsinki Conference on Security and Cooperation in Europe, and in particular its Declaration on Principles ;

Welcoming the intent of Central and Eastern European countries to further the practical implementation of multiparty democracy, strengthening democratic institutions, the rule of law and respect for human rights and their willingness to implement reforms in order to evolve towards market-oriented economies ;

Considering the importance of close and coordinated cooperation in order to promote the economic progress of Central and Eastern European countries to help their economies become more internationally competitive and assist them in their reconstruction and development and thus to reduce, where appropriate, any risks related to the financing of their economies ;

Convinced that the establishment of a multilateral financial institution which is European in its basic character and broadly international in its membership would help serve these ends and would constitute a new and unique structure of cooperation in Europe ;

Have agreed to establish hereby the European Bank for Reconstruction and Development (hereinafter called " the Bank") which shall operate in accordance with the following :

Chapter I

PURPOSE, FUNCTIONS AND MEMBERSHIP

Article 1

PURPOSE

In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market - oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.

Article 2

FUNCTIONS

1. To fulfil on a long-term basis its purpose of fostering the transition of Central and Eastern European countries towards open market-oriented economies and the promotion of private and entrepreneurial initiative, the Bank shall assist the recipient member countries to implement structural and sectoral economic reforms, including demonopolization, decentralization and privatization, to help their economies become fully integrated into the international economy by measures:

(i) to promote, through private and other interested investors, the establishment, improvement and expansion of productive, competitive and private sector activity, in particular small and medium sized enterprises ;

(ii) to mobilize domestic and foreign capital and experienced management to the end described in (i) ;

(iii) to foster productive investment, including in the service and financial sectors, and in related infrastructure where that is necessary to support private and entrepreneurial initiative, thereby assisting in making a competitive environment and raising productivity, the standard of living and conditions of labour ;

(iv) to provide technical assistance for the preparation, financing and implementation of relevant projects, whether individual or in the context of specific investment programmes ;

(v) to stimulate and encourage the development of capital markets ;

(vi) to give support to sound and economically viable projects involving more than one recipient member country ;

(vii) to promote in the full range of its activities environmentally sound and sustainable development ; and

(viii) to undertake such other activities and provide such other services as may further these functions.

2. In carrying out the functions referred to in paragraph 1 of this Article, the Bank shall work in close cooperation with all its members and, in such manner as it may deem appropriate within the terms of this Agreement, with the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the Organisation for Economic Cooperation and Development, and shall cooperate with the United Nations and its Specialised Agencies and other related bodies, and any entity, whether public or private, concerned with the economic development of, and investment in, Central and Eastern European countries.

Article 3

MEMBERSHIP

1. Membership in the Bank shall be open :

(i) to (1) European countries and (2) non-European countries which are members of the International Monetary Fund ; and

(ii) to the European Economic Community and the European Investment Bank

2. Countries eligible for membership under paragraph 1 of this Article which do not become members in accordance with Article 61 of this Agreement may be admitted, under such terms and conditions as the Bank may determine, to membership in the Bank upon the affirmative vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members.

Chapter II

CAPITAL

Article 4

AUTHORIZED CAPITAL STOCK

1. The original authorized capital stock shall be ten (10) thousand million ECU. It shall be divided into one million (1,000,000) shares, having a par value of ten thousand (10,000) ECU each, which shall be available for subscription only by members in accordance with the provisions of Article 5 of this Agreement.

2. The original capital stock shall be divided into paid-in shares and callable shares. The initial total aggregate par value of paid-in shares shall be three (3) thousand million ECU.

3. The authorized capital stock may be increased at such time and under such terms as may seem advisable, by a vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members.

Article 5

SUBSCRIPTION OF SHARES

1. Each member shall subscribe to shares of the capital stock of the Bank. subject to fulfilment of the member's legal requirements. Each subscription to the original authorized capital stock shall be for paid-in shares and callable shares in the proportion of 3 to 7. The initial number of shares available to be subscribed to by Signatories to this Agreement which become members in accordance with Article 61 of this Agreement shall be that set forth in Annex A. No member shall have an initial subscription of less than 100 shares.

2. The initial number of shares to be subscribed to by countries which are admitted to membership in accordance with paragraph 2 of Article 3 of this Agreement shall be determined by the Board of Governors ; provided, however, that no such subscription shall be authorized which would have the effect of reducing the percentage of capital stock held by countries, which are members of the European Economic Community, together with the European Economic Community and the European Investment Bank, below the majority of the total subscribed capital stock.

3. The Board of Governors shall at intervals of not more than five (5) years review the capital stock of the Bank. In case of an increase in the authorized capital stock, each member shall have a reasonable opportunity to subscribe, under such uniform terms and conditions as the Board of Governors shall determine, to a proportion of the increase in stock equivalent to the proportion which its stock subscribed bears to the total subscribed capital stock immediately prior to such increase. No member shall be obliged to subscribe to any part of an increase of capital stock.

4. Subject to the provisions of paragraph 3 of this Article, the Board of Governors may, at the request of a member, increase the subscription of that member, or allocate shares to that member within the authorized capital stock which are not taken up by other members ; provided, however, that such increase shall not have the effect of reducing the percentage of capital stock held by countries which are members of the European Economic Community, together with the European Economic Community and the European Investment Bank, below the majority of the total subscribed capital stock.

5. Shares of stock initially subscribed to by members shall be issued at par. Other shares shall be issued at par unless the Board of Governors, by a vote of not less than two-thirds of the Governors, representing not less than two-thirds of the total voting power of the members, decides to issue them in special circumstances on other terms.

6. Shares of stock shall not be pledged or encumbered in any manner whatsoever, and they shall not be transferable except to the Bank in accordance with Chapter VII of this Agreement.

7. The liability of the members on shares shall be limited to the unpaid portion of their issue price. No member shall be liable, by reason of its membership, for obligations of the Bank.

Article 6

PAYMENT OF SUBSCRIPTIONS

1. Payment of the paid-in shares of the amount initially subscribed to by each Signatory to this Agreement, which becomes a member in accordance with Article 61 of this Agreement, shall be made in five (5) instalments of twenty (20) per cent each of such amount. The first instalment shall be paid by each member within sixty (60) days after the date of the entry into force of this Agreement, or after the date of deposit of its instrument of ratification, acceptance or approval in accordance with Article 61, if this latter is later than the date of the entry into force. The remaining four instalments shall each become due successively one year from the date on which the preceding instalment became due and shall each, subject to the legislative requirements of each member, be paid.

2. Fifty per cent of payment of each instalment pursuant to paragraph 1 of this Article, or by a member admitted in accordance with paragraph 2 of Article 3 of this Agreement, may be made in promissory notes or other obligations issued by such member and denominated in ECU, in United States dollars or in Japanese yen, to be drawn down as the Bank needs funds for disbursement as a result of its operations. Such notes or obligations shall be non-negotiable, non-interest-bearing and payable to the Bank at par value upon demand. Demands upon such notes or obligations shall, over reasonable periods of time, be made so that the value of such demands in ECU at the time of demand from each member is proportional to the number of paid-in shares subscribed to and held by each such member depositing such notes or obligations.

3. All payment obligations of a member in respect of subscription to shares in the initial capital stock shall be settled either in ECU, in United States dollars or in Japanese yen on the basis of the average exchange rate of the relevant currency in terms of the ECU for the period from 30 September 1989 to 31 March 1990 inclusive.

4. Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call, taking account of Articles 17 and 42 of this Agreement, only as and when required by the Bank to meet its liabilities.

5. In the event of a call referred to in paragraph 4 of this Article, payment shall be made by the member in ECU, in United States dollars or in Japanese yen. Such calls shall be uniform in ECU value upon each callable share calculated at the time of the call.

6. The Bank shall determine the place for any payment under this Article not later than one month after the inaugural meeting of its Board of Governors, provided that, before such determination, the payment of the first instalment referred to in paragraph 1 of this Article shall be made to the European Investment Bank, as trustee for the Bank.

7. For subscriptions other than those described in paragraphs 1, 2 and 3 of this Article, payments by a member in respect of subscription to paid-in shares in the authorized capital stock shall be made in ECU, in United States dollars or in Japanese yen whether in cash or in promissory notes or in other obligations.

8. For the purposes of this Article, payment or denomination in ECU shall include payment or denomination in any fully convertible currency which is equivalent on the date of payment or encashment to the value of the relevant obligation in ECU.

Article 7

ORDINARY CAPITAL RESOURCES

As used in this Agreement, the term "ordinary capital resources" of the Bank shall include the following :

(i) authorized capital stock of the Bank, including both paid-in and callable shares, subscribed to pursuant to Article 5 of this Agreement ;

(ii) funds raised by borrowings of the Bank by virtue of powers conferred by subparagraph (i) of Article 20 of this Agreement, to which the commitment to calls provided for in paragraph 4 of Article 6 of this Agreement is applicable

(iii) funds received in repayment of loans or guarantees and proceeds from the disposal of equity investment made with the resources indicated in sub-paragraphs (i) and (ii) of this Article ;

(iv) income derived from loans and equity investment, made from the resources indicated in sub-paragraphs (i) and (ii) of this Article, and income derived from guarantees and underwriting not forming part of the special operations of the Bank ; and

(v) any other funds or income received by the Bank which do not form part of its Special Funds resources referred to in Article 19 of this Agreement.

Chapter III

OPERATIONS

Article 8

RECIPIENT COUNTRIES AND USE OF RESOURCES

1. The resources and facilities of the Bank shall be used exclusively to implement the purpose and carry out the functions set forth, respectively, in Articles 1 and 2 of this Agreement.

2. The Bank may conduct its operations in countries from Central and Eastern Europe which are proceeding steadily in the transition towards market oriented economies and the promotion of private and entrepreneurial initiative, and which apply, by concrete steps and otherwise, the principles as set forth in Article 1 of this Agreement.

3. In cases where a member might be implementing policies which are inconsistent with Article 1 of this Agreement, or in exceptional circumstances, the Board of Directors shall consider whether access by a member to Bank resources should be suspended or otherwise modified and may make recommendations accordingly to the Board of Governors. Any decision on these matters shall be taken by the Board of Governors by a majority of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members.

4. (i) Any potential recipient country may request that the Bank provide access to its resources for limited purposes over a period of three (3) years beginning after the entry into force of this Agreement. Any such request shall be attached as an integral part of this Agreement as soon as it is made.

(ii) During such a period :

(a) the Bank shall provide to such a country, and to enterprises in its territory, upon their request, technical assistance and other types of assistance directed to finance its private sector, to facilitate the transition of state-owned enterprises to private ownership and control, and to help enterprises operating competitively and moving to participation in the market oriented economy, subject to the proportion set forth in paragraph 3 of Article 11 of this Agreement;

(b) the total amount of any assistance thus provided shall not exceed the total amount of cash disbursed and promissory notes issued by that country for its shares.

(iii) At the end of this period, the decision to allow such a country access beyond the limits specified in sub-paragraphs (a) and (b) shall be taken by the Board of Governors by a majority of not less than three-fourths of the Governors representing not less than eighty-five (85) per cent of the total voting power of the members.

Article 9

ORDINARY AND SPECIAL OPERATIONS

The operations of the Bank shall consist of ordinary operations financed from the ordinary capital resources of the Bank referred to in Article 7 of this Agreement and special operations financed from the Special Funds resources referred to in Article 19 of this Agreement. The two types of operations may be combined.

Article 10

SEPARATION OF OPERATIONS

1. The ordinary capital resources and the Special Funds resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separately from each other. The financial statements of the Bank shall show the reserves of the Bank, together with its ordinary operations, and, separately, its special operations.

2. The ordinary capital resources of the Bank shall under no circumstances be charged with, or used to discharge, losses or liabilities arising out of special operations or other activities for which Special Funds resources were originally used or committed.

3. Expenses appertaining directly to ordinary operations shall be charged to the ordinary capital resources of the Bank. Expenses appertaining directly to special operations shall be charged to Special Funds resources. Any other expenses shall, subject to paragraph 1 of Article 18 of this Agreement, be charged as the Bank shall determine.

Article 11

METHODS OF OPERATION

1. The Bank shall carry out its operations in furtherance of its purpose and functions as set out in Articles 1 and 2 of this Agreement in any or all of the following ways:

(i) by making, or cofinancing together with multilateral institutions, commercial banks or other interested sources, or participating in, loans to private sector enterprises, loans to any state-owned enterprise operating competitively and moving to participation in the market oriented economy, and loans to any state-owned enterprise to facilitate its transition to private ownership and control ; in particular to facilitate or enhance the participation of private and/or foreign capital in such enterprises ;

(ii) (a) by investment in the equity capital of private sector enterprises ;

(b) by investment in the equity capital of any state-owned enterprise operating competitively and moving to participation in the market oriented economy, and investment in the equity capital of any state-owned enterprise to facilitate its transition to private ownership and control ; in particular to facilitate or enhance the participation of private and/or foreign capital in such enterprises ; and

(c) by underwriting, where other means of financing are not appropriate, the equity issue of securities by both private sector enterprises and such state owned enterprises referred to in (b) above for the ends mentioned in that sub-paragraph ;

(iii) by facilitating access to domestic and international capital markets by private sector enterprises or by other enterprises referred to in subparagraph (i) of this paragraph for the ends mentioned in that subparagraph, through the provision of guarantees, where other means of financing are not appropriate, and through financial advice and other forms of assistance ;

(iv) by deploying Special Funds resources in accordance with the agreements determining their use ; and

(v) by making or participating in loans and providing technical assistance for the reconstruction or development of infrastructure, including environmental programmes, necessary for private sector development and the transition to a market-oriented economy.

For the purposes of this paragraph, a state-owned enterprise shall not be regarded as operating competitively unless it operates autonomously in a competitive market environment and unless it is subject to bankruptcy laws.

2. (i) The Board of Directors shall review at least annually the Bank's operations and lending strategy in each recipient country to ensure that the purpose and the functions of the Bank, as set out in Articles 1 and 2 of this Agreement, are fully served. Any decision pursuant to such a review shall be taken by a majority of not less than two-thirds of the Directors, representing not less than three-fourths of the total voting power of the members.

(ii) The said review shall involve the consideration of, inter alia, each recipient country's progress made on decentralization, demonopolization and privatization and the relative shares of the Bank's lending to private enterprises, to state-owned enterprises in the process of transition to participation in the market-oriented economy or privatization, for infrastructure, for technical assistance, and for other purposes.

3. (i) Not more than forty (40) per cent of the amount of the Bank's total committed loans, guarantees and equity investments, without prejudice to its other operations referred to in this Article, shall be provided to the state sector. Such percentage limit shall apply initially over a two (2) year period, from the date of commencement of the Bank's operations, taking one year with another, and thereafter in respect of each subsequent financial year.

(ii) For any country, not more than forty (40) per cent of the amount of the Bank's total committed loans, guarantees and equity investments over a period of five (5) years, taking one year with another, and without prejudice to the Bank's other operations referred to in this Article, shall be provided to the state sector.

(iii) For the purposes of this paragraph,

(a) the state sector includes national and local governments, their agencies, and enterprises owned or controlled by any of them ;

(b) a loan or guarantee to, or equity investment in, a state-owned enterprise which is implementing a programme to achieve private ownership and control shall not be considered as made to the state sector ;

(c) loans to a financial intermediary for onlending to the private sector shall not be considered as made to the state sector.

Article 12

LIMITATIONS ON ORDINARY OPERATIONS

1. The total amount of outstanding loans, equity investments and guarantees made by the Bank in its ordinary operations shall not be increased at any time, if by such increase the total amount of its unimpaired subscribed capital, reserves and surpluses included in its ordinary capital resources would be exceeded.

2. The amount of any equity investment shall not normally exceed such percentage of the equity capital of the enterprise concerned as shall be determined, as a general rule, to be appropriate by the Board of Directors. The Bank shall not seek to obtain by such an investment a controlling interest in the enterprise concerned and shall not exercise such control or assume direct responsibility for managing any enterprise in which it has an investment, except in the event of actual or threatened default on any of its investments, actual or threatened insolvency of the enterprise in which such investment shall have been made, or other situations which, in the opinion of the Bank, threaten to jeopardize such investment, in which case the Bank may take such action and exercise such rights as it may deem necessary for the protection of its interests.

3. The amount of the Bank 's disbursed equity investments shall not at any time exceed an amount corresponding to its total unimpaired paid-in subscribed capital, surpluses and general reserve.

4. The Bank shall not issue guarantees for export credits nor undertake insurance activities.

Article 13

OPERATING PRINCIPLES

The Bank shall operate in accordance with the following principles :

(i) the Bank shall apply sound banking principles to all its operations;

(ii) the operations of the Bank shall provide for the financing of specific projects, whether individual or in the context of specific investment programmes, and for technical assistance, designed to fulfil its purpose and functions as set out in Articles 1 and 2 of this Agreement ;

(iii) the Bank shall not finance any undertaking in the territory of a member if that member objects to such financing ;

(iv) the Bank shall not allow a disproportionate amount of its resources to be used for the benefit of any member ;

(v) the Bank shall seek to maintain reasonable diversification in all its investments;

(vi) before a loan, guarantee or equity investment is granted, the applicant shall have submitted an adequate proposal and the President of the Bank shall have presented to the Board of Directors a written report regarding the proposal, together with recommendations, on the basis of a staff study ;

(vii) the Bank shall not undertake any financing, or provide any facilities, when the applicant is able to obtain sufficient financing or facilities elsewhere on terms and conditions that the Bank considers reasonable ;

(viii) in providing or guaranteeing financing, the Bank shall pay due regard to the prospect that the borrower and its guarantor, if any, will be in a position to meet their obligations under the financing contract ;

(ix) in case of a direct loan made by the Bank, the borrower shall be permitted by the Bank to draw its funds only to meet expenditure as it is actually incurred;

(x) the Bank shall seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms ;

(xi) in its investments in individual enterprises, the Bank shall undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the Bank, and the terms and conditions normally obtained by private investors for similar financing ;

(xii) the Bank shall place no restriction upon the procurement of goods and services from any country from the proceeds of any loan, investment or other financing undertaken in the ordinary or special operations of the Bank, and shall, in all appropriate cases, make its loans and other operations conditional on international invitations to tender being arranged ; and

(xiii) the Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank, or any equity investment, are used only for the purposes for which the loan or the equity investment was granted and with due attention to considerations of economy and efficiency.

Article 14

TERMS AND CONDITIONS FOR LOANS AND GUARANTEES

1. In the case of loans made, participated in, or guaranteed by the Bank, the contract shall establish the terms and conditions for the loan or the guarantee concerned, including those relating to payment of principal, interest and other fees, charges, maturities and dates of payment in respect of the loan or the guarantee, respectively. In setting such terms and conditions, the Bank shall take fully into account the need to safeguard its income.

2. Where the recipient of loans or guarantees of loans is not itself a member, but is a state-owned enterprise, the Bank may, when it appears desirable, bearing in mind the different approaches appropriate to public and state-owned enterprises in transition to private ownership and control, require the member or members in whose territory the project concerned is to be carried out, or a public agency or any instrumentality of such member or members acceptable to the Bank, to guarantee the repayment of the principal and the payment of interest and other fees and charges of the loan in accordance with the terms thereof. The Board of Directors shall review annually the Bank's practice in this matter, paying due attention to the Bank's creditworthiness.

3. The loan or guarantee contract shall expressly state the currency or currencies, or ECU, in which all payments to the Bank thereunder shall be made.

Article 15

COMMISSION AND FEES

1. The Bank shall charge, in addition to interest, a commission on loans made or participated in as part of its ordinary operations. The terms and conditions of this commission shall be determined by the Board of Directors.

2. In guaranteeing a loan as part of its ordinary operations or in underwriting the sale of securities, the Bank shall charge fees, payable at rates and times determined by the Board of Directors, to provide suitable compensation for its risks.

3. The Board of Directors may determine any other charges of the Bank in its ordinary operations and any commission, fees or other charges in its special operations.

Article 16

SPECIAL RESERVE

1. The amount of commissions and fees received by the Bank pursuant to Article 15 of this Agreement shall be set aside as a special reserve which shall be kept for meeting the losses of the Bank in accordance with Article 17 of this Agreement. The special reserve shall be held in such liquid form as the Bank may decide.

2. If the Board of Directors determines that the size of the special reserve is adequate, it may decide that all or part of the said commission or fees shall henceforth form part of the income of the Bank.

Article 17

METHODS OF MEETING THE LOSSES OF THE BANK

1. In the Bank's ordinary operations, in cases of arrears or default on loans made, participated in, or guaranteed by the Bank, and in cases of losses on underwriting and in equity investment, the Bank shall take such action as it deems appropriate. The Bank shall maintain appropriate provisions against possible losses.

2. Losses arising in the Bank's ordinary operations shall be charged

(i) first, to the provisions referred to in paragraph 1 of this Article

(ii) second, to net income ;

(iii) third, against the special reserve provided for in Article 16 of this Agreement ;

(iv) fourth, against its general reserve and surpluses

(v) fifth, against the unimpaired paid-in capital ; and

(vi) last, against an appropriate amount of the uncalled subscribed callable capital which shall be called in accordance with the provisions of paragraphs 4 and 5 of Article 6 of this Agreement.

Article 18

SPECIAL FUNDS

1. The Bank may accept the administration of Special Funds which are designed to serve the purpose and come within the functions of the Bank. The full cost of administering any such Special Fund shall be charged to that Special Fund.

2. Special Funds accepted by the Bank may be used in any manner and on any terms and conditions consistent with the purpose and the functions of the Bank, with the other applicable provisions of this Agreement, and with the agreement or agreements relating to such Funds.

3. The Bank shall adopt such rules and regulations as may be required for the establishment, administration and use of each Special Fund. Such rules and regulations shall be consistent with the provisions of this Agreement, except for those provisions expressly applicable only to ordinary operations of the Bank.

Article 19

SPECIAL FUNDS RESOURCES

The term "Special Funds resources" shall refer to the resources of any Special Fund and shall include :

(i) funds accepted by the Bank for inclusion in any Special Fund ;

(ii) funds repaid in respect of loans or guarantees, and the proceeds of equity investments, financed from the resources of any Special Fund which, under the rules and regulations governing that Special Fund, are received by such Special Fund and

(iii) income derived from investment of Special Funds resources.

Chapter IV

BORROWING AND OTHER MISCELLANEOUS POWERS

Article 20

GENERAL POWERS

1. The Bank shall have, in addition to the powers specified elsewhere in this Agreement, the power to :

(i) borrow funds in member countries or elsewhere, provided always that

(a) before making a sale of its obligations in the territory of a country, the Bank shall have obtained its approval ; and

(b) where the obligations of the Bank are to be denominated in the currency of a member, the Bank shall have obtained its approval ;

(ii) invest or deposit funds not needed in its operations ;

(iii) buy and sell securities, in the secondary market, which the Bank has issued or guaranteed or in which it has invested ;

(iv) guarantee securities in which it has invested in order to facilitate their sale ;

(v) underwrite, or participate in the underwriting of, securities issued by any enterprise for purposes consistent with the purpose and functions of the Bank ;

(vi) provide technical advice and assistance which serve its purpose and come within its functions ;

(vii) exercise such other powers and adopt such rules and regulations as may be necessary or appropriate in furtherance of its purpose and functions, consistent with the provisions of this Agreement ; and

(viii) conclude agreements of cooperation with any public or private entity or entities.

2. Every security issued or guaranteed by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any Government or member, unless it is in fact the obligation of a particular Government or member, in which case it shall so state.

Chapter V

CURRENCIES

Article 21

DETERMINATION AND USE OF CURRENCIES

1. Whenever it shall become necessary under this Agreement to determine whether any currency is fully convertible for the purposes of this Agreement, such determination shall be made by the Bank, taking into account the paramount need to preserve its own financial interests, after consultation , if necessary, with the International Monetary Fund.

2. Members shall not impose any restrictions on the receipt, holding, use or transfer by the Bank of the following :

(i) currencies or ECU received by the Bank in payment of subscriptions to its capital stock, in accordance with Article 6 of this Agreement ;

(ii) currencies obtained by the Bank by borrowing ;

(iii) currencies and other resources administered by the Bank as contributions to Special Funds ; and

(iv) currencies received by the Bank in payment on account of principal, interest, dividends or other charges in respect of loans or investments, or the proceeds of disposal of such investments made out of any of the funds referred to in sub-paragraphs (i) to (iii) of this paragraph, or in payment of commission, fees or other charges.

Chapter VI

ORGANIZATION AND MANAGEMENT

Article 22

STRUCTURE

The Bank shall have a Board of Governors, a Board of Directors, a President, one or more Vice-Presidents and such other officers and staff as may be considered necessary.

Article 23

BOARD OF GOVERNORS : COMPOSITION

1. Each member shall be represented on the Board of Governors and shall appoint one Governor and one Alternate. Each Governor and Alternate shall serve at the pleasure of the appointing member. No Alternate may vote except in the absence of his or her principal. At each of its annual meetings. the Board shall elect one of the Governors as Chairman who shall hold office until the election of the next Chairman.

2. Governors and Alternates shall serve as such without remuneration from the Bank.

Article 24

BOARD OF GOVERNORS : POWERS

1. All the powers of the Bank shall be vested in the Board of Governors.

2. The Board of Governors may delegate to the Board of Directors any or all of its powers, except the power to :

(i) admit new members and determine the conditions of their admission

(ii) increase or decrease the authorized capital stock of the Bank ;

(iii) suspend a member ;

(iv) decide appeals from interpretations or applications of this Agreement given by the Board of Directors ;

(v) authorize the conclusion of general agreements for co-operation with other international organizations ;

(vi) elect the Directors and the President of the Bank ;

(vii) determine the remuneration of the Directors and Alternate Directors and the salary and other terms of the contract of service of the President ;

(viii) approve, after reviewing the auditors' report, the general balance sheet and the statement of profit and loss of the Bank ;

(ix) determine the reserves and the allocation and distribution of the net profits of the Bank ;

(x) amend this Agreement ;

(xi) decide to terminate the operations of the Bank and to distribute its assets ; and

(xii) exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.

3. The Board of Governors shall retain full power to exercise authority over any matter delegated or assigned to the Board of Directors under paragraph 2 of this Article, or elsewhere in this Agreement.

Article 25

BOARD OF GOVERNORS : PROCEDURE

1. The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Board of Directors. Meetings of the Board of Governors shall be called, by the Board of Directors, whenever requested by not less than five (5) members of the Bank or members holding not less than one quarter of the total voting power of the members.

2. Two-thirds of the Governors shall constitute a quorum for any meeting of the Board of Governors, provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors may by regulation establish a procedure whereby the Board of Directors may, when the latter deems such action advisable, obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

4. The Board of Governors, and the Board of Directors to the extent authorized, may adopt such rules and regulations and establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the Bank.

Article 26

BOARD OF DIRECTORS : COMPOSITION

1. The Board of Directors shall be composed of twenty-three (23) members who shall not be members of the Board of Governors, and of whom :

(i) Eleven (11) shall be elected by the Governors representing the Belgium, Denmark, France, Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, the European Economic Community and the European Investment Bank ; and

(ii) Twelve (12) shall be elected by the Governors representing other members, of whom :

a) four (4), by the Governors representing those countries listed in Annex A as Central and Eastern European countries eligible for assistance from the Bank ;

b) four (4), by the Governors representing those countries listed in Annex A as other European countries ;

c) four (4), by the Governors representing those countries listed in Annex A as non-European countries.

Directors, as well as representing members whose Governors have elected them, may also represent members who assign their votes to them.

2. Directors shall be persons of high competence in economic and financial matters and shall be elected in accordance with Annex B.

3. The Board of Governors may increase or decrease the size, or revise the composition, of the Board of Directors, in order to take into account changes in the number of members of the Bank, by an affirmative vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members. Without prejudice to the exercise of these powers for subsequent elections, the number and composition of the second Board of Directors shall be as set out in paragraph 1 of this Article.

4. Each Director shall appoint an Alternate with full power to act for him or her when he or she is not present. Directors and Alternates shall be nationals of member countries. No member shall be represented by more than one Director. An Alternate may participate in meetings of the Board but may vote only when he or she is acting in place of his or her principal.

5. Directors shall hold office for a term of three (3) years and may be reelected ; provided that the first Board of Directors shall be elected by the Board of Governors at its inaugural meeting, and shall hold office until the next immediately following annual meeting of the Board of Governors or, if that Board shall so decide at that annual meeting, until its next subsequent annual meeting. They shall continue in office until their successors shall have been chosen and assumed office. If the office of a Director becomes vacant more than one hundred and eighty (180) days before the end of his or her term, a successor shall be chosen in accordance with Annex B, for the remainder of the term, by the Governors who elected the former Director. A majority of the votes cast by such Governors shall be required for such election. If the office of a Director becomes vacant one hundred and eighty (180) days or less before the end of his or her term, a successor may similarly be chosen for the remainder of the term, by the votes cast by such

Governors who elected the former Director, in which election a majority of the votes cast by such Governors shall be required. While the office remains vacant, the Alternate of the former Director shall exercise the powers of the latter, except that of appointing an Alternate.

Article 27

BOARD OF DIRECTORS : POWERS

Without prejudice to the powers of the Board of Governors as provided in Article 24 of this Agreement, the Board of Directors shall be responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular :

(i) prepare the work of the Board of Governors ;

(ii) in conformity with the general directions of the Board of Governors, establish policies and take decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, the furnishing of technical assistance, and other operations of the Bank ;

(iii) submit the audited accounts for each financial year for approval of the Board of Governors at each annual meeting ; and

(iv) approve the budget of the Bank.

Article 28

BOARD OF DIRECTORS : PROCEDURE

1. The Board of Directors shall normally function at the principal office of the Bank and shall meet as often as the business of the Bank may require.

2. A majority of the Directors shall constitute a quorum for any meeting of the Board of Directors, provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors shall adopt regulations under which, if there is no Director of its nationality, a member may send a representative to attend, without right to vote, any meeting of the Board of Directors when a matter particularly affecting that member is under consideration.

Article 29

VOTING

1. The voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank. In the event of any member failing to pay any part of the amount due in respect of its obligations in relation to paid-in shares under Article 6 of this Agreement, such member shall be unable for so long as such failure continues to exercise that percentage of its voting power which corresponds to the percentage which the amount due but unpaid bears to the total amount of paid-in shares subscribed to by that member in the capital stock of the Bank.

2. In voting in the Board of Governors, each Governor shall be entitled to cast the votes of the member he or she represents. Except as otherwise expressly provided in this Agreement, all matters before the Board of Governors shall be decided by a majority of the voting power of the members voting.

3. In voting in the Board of Directors each Director shall be entitled to cast the number of votes to which the Governors who have elected him or her are entitled and those to which any Governors who have assigned their votes to him or her, pursuant to Section D of Annex B, are entitled. A Director representing more than one member may cast separately the votes of the members he or she represents. Except as otherwise expressly provided in this Agreement, and except for general policy decisions in which cases such policy decisions shall be taken by a majority of not less than two-thirds of the total voting power of the members voting, all matters before the Board of Directors shall be decided by a majority of the voting power of the members voting.

Article 30

THE PRESIDENT

1. The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members, shall elect a President of the Bank. The President, while holding office, shall not be a Governor or a Director or an Alternate for either.

2. The term of office of the President shall be four (4) years. He or she may be re-elected. He or she shall, however, cease to hold office when the Board of Governors so decides by an affirmative vote of not less than two-thirds of the Governors, representing not less than two-thirds of the total voting power of the members. If the office of the President for any reason becomes vacant, the Board of Governors, in accordance with the provisions of paragraph 1 of this Article, shall elect a successor for up to four years.

3. The President shall not vote, except that he or she may cast a deciding vote in case of an equal division. He or she may participate in meetings of the Board of Governors and shall chair the meetings of the Board of Directors.

4. The President shall be the legal representative of the Bank.

5. The President shall be chief of the staff of the Bank. He or she shall be responsible for the organisation, appointment and dismissal of the officers and staff in accordance with regulations to be adopted by the Board of Directors. In appointing officers and staff, he or she shall, subject to the paramount importance of efficiency and technical competence, pay due regard to recruitment on a wide geographical basis among members of the Bank.

6. The President shall conduct, under the direction of the Board of Directors, the current business of the Bank.

Article 31

VICE PRESIDENT (S)

1. One or more Vice-Presidents shall be appointed by the Board of Directors on the recommendation of the President. A Vice-President shall hold office for such term, exercise such authority and perform such functions in the administration of the Bank, as may be determined by the Board of Directors. In the absence or incapacity of the President, a Vice-President shall exercise the authority and perform the functions of the President.

2. A Vice-President may participate in meetings of the Board of Directors but shall have no vote at such meetings, except that he or she may cast the deciding vote when acting in place of the President.

Article 32

INTERNATIONAL CHARACTER OF THE BANK

1. The Bank shall not accept Special Funds or other loans or assistance that may in any way prejudice, deflect or otherwise alter its purpose or functions.

2. The Bank, its President, Vice-President (s), officers and staff shall in their decisions take into account only considerations relevant to the Bank's purpose, functions and operations, as set out in this Agreement. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank.

3. The President, Vice-President(s), officers and staff of the Bank, in the discharge of their offices, shall owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

Article 33

LOCATION OF OFFICES

1. The principal office of the Bank shall be located in ....

2. The Bank may establish agencies or branch offices in the territory of any member of the Bank.

Article 34

DEPOSITORIES AND CHANNELS OF COMMUNICATION

1. Each member shall designate its central bank, or such other institution as may be agreed upon with the Bank, as a depository for all the Bank's holdings of its currency as well as other assets of the Bank.

2. Each member shall designate an appropriate official entity with which the Bank may communicate in connection with any matter arising under this Agreement.

Article 35

PUBLICATION OF REPORTS AND PROVISION OF INFORMATION

1. The Bank shall publish an annual report containing an audited statement of its accounts and shall circulate to members at intervals of three (3) months or less a summary statement of its financial position and a profit and loss statement showing the results of its operations. The financial accounts shall be kept in ECU.

2. The Bank shall report annually on the environmental impact of its activities and may publish such other reports as it deems desirable to advance its purpose.

3. Copies of all reports, statements and publications made under this Article shall be distributed to members.

Article 36

ALLOCATION AND DISTRIBUTION OF NET INCOME

1. The Board of Governors shall determine at least annually what part of the Bank's net income, after making provision for reserves and, if necessary, against possible losses under paragraph 1 of Article 17 of this Agreement, shall be allocated to surplus or other purposes and what part, if any, shall be distributed. Any such decision on the allocation of the Bank's net income to other purposes shall be taken by a majority of not less than two-thirds of the Governors, representing not less than two-thirds of the total voting power of the members. No such allocation, and no distribution, shall be made until the general reserve amounts to at least ten (10) per cent of the authorized capital stock.

2. Any distribution referred to in the preceding paragraph shall be made in proportion to the number of paid-in shares held by each member ; provided that in calculating such number account shall be taken only of payments received in cash and promissory notes encashed in respect of such shares on or before the end of the relevant financial year.

3. Payments to each member shall be made in such manner as the Board of Governors shall determine. Such payments and their use by the receiving country shall be without restriction by any member.

Chapter VII

WITHDRAWAL AND SUSPENSION OF MEMBERSHIP : TEMPORARY SUSPENSION AND TERMINATION OF OPERATIONS

Article 37

RIGHT OF MEMBERS TO WITHDRAW

1. Any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank at its principal office.

2. Withdrawal by a member shall become effective, and its membership shall cease, on the date specified in its notice but in no event less than six (6) months after such notice is received by the Bank. However, at any time before the withdrawal becomes finally effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw.

Article 38

SUSPENSION OF MEMBERSHIP

1. If a member fails to fulfil any of its obligations to the Bank, the Bank may suspend its membership by decision of a majority of not less than two-thirds of the Governors, representing not less than two-thirds of the total voting power of the members. The member so suspended shall automatically cease to be a member one year from the date of its suspension unless a decision is taken by not less than the same majority to restore the member to good standing.

2. While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

Article 39

SETTLEMENT OF ACCOUNTS WITH FORMER MEMBERS

1. After the date on which a member ceases to be a member, such former member shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any part of the loans, equity investments or guarantees contracted before it ceased to be a member are outstanding ; but it shall cease to incur such liabilities with respect to loans, equity investments and guarantees entered into thereafter by the Bank and to share either in the income or the expenses of the Bank.

2. At the time a member ceases to be a member, the Bank shall arrange for the repurchase of such former member's shares as a part of the settlement of accounts with such former member in accordance with the provisions of this Article. For this purpose, the repurchase price of the shares shall be the value shown by the books of the Bank on the date of cessation of membership, with the original purchase price of each share being its maximum value.

3.The payment for shares repurchased by the Bank under this Article shall be governed by the following conditions :

(i) any amount due to the former member for its shares shall be withheld so long as the former member, its central bank or any of its agencies or instrumentalities remains liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied on any such liability as it matures. No amount shall be withheld on account of the liability of the former member resulting from its subscription for shares in accordance with paragraphs 4, 5 and 7 of Article 6 of this Agreement. In any event, no amount due to a member for its shares shall be paid until six (6) months after the date upon which the member ceases to be a member ;

(ii) payments for shares may be made from time to time, upon their surrender by the former member, to the extent by which the amount due as the repurchase price in accordance with paragraph 2 of this Article exceeds the aggregate amount of liabilities on loans, equity investments and guarantees in sub-paragraph (i) of this paragraph until the former member has received the full repurchase price ;

(iii) payments shall be made on such conditions and in such fully convertible currencies, or ECU, and on such dates, as the Bank determines ; and

(iv) if losses are sustained by the Bank on any guarantees, participations in loans, or loans which were outstanding on the date when the member ceased to be a member, or if a net loss is sustained by the Bank on equity investments held by it on such date, and the amount of such losses exceeds the amount of the reserves provided against losses on the date when the member ceased to be a member, such former member shall repay, upon demand, the amount by which the repurchase price of its shares would have been reduced if the losses had been taken into account when the repurchase price was determined. In addition, the former member shall remain liable on any call for unpaid subscriptions under paragraph 4 of Article 6 of this Agreement, to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

4. If the Bank terminates its operations pursuant to Article 41 of this Agreement within six (6) months of the date upon which any member ceases to be a member, all rights of such former member shall be determined in accordance with the provisions of Articles 41 to 43 of this Agreement.

Article 40

TEMPORARY SUSPENSION OF OPERATIONS

In an emergency, the Board of Directors may suspend temporarily operations in respect of new loans, guarantees, underwriting, technical assistance and equity investments pending an opportunity for further consideration and action by the Board of Governors.

Article 41

TERMINATION OF OPERATIONS

The Bank may terminate its operations by the affirmative vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members. Upon such termination of operations the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations.

Article 42

LIABILITY OF MEMBERS AND PAYMENT OF CLAIMS

1. In the event of termination of the operations of the Bank, the liability of all members for uncalled subscriptions to the capital stock of the Bank shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

2. Creditors on ordinary operations holding direct claims shall be paid first out of the assets of the Bank, secondly out of the payments to be made to the Bank in respect of unpaid paid-in shares, and then out of payments to be made to the Bank in respect of callable capital stock. Before making any payments to creditors holding direct claims, the Board of Directors shall make such arrangements as are necessary, in its judgment, to ensure a *pro rata* distribution among holders of direct and holders of contingent claims.

Article 43

DISTRIBUTION OF ASSETS

1. No distribution under this Chapter shall be made to members on account of their subscriptions to the capital stock of the Bank until :

(i) all liabilities to creditors have been discharged or provided for ; and

(ii) the Board of Governors has decided by a vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members, to make a distribution.

2. Any distribution of the assets of the Bank to the members shall be in proportion to the capital stock held by each member and shall be effected at such times and under such conditions as the Bank shall deem fair and equitable. The shares of assets distributed need not be uniform as to type of assets. No member shall be entitled to receive its share in such a distribution of assets until it has settled all of its obligations to the Bank.

3. Any member receiving assets distributed pursuant to this Article shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

Chapter VIII

STATUS, IMMUNITIES, PRIVILEGES AND EXEMPTIONS

Article 44

PURPOSES OF CHAPTER

To enable the Bank to fulfil its purpose and the functions with which it is entrusted, the status, immunities, privileges and exemptions set forth in this Chapter shall be accorded to the Bank in the territory of each member country.

Article 45

STATUS OF THE BANK

The Bank shall possess full legal personality and, in particular, the full legal capacity :

(i) to contract ;

(ii) to acquire, and dispose of, immovable and movable property ; and

(iii) to institute legal proceedings.

Article 46

POSITION OF THE BANK WITH REGARD TO JUDICIAL PROCESS

Actions may be brought against the Bank only in a court of competent jurisdiction in the territory of a country in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members. The property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Article 47

IMMUNITY OF ASSETS FROM SEIZURE

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Article 48

IMMUNITY OF ARCHIVES

The archives of the Bank, and in general all documents belonging to it or held by it, shall be inviolable.

Article 49

FREEDOM OF ASSETS FROM RESTRICTIONS

To the extent necessary to carry out the purpose and functions of the Bank and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Article 50

PRIVILEGE FOR COMMUNICATIONS

The official communications of the Bank shall be accorded by each member the same treatment that it accords to the official communications of any other member.

Article 51

IMMUNITIES OF OFFICERS AND EMPLOYEES

All Governors, Directors, Alternates, officers and employees of the Bank and experts performing missions for the Bank shall be immune from legal process with respect to acts performed by them in their official capacity, except when the Bank waives this immunity, and shall enjoy inviolability of all their official papers and documents. This immunity shall not apply, however, to civil liability in the case of damage arising from a road traffic accident caused by any such Governor, Director, Alternate, officer, employee or expert.

Article 52

PRIVILEGES OF OFFICERS AND EMPLOYEES

1. All Governors, Directors, Alternates, officers and employees of the Bank and experts of the Bank performing missions for the Bank

(i) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations, and the same facilities as regards exchange regulations, as are accorded by members to the representatives, officials, and employees of comparable rank of other members and

(ii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

2. The spouses and immediate dependants of those Directors, Alternate Directors, officers, employees and experts of the Bank who are resident in the country in which the principal office of the Bank is located shall be accorded opportunity to take employment in that country. The spouses and immediate dependants of those Directors, Alternate Directors, officers, employees and experts of the Bank who are resident in a country in which any agency or branch office of the Bank is located should, wherever possible, in accordance with the national law of that country, be accorded similar opportunity in that country. The Bank shall negotiate specific agreements implementing the provisions of this paragraph with the country in which the principal office of the Bank is located and, as appropriate, with the other countries concerned.

Article 53

EXEMPTION FROM TAXATION

1. Within the scope of its official activities the Bank, its assets, property, and income shall be exempt from all direct taxes.

2. When purchases or services of substantial value and necessary for the exercise of the official activities of the Bank are made or used by the Bank and when the price of such purchases or services includes taxes or duties, the member that has levied the taxes or duties shall, if they are identifiable, take appropriate measures to grant exemption from such taxes or duties or to provide for their reimbursement.

3. Goods imported by the Bank and necessary for the exercise of its official activities shall be exempt from all import duties and taxes, and from all import prohibitions and restrictions. Similarly goods exported by the Bank and necessary for the exercise of its official activities shall be exempt from all export duties and taxes, and from all export prohibitions and restrictions.

4. Goods acquired or imported and exempted under this Article shall not be sold, hired out, lent or given away against payment or free of charge, except in accordance with conditions laid down by the members which have granted exemptions or reimbursements.

5. The provisions of this Article shall not apply to taxes or duties which are no more than charges for public utility services.

6. Directors, Alternate Directors, officers and employees of the Bank shall be subject to an internal effective tax for the benefit of the Bank on salaries and emoluments paid by the Bank, subject to conditions to be laid down and rules to be adopted by the Board of Governors within a period of one year from the date of entry into force of this Agreement. From the date on which this tax is applied, such salaries and emoluments shall be exempt from national income tax. The members may, however, take into account the salaries and emoluments thus exempt when assessing the amount of tax to be applied to income from other sources.

7. Notwithstanding the provisions of paragraph 6 of this Article, a member may deposit, with its instrument of ratification, acceptance or approval, a declaration that such member retains for itself, its political subdivisions or its local authorities the right to tax salaries and emoluments paid by the Bank to citizens or nationals of such member. The Bank shall be exempt from any obligation for the payment, withholding or collection of such taxes. The Bank shall not make any reimbursement for such taxes.

8. Paragraph 6 of this Article shall not apply to pensions and annuities paid by the Bank.

9. No tax of any kind shall be levied on any obligation or security issued by the Bank, including any dividend or interest thereon, by whomsoever held :

(i) which discriminates against such obligation or security solely because it is issued by the Bank, or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

10. No tax of any kind shall be levied on any obligation or security guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held :

(i) which discriminates against such obligation or security solely because it is guaranteed by the Bank, or

(ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Article 54

IMPLEMENTATION OF CHAPTER

Each member shall promptly take such action as is necessary for the purpose of implementing the provisions of this Chapter and shall inform the Bank of the detailed action which it has taken.

Article 55

WAIVER OF IMMUNITIES, PRIVILEGES AND EXEMPTIONS

The immunities, privileges and exemptions conferred under this Chapter are granted in the interest of the Bank. The Board of Directors may waive to such extent and upon such conditions as it may determine any of the immunities, privileges and exemptions conferred under this Chapter in cases where such action would, in its opinion, be appropriate in the best interests of the Bank. The President shall have the right and the duty to waive any immunity, privilege or exemption in respect of any officer, employee or expert of the Bank, other than the President or a Vice-President, where, in his or her opinion, the immunity, privilege or exemption would impede the course of justice and can be waived without prejudice to the interests of the Bank. In similar circumstances and under the same conditions, the Board of Directors shall have the right and the duty to waive any immunity, privilege or exemption in respect of the President and each Vice President.

Chapter IX

AMENDMENTS, INTERPRETATION, ARBITRATION

Article 56

Amendments

1. Any proposal to amend this Agreement, whether emanating from a member, a Governor or the Board of Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before that Board. If the proposed amendment is approved by the Board the Bank shall, by any rapid means of communication, ask all members whether they accept the proposed amendment. When not less than three-fourths of the members (including at least two countries from Central and Eastern Europe listed in Annex A), having not less than four-fifths of the total voting power of the members, have accepted the proposed amendment, the Bank shall certify that fact by formal communication addressed to all members.

2. Notwithstanding paragraph 1 of this Article :

(i) acceptance by all members shall be required in the case of any amendment modifying :

(a) the right to withdraw from the Bank ;

(b) the rights pertaining to purchase of capital stock provided for in paragraph 3 of Article 5 of this Agreement ;

(c) the limitations on liability provided for in paragraph 7 of Article 5 of this Agreement ; and

(d) the purpose and functions of the Bank defined by Articles 1 and 2 of this Agreement ;

(ii) acceptance by not less than three-fourths of the members having not less than eighty-five (85) percent of the total voting power of the members shall be required in the case of any amendment modifying paragraph 4 of Article 8 of this Agreement.

When the requirements for accepting any such proposed amendment have been met, the Bank shall certify that fact by formal communication addressed to all members.

3. Amendments shall enter into force for all members three months after the date of the formal communication provided for in paragraphs 1 and 2 of this Article unless the Board of Governors specifies a different period.

Article 57

INTERPRETATION AND APPLICATION

1. Any question of interpretation or application of the provisions of this Agreement arising between any member and the Bank, or between any members of the Bank, shall be submitted to the Board of Directors for its decision. If there is no Director of its nationality in that Board, a member particularly affected by the question under consideration shall be entitled to direct representation in the meeting of the Board of Directors during such consideration. The representative of such member shall, however, have no vote. Such right of representation shall be regulated by the Board of Governors.

2. In any case where the Board of Directors has given a decision under paragraph 1 of this Article, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the decision of the Board of Governors, the Bank may, so far as it deems it necessary, act on the basis of the decision of the Board of Directors.

Article 58

ARBITRATION

If a disagreement should arise between the Bank and a member which has ceased to be a member, or between the Bank and any member after adoption of a decision to terminate the operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three (3) arbitrators, one appointed by the Bank, another by the member or former member concerned, and the third, unless the parties otherwise agree, by the President of the International Court of Justice or such other authority as may have been prescribed by regulations adopted by the Board of Governors. A majority vote of the arbitrators shall be sufficient to reach a decision which shall be final and binding upon the parties. The third arbitrator shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Article 59

APPROVAL DEEMED GIVEN

Whenever the approval or the acceptance of any member is required before any act may be done by the Bank, except under Article 56 of this Agreement, approval or acceptance shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

Chapter X

FINAL PROVISIONS

Article 60

SIGNATURE AND DEPOSIT

1. This Agreement, deposited with the Government of .... (hereinafter called the Depository "), shall remain open until 31 December 1990 for signature by the prospective members whose names are set forth in Annex A to this Agreement.

2. The Depository shall communicate certified copies of this Agreement to all the Signatories.

Article 61

RATIFICATION, ACCEPTANCE OR APPROVAL

1. The Agreement shall be subject to ratification, acceptance or approval by the Signatories. Instruments of ratification, acceptance or approval shall, subject to paragraph 2 of this Article, be deposited with the Depository not later than 31 March 1991. The Depository shall duly notify the other Signatories of each deposit and the date thereof.

2. Any Signatory may become a party to this Agreement by depositing an instrument of ratification, acceptance or approval until one year after the date of its entry into force or, if necessary, until such later date as may be decided by a majority of Governors, representing a majority of the total voting power of the members.

3. A Signatory whose instrument referred to in paragraph 1 of this Article is deposited before the date on which this Agreement enters into force shall become a member of the Bank on that date. Any other Signatory which complies with the provisions of the preceding paragraph shall become a member of the Bank on the date on which its instrument of ratification, acceptance or approval is deposited.

Article 62

ENTRY INTO FORCE

1. This Agreement shall enter into force when instruments of ratification, acceptance or approval have been deposited by Signatories whose initial subscriptions represent not less than two thirds of the total subscriptions set forth in Annex A, including at least two countries from Central and Eastern Europe listed in Annex A.

2. If this Agreement has not entered into force by 31 March 1991, the Depository may convene a conference of interested prospective members to determine the future course of action and decide a new date by which instruments of ratification, acceptance or approval shall be deposited.

Article 63

INAUGURAL MEETING AND COMMENCEMENT OF OPERATIONS

1. As soon as this Agreement enters into force under Article 62 of this Agreement, each member shall appoint a Governor. The Depository shall call the first meeting of the Board of Governors within sixty (60) days of entry into force of this Agreement under Article 62 or as soon as possible thereafter.

2. At its first meeting, the Board of Governors :

(i) shall elect the President ;

(ii) shall elect the Directors of the Bank in accordance with Article 26 of this Agreement ;

(iii) shall make arrangements for determining the date of the commencement of the Bank's operations ; and

(iv) shall make such other arrangements as appear to it necessary to prepare for the commencement of the Bank's operations.

3. The Bank shall notify its members of the date of commencement of its operations.

Done at ..... on... in a single original, whose English, French, German and Russian texts are equally authentic, which shall be deposited in the archives of the Depository which shall transmit a duly certified copy to each of the other prospective members whose names are set forth in Annex A.

ANNEX A

Initial subscriptions to the authorized capital stock for prospective members which may become members in accordance with Article 61

		NUMBER OF SHARES	CAPITAL SUBSCRIPTION in million ECU
A - European Communities			
a)			
	Belgium	22800	228,00
	Denmark	12000	120,00
	France	85175	851,75
	Germany, Federal Republic of	85175	851,75
	Greece	6500	65,00
	Ireland	3000	30,00
	Italy	85175	851,75
	Luxembourg	2000	20,00
	Netherlands	24800	248,00
	Portugal	4200	42,00
	Spain	34000	340,00
	United Kingdom	85175	851,75
b)			
	European Economic Community	30000	300,00
	European Investment Bank	30000	300,00
B - Other European countries			
	Austria	22800	228,00
	Cyprus	1000	10,00
	Finland	12500	125,00
	Iceland	1000	10,00
	Israel	6500	65,00
	Liechtenstein	200	2,00
	Malta	100	1,00
	Norway	12500	125,00
	Sweden	22800	228,00
	Switzerland	22800	228,00
	Turkey	11500	115,00

Recipient countries

Bulgaria	7900	79,00
Czechoslovakia	12800	128,00
German Democratic Republic	15500	155,00
Hungary	7900	79,00
Poland	12800	128,00
Romania	4800	48,00
Union of Soviet Socialist Republics	60000	600,00
Yugoslavia	12800	128,00

Non-European countries

Australia	10000	100,00
Canada	34000	340,00
Egypt	1000	10,00
Japan	85175	851,75
Korea, Republic of	6500	65,00
Mexico	3000	30,00
Morocco	1000	10,00
New Zealand	1000	10,00
United States of America	100000	1.000,00

Non allocated shares

	125	1,25
TOTAL	1000000	10.000,00

Prospective members are listed under the above categories only the purpose of this Agreement. Recipient countries are referred to ewhere in this Agreement as Central and Eastern European countries

ANNEX B

Section A - Election of Directors by Governors representing Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, the European Economic Community and the European Investment Bank (hereinafter referred to as Section A Governors).

1. The provisions set out below in this Section shall apply exclusively to this Section.

2. Candidates for the office of Director shall be nominated by Section A Governors, provided that a Governor may nominate only one person. The election of Directors shall be by ballot of Section A Governors.

3. Each Governor eligible to vote shall cast for one person all of the votes to which the member appointing him or her is entitled under paragraphs 1 and 2 of Article 29 of this Agreement.

4. Subject to paragraph 10 of this Section, the 11 persons receiving the highest number of votes shall be Directors, except that no person who receives less than 4.5 per cent of the total of the votes which can be cast (eligible votes) in Section A shall be considered elected.

5. Subject to paragraph 10 of this Section, if 11 persons are not elected on the first ballot, a second ballot shall be held in which, unless there were no more than 11 candidates, the person who received the lowest number of votes in the first ballot shall be ineligible for election and in which there shall vote only :

a) those Governors who voted in the first ballot for a person not elected and

b) those Governors whose votes for a person elected are deemed under paragraphs 6 and 7 below of this Section to have raised the votes cast for that person above 5.5 per cent of the eligible votes.

6. In determining whether the votes cast by a Governor are deemed to have raised the total votes cast for any person above 5.5 per cent of the eligible votes, the 5.5 per cent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number and so on, until 5.5 per cent is reached.

7. Any Governor, part of whose votes must be counted in order to raise the total of votes cast for any person above 4.5 per cent shall be considered as casting all of his or her votes for such person, even if the total votes for such person thereby exceed 5.5 per cent and shall not be eligible to vote in a further ballot.

8. Subject to paragraph 10 of this Section, if, after the second ballot, 11 persons have not been elected, further ballots shall be held in conformity with the principles and procedures laid down in this Section, until 11 persons have been elected, provided that, if at any stage 10 persons are elected, notwithstanding the provisions of paragraph 4 of this Section, the 11 th may be elected by a simple majority of the remaining votes cast.

9. In the case of an increase or decrease in the number of Directors to be elected by Section A Governors, the minimum and maximum percentages specified in paragraphs 4, 5, 6 and 7 of this Section shall be appropriately adjusted by the Board of Governors.

10. So long as any Signatory, or group of Signatories, whose share of the total amount of capital subscriptions provided in Annex A is more than 2.4 per cent, has not deposited its instrument or their instruments of ratification, approval or acceptance, there shall be no election for one Director in respect of each such Signatory or group of Signatories. The Governor or Governors representing such a Signatory or group of Signatories shall elect a Director in respect of each Signatory or group of Signatories, immediately after the Signatory becomes a member or the group of Signatories become members. Such Director shall be deemed to have been elected by the Board of Governors at its inaugural meeting, in accordance with paragraph 3 of Article 26 of this Agreement, if he or she is elected during the period in which the first Board of Directors shall hold office.

Section B - ELECTION OF DIRECTORS BY GOVERNORS REPRESENTING OTHER COUNTRIES.

Section B (i) : Election of Directors by Governors representing those countries listed in Annex A as Central and Eastern European Countries(recipient countries) (hereinafter referred to as Section B (i) Governors).

1. The provisions set out below in this Section shall apply exclusively to this Section.

2. Candidates for the office of Director shall be nominated by Section B (i) Governors, provided that a Governor may nominate only one person. The election of Directors shall be by ballot of Section B (i) Governors.

3. Each Governor eligible to vote shall cast for one person all of the votes to which the member appointing him or her is entitled under paragraphs 1 and 2 of Article 29 of this Agreement.

4. Subject to paragraph 10 of this Section, the 4 persons receiving the highest number of votes shall be Directors, except that no person who receives less than 12 per cent of the total of the votes which can be cast (eligible votes) in Section B (i) shall be considered elected.

5. Subject to paragraph 10 of this Section, if 4 persons are not elected on the first ballot, a second ballot shall be held in which, unless there were no more than 4 candidates, the person who received the lowest number of votes in the first ballot shall be ineligible for election and in which there shall vote only :

a) those Governors who voted in the first ballot for a person not elected and

b) those Governors whose votes for a person elected are deemed under paragraphs 6 and 7 below of this Section to have raised the votes cast for that person above 13 per cent of the eligible votes.

6. In determining whether the votes cast by a Governor are deemed to have raised the total votes cast for any person above 13 per cent of the eligible votes, the 13 per cent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number and so on, until 13 per cent is reached.

7. Any Governor, part of whose votes must be counted in order to raise the total of votes cast for any person above 12 per cent shall be considered as casting all of his or her votes for such person, even if the total votes for such person thereby exceed 13 per cent and shall not be eligible to vote in a further ballot.

8. Subject to paragraph 10 of this Section, if, after the second ballot, 4 persons have not been elected, further ballots shall be held in conformity with the principles and procedures laid down in this Section, until 4 persons have been elected, provided that, if at any stage 3 persons are elected, notwithstanding the provisions of paragraph 4 of this Section, the 4 th may be elected by a simple majority of the remaining votes cast.

9. In the case of an increase or decrease in the number of Directors to be elected by Section B (i) Governors the minimum and maximum percentages specified in paragraphs 4, 5, 6 and 7 of this Section shall be appropriately adjusted by the Board of Governors.

10. So long as any Signatory, or group of Signatories, whose share of the total amount of capital subscriptions provided in Annex A is more than 2.8 per cent, has not deposited its instrument or their instruments of ratification, approval or acceptance, there shall be no election for one Director in respect of each such Signatory or group of Signatories. The Governor or Governors representing such a Signatory or group of Signatories shall elect a Director in respect of each Signatory or group of Signatories, immediately after the Signatory becomes a member or the group of Signatories become members. Such Director shall be deemed to have been elected by the Board of Governors at its inaugural meeting, in accordance with paragraph 3 of Article 26 of this Agreement, if he or she is elected during the period in which the first Board of Directors shall hold office.

Section B (ii) : Election of Directors by Governors representing those countries listed in Annex A as other European countries (hereinafter referred to as Section B (ii) Governors).

1. The provisions set out below in this Section shall apply exclusively to this Section.

2. Candidates for the office of Director shall be nominated by Section B (ii) Governors, provided that a Governor may nominate only one person. The election of Directors shall be by ballot of Section B (ii) Governors.

3. Each Governor eligible to vote shall cast for one person all of the votes to which the member appointing him or her is entitled under paragraphs 1 and 2 of Article 29 of this Agreement.

4. Subject to paragraph 10 of this Section, the 4 persons receiving the highest number of votes shall be Directors, except that no person who receives less than 20.5 per cent of the votes which can be cast (eligible votes) in Section B (ii) shall be considered elected.

5. Subject to paragraph 10 of this Section, if 4 persons are not elected on the first ballot, a second ballot shall be held in which, unless there were no more than 4 candidates, the person who received the lowest number of votes in the first ballot shall be ineligible for election and in which there shall vote only :

a) those Governors who voted in the first ballot for a person not elected and

b) those Governors whose votes for a person elected are deemed under paragraphs 6 and 7 below of this Section to have raised the votes cast for that person above 21.5 per cent of the eligible votes.

6. In determining whether the votes cast by a Governor are deemed to have raised the total votes cast for any person above 21.5 per cent of the eligible votes, the 21.5 per cent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number and so on, until 21.5 per cent is reached.

7. Any Governor, part of whose votes must be counted in order to raise the total of votes cast for any person above 20.5 per cent shall be considered as casting all of his or her votes to such person, even if the total votes for such person thereby exceed 21.5 per cent and shall not be eligible to vote in a further ballot.

8. Subject to paragraph 10 of this Section, if, after the second ballot, 4 persons have not been elected, further ballots shall be held in conformity with the principles and procedures laid down in this Section, until 4 persons have been elected, provided that, if at any stage 3 persons are elected, notwithstanding the provisions of paragraph 4 of this Section, the 4 th may be elected by a simple majority of the remaining votes cast.

9. In the case of an increase or decrease in the number of Directors to be elected by Section B (ii) Governors, the minimum and maximum percentages specified in paragraphs 4, 5, 6 and 7 of this Section shall be appropriately adjusted by the Board of Governors.

10. So long as any Signatory, or group of Signatories, whose share of the total amount of capital subscriptions provided in Annex A is more than 2.8 per cent, has not deposited its instrument or their instruments of ratification, approval or acceptance, there shall be no election for one Director in respect of each such Signatory or group of Signatories. The Governor or Governors representing such a Signatory or group of Signatories shall elect a Director in respect of each Signatory or group of Signatories, immediately after the Signatory becomes a member or the group of Signatories become members. Such Director shall be deemed to have been elected by the Board of Governors at its inaugural meeting, in accordance with paragraph 3 of Article 26 of this Agreement, if he or she is elected during the period in which the first Board of Directors shall hold office.

Section B (iii) : Election of Directors by Governors representing those countries listed in Annex A as Non-European Countries (hereinafter referred to as Section B (iii) Governors).

1. The provisions set out below in this Section shall apply exclusively to this Section.

2. Candidates for the office of Director shall be nominated by Section B (iii) Governors, provided that a Governor may nominate only one person. The election of Directors shall be by ballot of Section B (iii) Governors.

3. Each Governor eligible to vote shall cast for one person all of the [illegible] which the member appointing him or her is entitled under paragraphs 1 and [illegible] of [illegible] of the Agreement.

4. Subject to paragraph 10 of this Section, the 4 persons receiving the highest number of votes shall be Directors, except that no person who receives less than 8 per cent of the total of the votes which can be cast (eligible votes) in Section B (iii) shall be considered elected

5. Subject to paragraph 10 of this Section, if 4 persons are not elected on the first ballot, a second ballot shall be held in which, unless there were no more than 4 candidates, the person who received the lowest number of votes in the first ballot shall be ineligible for election and in [illegible] there shall vote only

a) those Governors who voted in the first ballot for a person not elected and

b) those Governors whose [illegible] for a person elected are deemed under paragraphs 6 and 7 below of this Section to have raised the votes cast for that person above 9 per cent of the eligible votes.

6. In determining whether the votes cast by a Governor are deemed to have raised the total votes cast for any person above 9 per cent of the eligible votes, the 9 per cent shall be deemed to include first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number and so on until 9 per cent is reached.

7. Any Governor part [illegible] whose votes must be counted in order to raise the total of votes cast for any person above 9 per cent shall be considered as casting all of his or her votes for such person even if the total votes for such person thereby exceed 9 per cent and shall not be eligible to vote in a further ballot.

8. Subject to paragraph 10 of this Section, if, after the second ballot, 4 persons have not been elected, further ballots shall be held in conformity with the principles and procedures laid down in this Section, until 4 persons have been elected, provided that, if at any stage 3 persons are elected, notwithstanding the provisions of paragraph 4 of this Section, the 4 th may be elected by a simple majority of the remaining votes cast.

9. In the case of an increase or decrease in the number of Directors to be elected by Section B (iii) Governors, the minimum and maximum percentages specified in paragraphs 4, 5, 6 and 7 of this Section shall be appropriately adjusted by the Board of Governors.

10. So long as any Signatory, or group of Signatories, whose share of the total amount of capital subscriptions provided in Annex A is more than 5 per cent, has not deposited its instrument or their instruments of ratification, approval or acceptance, there shall be no election for one Director in respect of each such Signatory or group of Signatories. The Governor or Governors representing such a Signatory or group of Signatories shall elect a Director in respect of each Signatory or group of Signatories, immediately after the Signatory becomes a member or the group of Signatories become members. Such Director shall be deemed to have been elected by the Board of Governors at its inaugural meeting, in accordance with paragraph 3 of Article 26 of this Agreement, if he or she is elected during the period in which the first Board of Directors shall hold office.

Section C : ARRANGEMENTS FOR THE ELECTION OF DIRECTORS REPRESENTING COUNTRIES NOT LISTED IN ANNEX A.

If the Board of Governors decides, in accordance with paragraph 3 of Article 26 of this Agreement, to increase or decrease the size or revise the composition of the Board of Directors, in order to take into account changes in the number of members of the Bank, the Board of Governors shall first consider whether any amendments are required to this Annex, and may make any such amendments as it deems necessary as part of such decision.

Section D : ASSIGNMENT OF VOTES.

Any Governor who does not participate in voting for the election or whose vote does not contribute to the election of a Director under Section A or Section B (i) or Section B (ii) or Section B (iii) of this Annex may assign the votes to which he or she is entitled to an elected Director, provided that such Governor shall first have obtained the agreement of all those Governors who have elected that Director to such assignment.

A decision by any Governor not to participate in voting for the election of a Director shall not affect the calculation of the eligible votes to be made under Section A Section B (i), Section B (ii) or Section B (iii) of this Annex.

TREASURY NEWS

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

For Release Upon Delivery
Expected at 12 noon
July 19, 1990

REMARKS BY J. FRENCH HILL
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
LEVERAGED BUYOUTS: FRIEND OR FOE TO U.S. COMPETITIVENESS
JULY 19, 1990

The decade of the 1980s has been maligned as the greed decade or the decade of debt-- as characterized by the books: Trump, Bonfire of the Vanities, and Barbarians at the Gate. I submit that, in fact, it was a decade of economic revolution-- with far more positive than negative ramifications for America. The long-term losers in this revolution were bureaucrats, big government, and builders of corporate conglomerates of the 1960s and 1970s, who thought that big and diverse would lead to money and power. The long-term winners are the private sector, American families, entrepreneurs, and ultimately, American competitiveness.

The 1980s were a decade which began with a prime rate of 21.5% and ended with a rate of half that amount. The 1980s included the longest peacetime expansion in U.S. history, with real GNP growth averaging a strong 4% annually since the recession trough in 1982. The share of the population employed reached an all-time high in 1989 and the unemployment rate has fallen to its lowest level since the early 1970s. During the economic expansion of the last seven years we have created nearly 18 million jobs-- this compares to only 6.5 million jobs created in the EC and 4.9 million new jobs created in Japan during the same time period. Income tax rates were cut for families and business. Cover stories began to highlight economic growth instead of the inflation of the "malaise decade" of the 1970s.

Certainly, as with any revolution, there were excesses accompanied by the use of poor judgment and incorrect assumptions. Some of the dubious quotes of the decade included:

"This loan is a sure thing-- Sovereign countries repay their debts"

"West Texas Intermediate will be $60 a barrel"

"The stock market is poised for sustained growth"-- August 1987.

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Despite these highly publicized excesses, one must not lose sight of what is truly important to long-term U.S. economic competitiveness-- competitive, innovative U.S. businesses. Today, I would like to use the leveraged buyouts of the 1980s as an example of how some of the financial trends in the past decade may have helped to point us toward ways of improving U.S. competitiveness.

The Genesis of LBOs

LBOs have received a great deal of media and Congressional attention in the last few years. Countless newspaper and magazine pages have proclaimed the vices of LBOs. LBOs have been accused of depressing R&D and capital investment. They have been blamed for factory closings and massive layoffs. Congress has clamored for limits on the deductibility of interest expenses relating to LBO debt on the grounds that LBOs merely line the pockets of investment bankers and attorneys and reduce sorely needed tax revenues.

Before we look at the merits of these accusations, I would like to take a few moments to review briefly the genesis of leveraged buyouts.

In 1981, there were fewer than 100 LBO transactions, amounting to less than $3 billion. By 1988, there were over 300 transactions, totaling nearly $43 billion.

There were a number of factors that came together which contributed to the explosive growth of LBOs during the 1980s:

1) The development of the high yield bond market greatly expanded the field of potential buyers. One no longer needed vast personal or corporate resources to purchase a company, but instead could rely on the increased leverage available through this subordinated, often non-investment grade debt.

2) Like access to innovative sources of debt, the emergence of large LBO funds created large pools of equity funds to be used for LBO transactions. Attracted by high returns, venture capital funds shifted into LBO funds. In addition, huge sums of money were attracted from institutional investors looking for long-term investment opportunities. By the end of the decade, these funds had grown to $30 billion in equity.

3) A favorable economy and a rising stock market enabled companies which were bought in the early part of the decade to be taken public or sold for a much higher price in the mid-1980s.

4) The maturing of American industries such as textiles and selected food, retail and manufacturing entities, provided an opportunity for recapitalization. LBOs provided firms with stable cash flows, but which were not able to profitably reinvest in their businesses, an opportunity to return capital back to their shareholders to be redeployed in more productive areas.

Despite the criticisms and celebrated flops like Campeau, many of the negative generalizations made by the media have turned out to be overstated. Let us look briefly at the evidence to date regarding the affect that LBOs have had on productivity, employment, research and development, returns to shareholders and on tax revenues.

- Productivity -- Studies show that LBOs often lead to significant productivity gains as a result of 1) increased intensity of effort by labor resulting from reward systems which are more closely tied to the performance of the company and 2) better allocation of existing resources. A recent Census Bureau study of all 1,100 manufacturing plants actually involved in buyouts between 1981 and 1986 showed that LBOs had 2-3% higher productivity growth than other plants in the same industry.

- Employment -- Statistics indicate that for the country overall, there has been no material change in unemployment resulting from LBOs. The Bureau of Labor Statistics found that only 4% of the total mass layoffs in 1988 were attributable to a change in company ownership. For plants that are closed, it is almost always because they were uncompetitive before the LBO.

- Research and Development -- LBOs are primarily in mature industries which do not require a significant amount of R&D or capital expenditures. A recent survey showed that 77% of going private companies had no R&D expenditures prior to the buyout. It is true that for companies with R&D, R&D is often pared back somewhat during the first year after the transaction. However, dollars spent on R&D are not always directly correlated with quality.

- Returns to Shareholders -- Premiums paid to the selling shareholders in LBOs typically range from 30%-50% with the average being around 40%.

o Impact on Tax Revenues -- While increased interest deductions lower a company's tax liability, it appears that LBOs may actually increase total tax revenues for the federal government as a result of:

-- large capital gains taxes paid by the sellers
-- interest income tax of most debt holders
-- fees earned by investment bankers, lawyers, etc. are taxable

LBO Excesses

Like other financial innovations of the past-- the stock swaps of the 1960s and the real estate trusts of the 1970s-- the success experienced by the early LBOs caught the attention of others. LBOs became the new financing rage. The great influx of LBO financing helped to bid up prices. The ratio of price paid to a company's earnings on the New York Stock Exchange went from about 9 times in March 1980 to a pre-Crash high of 22 times in September 1987. Anxious to put their newly raised funds to use, LBO fund managers began to invest in companies which were not well suited for LBO transactions. The result has been some highly publicized LBO failures.

The market recognized these failures and market forces worked to exert discipline. During the last half of 1989, high yield bonds dramatically dropped in value, more accurately reflecting the risk involved in some highly leveraged transactions. Investors began demanding stronger loan covenants and greater equity. This market discipline reduced LBO prices, fees paid and profits to dealmakers.

During the second half of 1989, LBO transactions declined in total volume and in value. That decline appears to be continuing into the 1990s with 61% decline in the number of announced deals in the first quarter of 1990 compared to 1989.

Lessons Learned

As the number of LBO transactions has declined, so has the media and congressional clamor. Thus, now is a good time to reflect on what we have learned from the experience. The Department of the Treasury has conducted a thorough review of LBOs. From our work, there are four lessons I would like to reflect upon today.

Need to Lower the Cost of Capital

First, LBOs helped to highlight the impact of a high cost of capital on corporate investment decisions. In our review of LBOs, it became clear that one factor which was encouraging leveraged buyouts was a company's desire to lower its cost of capital. In an LBO, high priced equity is substituted with less expensive, tax-deductible debt. Furthermore, an LBO or recapitalization, where a company borrows to repurchase shares, often takes place because a company cannot employ its assets at a return in excess of its capital costs.

Studies show that U.S. companies on a whole have higher capital costs than those in Japan and W. Germany. High capital costs make it difficult to invest in projects which meet the high required return, thus, discouraging investment. Higher capital costs especially hurt projects with long-term returns, such as new technologies.

The Bush Administration is responding to this problem by pursuing policies designed to lower the cost of capital for all U.S. companies. Such policies include: reducing the federal budget deficit and enhancing personal savings, which by increasing the available pool of savings would contribute to lower interest rates; and reducing the tax rate on long-term capital gains to reduce the equity capital costs and to spur investment.

In addition, the Treasury is studying the feasibility of eliminating the double taxation of corporate profits. Eliminating this penalty now imposed on equity in the U.S. would help to lower the cost of equity. The U.S. is currently the only major industrial country that fully taxes corporate income at both the corporate and personal level, and that does not give at least some preferential treatment to capital gains. Eliminating the bias in our tax code against equity would reduce the incentive of U.S. companies to capitalize with debt instead of equity, ensuring that highly levered transactions were more motivated by economic concerns than merely tax benefits.

Importance of Focusing on Core Business

A second lesson learned was the benefit of focusing on a single core business. The 1960s and 1970s were marked by the emergence of large conglomerates. MBA students were taught about mixing "cash cows" and high growth, cash-using "stars". Executives followed the strategy that "bigger is better".

LBOs in many ways were a response to unsuccessful conglomerations. Of LBOs in 1988, 55% were divestitures. They demonstrated the advantages of focus, which has led to increases in productivity on the part of managers and workers alike, and has made U.S. companies more competitive.

Benefits of Significant Owners

A third lesson to be drawn from our review of leveraged buyouts is that there can be competitive advantages to being a private company with a few significant and active shareholders. By going private, managers are no longer affected by short-term stock market fluctuations and whims of stock analysts and money managers, allowing them to focus on managing for the long-run.

Instead of having to respond to stock market pressures, the company is accountable to a group of significant investors who sit on the board of directors. These investors are often not only more patient, but they also have a greater understanding of the company and its operations and can provide valuable, timely advice to management.

Benefits of Owner/Managers

Finally, and probably the most important lesson which came from the Treasury's review of LBOs is the benefit of linking the interests of owners and managers. Michael Jenson of the Harvard Business School in his article "The Eclipse of the Public Corporation" puts it well:

> By resolving the central weakness of the public corporation-- the conflict between owners and managers over the control and use of corporate resources-- these new organizations are making remarkable gains in operating efficiency, employee productivity and shareholder value.

In most LBOs, managers own a significant portion of company stock often creating a strong link between the managers personal wealth and the success or failure of the company. As a result, the goals of managers and owners are aligned, each interested in maximizing the total value of the company.

Applying LBO Lessons in the 1990s

The alignment of management and owner interests visible in many of the successful LBOs is in stark contrast to trends in much of corporate America. Trends, which I believe hurt the productivity and competitiveness of American business. Some argue that the underlying problem is that corporate managers in big public companies are often no longer adequately accountable to shareholders. The board of directors is supposed to ensure that managers pursue the interests of shareholders by maximizing the value of the firm; yet directors are frequently hand-picked by the CEO they are supposed to be monitoring.

Rather than trying to strengthen the accountability of managers to shareholders, corporate executives and politicians have done just the opposite. Executives have moved to further insulate themselves from accountability by protecting themselves from takeovers by means of "poison pills", "staggered boards" and other devices-- not by improving performance.

The Treasury is currently examining ways in which both private sector, as well as state and federal governments can better facilitate management responsiveness to maximizing the productivity and value of the companies which they have been charged to manage. In addition, it is the responsibility of state and federal governments to ensure that shareholders are not increasingly burdened by costly laws and regulations which discourage them from taking a long-term view to investing. I would suggest the following:

Private Sector

The private sector is the best position to improve the relationship between owners and managers. To begin, steps should be initiated by the board of directors to strengthen their independence and role as monitor of management. First, I strongly endorse recommendations made recently by the Business Roundtable that would require that the Board of Directors be comprised of a majority of outside directors. In addition, the Business Roundtable urges companies to take steps to assure that board committees such as Nominating and Compensation committees are made up entirely of outside directors.

Second, I believe that corporate America needs to rethink the way executives and directors are compensated. Executive compensation has a profound influence on management behavior. People behave differently when they have an ownership interest. Homeowners have a different attitude about their homes than do renters. Do you treat a rental car like your own? Ownership makes people care more. This is true in business as well. Executives and directors will care more about the long-term value

of the company if they own a stake in it which is significant to them. Boards of Directors should reevaluate the current composition of compensation plans and propose changes to ensure that executives are rewarded in a manner which encourages them to maximize the long-term value of the firm.

State Legislatures

During the past several years, states have spent millions of dollars on overseas offices to attract foreign investment. Paradoxically, many of these same state legislatures are passing anti-takeover laws which actually discourage greater foreign as well as domestic investment. These laws, designed to protect incumbent management, measurably raise the cost of capital for companies incorporated in those states.

In Pennsylvania, an attempted takeover of Armstrong World Industries precipitated one of the strongest anti-takeover statutes in the country. Richard Breeden, Chairman of the Securities and Exchange Commission made clear the implications of such legislation in a recent speech when he stated:

> Creating balkanized markets rather than a unified national market system will cause serious economic costs for the United States... our ability to compete effectively against the Japanese and a unified European market in the 1990s will suffer immeasurably if other state legislatures make our current fragmentation even worse.

I believe that greater management accountability generates more competitive firms and therefore it is critical that state legislatures rethink laws that destroy the link between shareholders and the board of directors. In the case of these anti-free market statutes like Pennsylvania, legislatures should go back to the drawing board and at the very least, offer shareholders the option to opt-in to new state anti-takeover statues rather than forcing them to vote to opt-out. The burden should be on management to explain at the annual meeting how these laws create value for the shareholders.

Federal Government

The solutions to closer shareholder/manager relationships lie in less federal and state regulation. Over the decades, the SEC, Department of Labor, FTC, IRS, and bank regulators have built-up a body of regulatory impediments which impose costs and other significant barriers to an effective corporate governance system.

For example, the SEC is considering proposals to ease proxy rules to allow freer and less costly communication among shareholders and between shareholders and managers. This type of regulation has effectively imposed such high costs on shareholders that instead of attempting to influence management and improve company performance, most shareholders when dissatisfied simply dump their shares. As Secretary Brady has said, "patience requires participation". Without carefully reviewing and correcting these regulatory burdens, America's corporations are destined to be governed by traders rather than investors.

Conclusion

In conclusion, many successful LBOs have improved upon the ability of those companies to compete. In addition, they have taught us a number of lessons which go beyond companies which undertake LBOs. At the Treasury our primary focus has been to promote policies which facilitate a lower cost of capital, and to find ways in which both public and private sectors can strengthen the relationships between owners and managers.

While LBOs are one way of doing this, they are not an appropriate form of capitalization for the majority of U.S. public companies. Instead, we must go beyond LBOs and look for ways to lower capital costs and strengthen accountability for all U.S. businesses-- no matter what their size or form. In the Bush Administration, our top concern is in removing governmental impediments in order to preserve and improve the competitiveness of U.S. companies. We are working hard toward this end and we know that those of you in the private sector are too. Thank you.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
July 19, 1990

CONTACT: Art Siddon
202/566-5252

TREASURY UPDATES ESTIMATES OF FINANCING REQUIREMENTS

The Treasury market borrowing estimates have been revised upward for the July-September 1990 quarter. Treasury estimates that market borrowing will be in a range of $62 billion to $66 billion during the July-September 1990 quarter, with a cash balance of $30 billion on September 30.

The revised borrowing estimate compares with a range of $30 billion to $35 billion, assuming a $30 billion September 30 cash balance, announced in the Treasury's financing press conference of May 2, 1990. The earlier July-September estimate did not include any allowance for Federal Financing Bank lending to the Resolution Trust Corporation. The updated estimate of $62 billion to $66 billion announced today includes an allowance for RTC activity that is in line with the estimate presented in the RTC Operating Plan approved by the Oversight Board.

The Treasury will announce the terms of the regular August quarterly refunding on August 1, 1990, and will update Treasury's market borrowing requirement estimates for the July-September quarter.

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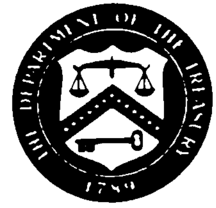
TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON
July 20, 1990

CONTACT: Office of Financing
202/376-4350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $10,500 million of 364-day Treasury bills to be dated August 2, 1990, and to mature August 1, 1991 (CUSIP No. 912794 WS 9). This issue will provide about $1,450 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $9,058 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, July 26, 1990.

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 August 2, 1990. In addition to the maturing 52-week bills, there are $16,097 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 $995 million as agents for foreign and international monetary authorities, and $5,144 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. 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 $26 million of the original 52-week issue. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 5176-3.

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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 one-half hour prior to the closing time for receipt of tenders 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.

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.

If a bill is purchased at issue, and is held to maturity, the amount of discount is reportable as ordinary income on the Federal income tax return of the owner for the year in which the bill matures. 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, any gain in excess of the basis is treated as ordinary income.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76, 27-76, and 2-86, as applicable, 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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TREASURY NEWS

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

CONTACT: Office of Financing
202/376-4350

FOR IMMEDIATE RELEASE
July 23, 1990

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $9,026 million of 13-week bills and for $9,011 million of 26-week bills, both to be issued on July 26, 1990, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 25, 1990			:	26-week bills maturing January 24, 1991		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.46%	7.71%	98.114	:	7.37%	7.76%	96.274
High	7.50%	7.75%	98.104	:	7.41%	7.80%	96.254
Average	7.49%	7.74%	98.107	:	7.40%	7.79%	96.259

Tenders at the high discount rate for the 13-week bills were allotted 48%.
Tenders at the high discount rate for the 26-week bills were allotted 38%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 33,450	$ 33,450	:	$ 36,900	$ 36,900
New York	25,985,275	7,961,405	:	20,246,620	7,717,140
Philadelphia	20,550	20,550	:	15,530	15,530
Cleveland	40,720	40,705	:	35,380	35,380
Richmond	38,755	38,755	:	37,620	37,620
Atlanta	24,300	24,300	:	25,425	25,425
Chicago	1,961,960	51,960	:	2,747,930	313,930
St. Louis	40,815	16,815	:	26,100	18,100
Minneapolis	7,385	7,385	:	15,450	10,450
Kansas City	38,805	38,805	:	44,705	44,705
Dallas	20,760	20,760	:	14,935	14,935
San Francisco	699,500	68,500	:	616,075	62,355
Treasury	703,075	703,075	:	678,590	678,590
TOTALS	$29,615,350	$9,026,465	:	$24,541,260	$9,011,060
Type					
Competitive	$26,391,160	$5,802,275	:	$20,581,115	$5,050,915
Noncompetitive	1,457,390	1,457,390	:	1,300,785	1,300,785
Subtotal, Public	$27,848,550	$7,259,665	:	$21,881,900	$6,351,700
Federal Reserve	1,551,960	1,551,960	:	1,800,000	1,800,000
Foreign Official Institutions	214,840	214,840	:	859,360	859,360
TOTALS	$29,615,350	$9,026,465	:	$24,541,260	$9,011,060

An additional $44,760 thousand of 13-week bills and an additional $149,740 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

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TREASURY NEWS

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

STATEMENT

OF

JOHN E. ROBSON

DEPUTY SECRETARY OF THE TREASURY

BEFORE

THE

SENATE JUDICIARY COMMITTEE

CONCERNING

COMBATING FRAUD AGAINST FINANCIAL INSTITUTIONS

ON

JULY 24, 1990

Mr. Chairman and Members of the Committee, I am pleased to appear before you today on behalf of the Department of the Treasury to discuss pending legislative initiatives to combat crime in financial institutions. We attach the highest priority to finding and punishing those responsible for looting these institutions.

As Attorney General Thornburgh outlined for you earlier this morning, on June 22 the President announced further steps to intensify the fight against fraud in our nation's financial institutions. The Treasury is committed to working with this and other committees of the Congress to see the legislative elements of the President's program enacted into law.

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The punishment of the perpetrators of fraud, theft, and other abuses of our banking system is important to the ultimate resolution of the savings and loan crisis. Indeed, that resolution will not be complete until we have prosecuted those whose misdeeds have contributed to the problem.

The thrift crisis has many contributing causes, some of which originated more than a decade ago. They include the thrift industry's efforts to adapt to economic adversity and skyrocketing interest rates. Thrifts were given broader powers without always being accompanied by appropriate regulatory scrutiny. Capital requirements were too low, with the result that thrift owners made risky investments with very little of their own money at stake. Downturns in regional economies, problems in the real estate markets in some areas, and in the junk bond market nationwide, worsened an already bad situation. Finally, mismanagement or criminal activity fatally weakened some thrift institutions.

This is the problem that faced President Bush when he took office in January of 1989. In less than twenty days he proposed a comprehensive program to address and resolve the savings and loan crisis. Seven months later, in August of last year, hard work and cooperation between the Congress and the Administration resulted in the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

In the period of less than one year since FIRREA was enacted we have made considerable progress:

- The thrift industry is now operating under new tough capital requirements so that thrift owners must put up their own money instead of the taxpayers'.

- The bankrupt and financially weak S & L's which can't meet the new standards for safety and soundness are being put out of business. In fact, over 450 have been taken over by the government. In less than one year, RTC has resolved institutions whose assets exceeded in value the total assets which the FDIC liquidated over the entire 50 years of its existence.

- Millions of deposits in failed S & L's -- deposits made by men and women, churches, small businesses and others in reliance on the Federal Government's promise to protect those deposits -- have in fact been protected.

- And, as the Attorney General has described today, criminals and fraudulent operators who contributed to the S & L crisis are being brought to justice.

So the message that I want to leave with you today is that President Bush's initiative to address the S & L problem -- as represented in the FIRREA legislation -- is working and we are getting this big job done.

However, the magnitude of the problem remains formidable and it will take some time for the government to clean up a situation that was over a decade in the making. Moreover, we are dealing with a moving target, made greatly more expensive by a weakening real estate market and constantly changing economic conditions. The issue is not susceptible to easy answers or simple solutions. The problems are complex and massive -- as we knew they were a year ago as we worked together to adopt legislation. If anything, the experience of eleven months has revealed that the task is even more difficult than any of us then imagined.

I would like to underscore that money spent on the savings and loan crisis is spent with a single purpose in mind. The United States government made a promise to millions of Americans. We promised to protect their savings if deposited in a federally-insured savings and loan. Now we are making good on that promise to millions of men and women who relied on it. So it bears repeating that we are not using any taxpayer dollars to bail out thrift institutions, their owners, or the savings and loan industry. We are living up to the government's end of the agreement represented by federal deposit insurance. I emphasize this point to give you an important perspective as we evaluate and work to solve this problem.

Three principles guide us as we carry out the job we began with passage of the FIRREA legislation.

- First, we will make sure that the millions of men and women who put their life savings in thrift institutions are protected to the full extent of their federal deposit insurance.

- Second, we will do everything in our power to do the job expeditiously, responsibly, and at the least cost to the taxpayer.

- Third, we will aggressively pursue and prosecute those whom we believe helped create the S&L problem.

This last point is the one that we address today.

As Attorney General Thornburgh indicated in his testimony a good deal has been accomplished from an enforcement perspective since the enactment of FIRREA less than a year ago. I would like to take this opportunity to commend the Justice Department for its efforts in coordinating a financial crimes enforcement program for both civil and criminal offenders. The establishment of the Special Counsel for Financial Institution Fraud and the Financial Frauds Coordinating Office in the Office of the Deputy Attorney General will help focus the government's

resources. The ability to strike quickly and efficiently at financial criminals will be strengthened by the coordination of efforts. The creation of the "rapid response team" made up of special investigators and attorneys from Justice and the federal banking agencies is especially important because it enables prosecutors to act while evidence and memories are fresh, rather than years later when both are stale.

A number of Treasury bureaus and agencies have contributed to the investigations, indictments, and convictions brought to date -- including the Office of Thrift Supervision (OTS), the Office of the Comptroller of the Currency (OCC), the Internal Revenue Service, and the United States Secret Service.

In addition to the OCC and the OTS, the IRS, for example, has been an active participant in the Dallas Bank Fraud Task Force, and, nationally, is currently involved in over 70 cases.

The OCC has a long history of vigorously responding to such fraud and abuse in our national banking institutions through use of its administrative enforcement remedies and its pursuit of criminal referrals.

Director Ryan will provide you with an overview of OTS's recent activities.

These enforcement efforts can be bolstered with strengthened legislation, such as the initiatives announced by the President on June 22.

We commend this Committee, along with other Members of the Senate, who worked to fashion a bipartisan package of anti-fraud initiatives as an amendment to S. 1970, the Omnibus Crime bill. Treasury worked closely with the Senate on this amendment and we are optimistic that this bill will soon be in conference with the House. It is our desire to assist in fashioning a package which will obtain the full support of the Senate, the House, and the Administration.

While the primary responsibility and expertise concerning criminal matters rests with the Justice Department, I would like to share with you Treasury's views on some of the issues contained in S. 1970 which we would like to emphasize, and for which we would like to go on record as strongly supporting.

First, the President's June 22 announcement contained a proposal which provides authority to freeze or appoint a receiver for the assets of fraudulent S&L operators. This provision was included in S. 1970 as part of the bipartisan S & L fraud amendment. In order to prevent the dissipation or concealment of assets prior to judgment in court enforcement actions and civil recovery cases, this provision authorizes federal banking agencies, the RTC, and DOJ to seek ex parte Federal court orders to freeze the corporate and personal assets of defendants in civil money penalty cases and civil liability cases.

Second, the President's announcement called for an authorization of sixteen million dollars for 160 Internal Revenue Service special agents and/or revenue agents to be used in investigating violations of the Internal Revenue Code and related statutes concerning the thrift industry. S. 1970 includes a provision which authorizes this request for the Internal Revenue Service, and we are pleased to support it.

The President also called for legislative authority that would enable the Administration to make personnel from other agencies available to the Department of Justice to assist in the investigation and prosecution of fraud and other criminal acts committed against thrift institutions. This provision, which was also included in the Senate's bill, would enhance the available resources and interagency cooperation on thrift industry crime.

In addition, we favor the provision of S. 1970 that allows the claims of the federal government to take priority over other claims in bankruptcy proceedings against officers and employees of insured financial institutions. This provision helps ensure that the American taxpayer will be protected.

Moreover, we favor the closing of certain loopholes in the bankruptcy laws that have enabled some S & L executives to evade financial responsibilities for their misdeeds. S. 1970 accomplishes this goal by prohibiting wrongdoers from hiding behind the Bankruptcy Code. In particular, we support the provision in the bill prohibiting the discharge in bankruptcy of liabilities resulting from a breach of fiduciary duty to a financial institution.

We are all impatient to see S&L wrongdoers punished. At the same time, we must bear in mind that the pursuit of financial criminals requires lengthy, complex investigation and prosecution involving the probing of massive amounts of data and financial records and the unwinding of sophisticated transactions designed to mask fraud. The Bush Administration has made this a high priority and we are committed, as we know Congress is, to see that wrongdoers are brought to justice.

Prompt legislative action by Congress will send a message to the American people that their government is serious about making the S&L crooks pay for their crimes. These initiatives will greatly aid the efforts of the Justice Department and the banking regulatory agencies to find these criminals and punish them. As the President said when the Administration proposal to address the savings and loan crisis was introduced last year, we must do whatever we can to make sure that a financial disaster of the magnitude of the thrift crisis is not repeated. Your efforts in crafting this legislation will certainly help achieve that goal.

TREASURY NEWS

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

CONTACT: Office of Financing
202/376-4350

FOR RELEASE AT 4:00 P.M.
July 24, 1990

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $18,400 million, to be issued August 2, 1990. This offering will provide about $2,300 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $16,097 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, July 30, 1990. The two series offered are as follows:

91-day bills (to maturity date) for approximately $9,200 million, representing an additional amount of bills dated May 3, 1990, and to mature November 1, 1990 (CUSIP No. 912794 VG 6), currently outstanding in the amount of $8,419 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $9,200 million, to be dated August 2, 1990, and to mature January 31, 1991 (CUSIP No. 912794 VT 8).

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 August 2, 1990. In addition to the maturing 13-week and 26-week bills, there are $9,058 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 $978 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $1,004 million as agents for foreign and international monetary authorities, and $5,144 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-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 one-half hour prior to the closing time for receipt of tenders 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.

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.

If a bill is purchased at issue, and is held to maturity, the amount of discount is reportable as ordinary income on the Federal income tax return of the owner for the year in which the bill matures. 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, any gain in excess of the basis is treated as ordinary income.

Department of the Treasury Circulars, Public Debt Series Nos. 26-76, 27-76, and 2-86, as applicable, 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.

8/89

TREASURY NEWS

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

FOR IMMEDIATE RELEASE July 24, 1990

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of June 1990.

As indicated in this table, U.S. reserve assets amounted to $77,298 million at the end of June, up from $77,028 million in May.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1990					
May	77,028	11,065	10,396	46,803	8,764
June	77,298	11,065	10,490	47,294	8,449

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Valued at current market exchange rates.

NB-888

TREASURY NEWS

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

TESTIMONY OF THE HONORABLE

NICHOLAS F. BRADY

SECRETARY OF THE TREASURY

BEFORE THE SENATE COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

July 25, 1990

Chairman Riegle, Senator Garn, and Members of the Committee, thank you for inviting me to discuss the modernization of financial services regulation in this country, especially in light of increased international competition for U.S. financial firms and markets.

The Treasury Department shares this Committee's concern about the international competitiveness of our financial firms. As you know, financial systems are undergoing dramatic changes abroad, especially in Europe as part of EC 1992. The trend in the industrialized countries is clearly to explore the expansion and diversification of financial services firms as a means of benefitting wholesale and retail consumers and strengthening the competitiveness of financial institutions. While ours is still the most innovative financial industry in the world, we are looking over our shoulder more and finding our competitors closing the gap.

At the same time, we are deeply concerned about the relationship of financial services activities to deposit insurance and other aspects of the so-called "federal safety net" that applies to depository institutions. Obviously, this relationship is particularly critical in view of the cost of making good on deposits in failed thrifts. As a result, we have added this crucial issue to the Treasury's comprehensive study of deposit insurance mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

This study is not due until February 9, 1991, although we intend to complete it by the end of this year. As the Committee is aware, the project involves the cooperation and labors of all of the relevant federal banking agencies, including the Federal Reserve Board, the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of Management and Budget.

Because we are now deeply involved in the study, it would not make sense today to offer specific proposals for change. In fact, much of this testimony is necessarily descriptive rather than conclusive. Those who are hoping for an advance preview of Treasury's study may, therefore, be left unsatisfied. As I have said, we expect to complete the study by year end and will be

presenting its conclusions and any legislative recommendations early in the next Congress.

Nevertheless, I assure you that, with the thrift experience so fresh in mind, we will not propose changes to the financial services regulatory structure that would increase the taxpayers' exposure. But we must also bear in mind the relationship between competitiveness and profitability on the one hand, and safety and soundness on the other. A system that produces institutions that are less profitable and less competitive is inherently unsafe and unsound in the long run. And if you conclude that our banking system is indeed becoming less profitable and less competitive, and therefore less safe, then retaining the status quo is not an attractive option. Simply put, the task is to enhance competitiveness while decreasing taxpayer exposure.

My statement today will set forth our current perspective on financial services regulation in the United States; briefly compare that to financial services regulation in Europe and Japan, particularly in light of recent developments; and set forth several guiding principles that we think should apply to any proposal for change in the United States.

I. Financial Services in the United States

This Committee has received countless pages of testimony about the disjointed nature of financial services regulation in this country. Nevertheless, I believe it is useful to summarize the current situation in order to underscore the importance of changes occurring in international markets.

A. The Traditional Banking Franchise

Through a series of laws passed beginning in the early 1900s, especially after the 1929 stock market crash and the ensuing wave of bank failures, the government succeeded in rigidly segmenting and protecting the business of commercial banking in the United States. Banks received a number of special benefits, including deposit insurance, interest rate controls, and a prohibition on the payment of interest on demand deposits. Even before the 1930s, banks had gained ready access to the Federal Reserve's discount window and payments system. All of this was a prescription for steady profitability in the banks' traditional activity of short-term commercial lending to businesses.

The flip side of this coin, of course, was heavy regulation and supervision as well as the numerous restrictions on bank activities. Banks were prohibited from engaging in anything <u>but</u>

traditional banking activities, and there were strict limits on geographic expansion.

For example, banks were sharply restricted from engaging in securities activities by the Glass-Steagall Act of 1933, and the later Bank Holding Company Act of 1956 curtailed their ability to affiliate with firms engaged in insurance and commercial activities. Banks had limited branching rights within states and were prohibited from crossing state lines by state laws, the McFadden Act of 1927, and the Douglas Amendment to the Bank Holding Company Act. Moreover, the Home Owners Loan Act and the Federal Home Loan Bank Act gave special privileges to thrift institutions that allowed them to dominate the mortgage business.

In short, the banking franchise created by the government was protected, restricted and potentially quite profitable. While banks were prohibited from engaging in most non-banking activities, they were also sheltered from competition from firms engaged in such activities. In addition, because of limitations on interstate banking, our system produced thousands of small banks that prospered. And even though the system generated a complex web of state and federal regulation -- 50 state regulators and three federal regulators -- it afforded both stability and pluralism over a number of years.

B. <u>The Erosion of the Franchise</u>

In the last two decades, however, the picture has changed dramatically. First, the benefits and protections of a banking franchise have significantly eroded. Interest rate controls are gone, as is the ability to avoid interest payments on transaction accounts.

More important, technology and changing markets have eaten directly into the traditional banking business on both sides of the balance sheet. On the liability side, money market funds with credit card and check-writing privileges now compete directly with traditional bank deposits. Thrifts and credit unions now offer accounts and services that in many instances are indistinguishable from those offered in commercial banks. And securities firms sell bank certificates of deposit in brokerage offices around the country.

On the asset side, many of the banks' most creditworthy loan customers, including blue chip corporations, now borrow directly from investors in the commercial paper market at lower rates. In fact, in the past decade, commercial paper outstanding increased nearly fivefold, from $112 billion in 1979 to $525 billion in 1989, while total commercial and industrial loans only doubled, from $295 billion to $639 billion over the same period.

This competition for traditional bank business has produced substantial benefits for the consumer, including lower borrowing rates and more choice and flexibility. But it has also diminished the franchise value on which the banking system was built.

C. The Current Situation

How have banks responded? Many banks have found their lending concentrated in riskier lending activities due to the erosion of the traditional business of lending at attractive spreads to highly creditworthy customers. These riskier activities have included loans to less developed countries; greater commercial real estate lending; regionally concentrated energy and agricultural loans; and loans in highly leveraged transactions. This Committee is well aware of the problems associated with these activities, including the potential for reduced earnings and higher provisions for loan losses.

On the positive side, U.S. banks have been innovative in developing businesses in which they have regulatory freedom. For example, bank credit cards and automatic teller machines have revolutionized banking for the convenience and benefit of the American consumer. Moreover, in response to the erosion of the traditional corporate lending business, banks have expanded into

fee generating businesses like mortgage banking and financial advisory work.

But as the traditional banking business has grown less attractive, banks have also sought to expand into businesses in which they were prohibited or "protected" from competing, including securities, insurance, and other financial services. At the same time, diversified financial companies have aggressively sought to expand into the most attractive banking lines of business in order to provide the full range of financial products and services demanded by their customers.

Despite statutory and regulatory impediments, these efforts to expand into new lines of business have succeeded in part. A limited degree of statutory change, particularly at the state level, combined with regulatory and judicial interpretations of existing law, has produced a new patchwork quilt of rules and exceptions. This new "system" allows some new activities and geographic expansion, as summarized below.

Securities Activities. Banks now have the ability to engage directly or indirectly in a broad range of securities activities, although with numerous restrictions. They can engage with few limits in the underwriting and dealing of U.S. government and agency securities, general obligation municipal bonds, agency-guaranteed mortgage-backed securities, and certain

kinds of municipal revenue bonds. In addition, they may engage in private placement activities, discount and full service brokerage, and financial advisory services. A recent court decision has permitted banks to securitize loans that they have originated or purchased. Moreover, banks may serve as investment advisors to mutual funds.

Finally, through recent interpretations by the Federal Reserve of Section 20 of the Glass-Steagall Act, bank holding companies may establish non-bank subsidiaries that derive up to 10 percent of their revenue from a wide range of otherwise prohibited securities activities -- including the underwriting of corporate bonds and, at least in principle, corporate equities. However, strict "firewall" requirements have been established to limit transactions between the insured bank and its securities affiliate. In practice, the Section 20 affiliates only benefit the very largest banks, and only in a limited way because of the strict firewalls.

Insurance Activities. State legislatures in Delaware and California have recently granted much more authority to banks chartered in these states to engage in insurance activities. The courts have thus far upheld the general principle that bank holding companies -- including ones from outside the state -- can take advantage of state insurance authority through the purchase of a state bank. However, such insurance activities must be

conducted within the acquired state bank or an operating subsidiary (as opposed to a holding company affiliate, where it would clearly be prohibited). In addition, a number of banking organizations have extensive insurance authority that has been grandfathered under amendments to the Bank Holding Company Act. Finally, recent legal and regulatory interpretations permit national banks to sell title insurance, municipal bond insurance, fixed rate annuities, and insurance nationwide from branches in towns of fewer than 5,000. And banks have been permitted for some time to sell credit-related insurance.

Affiliation with Commercial Firms. Through legal loopholes that have opened and closed over the years, commercial and diversified financial companies have acquired a significant number of banks, principally through the earlier "nonbank bank" exception to the Bank Holding Company Act. Likewise, commercial and diversified financial firms have long been permitted to acquire thrift institutions. The result is a number of major companies that own both banks and other financial and commercial concerns. These firms include Sears, American Express, Merrill Lynch, Household Financial, and a number of major insurance companies. However, these companies now have strict limits on the operations of their banks, and other commercial and financial companies have been prohibited from expanding into banking.

Geographic Expansion. The states have taken interstate banking into their own hands. With few developments at the federal level, a number of states formed regional compacts in which interstate banking was permitted. A number of these regional compacts include so-called "nationwide triggers" (as do certain individual states) which permit full interstate banking on a reciprocal basis after 1991. For example, California will move to full interstate banking at the beginning of next year.

Nevertheless, despite this clear trend, a number of states still restrict interstate banking, and in virtually all cases banks are prohibited from branching across state lines. This is true even if the costs of interstate branching would clearly be less than incorporating separate banks in separate states with separate capital structures and separate management. The result is a haphazard expansion of geographic opportunities, which includes numerous inefficiencies.

Stepping back, then, how do we generally view the competitiveness of the United States banking system? We see it as a system that, through ongoing changes in the marketplace, appears to have outgrown its historical regulatory structure. The result is overcapacity; layers of regulation; concentration in the riskier parts of traditional commercial lending; uneven product diversification, with rules and exceptions that sometimes

make little sense; and inefficient limitations on geographical diversification.

II. Developments in Europe and Japan

Let me now turn to the important changes taking place in the global financial services market. As you suggested in your letter of invitation, I will focus my remarks on developments in Europe and Japan and their impact on United States firms and markets. Before doing so, however, let me clarify that today's discussion will not address in detail the degree of national treatment accorded U.S. firms in these foreign markets. Treasury Under Secretary Mulford has testified recently before both this Committee and the House Banking Committee on national treatment issues. Preparation of the 1990 National Treatment Study is underway, and we will submit our detailed report to you by December.

A. The Challenge of EC 1992

The Treasury Department strongly supports the European Community's objective of economic liberalization. The EC's efforts toward the eventual goal of economic and monetary union have significant implications for the United States and world economy. An Economic Policy Council (EPC) Working Group on European Monetary Reform and Financial Liberalization, chaired by

the Treasury Department with participation from key agencies and advice from financial regulators, is reviewing the implications of these changes.

1. The "Single Passport" Program

The new EC program for financial services is based on the principle of "mutual recognition." Essential supervisory rules are harmonized among the member states, which agree to recognize each other's national laws, regulations, and supervisory practices that have not been harmonized.

Based on minimal harmonization of rules, a financial institution established in any member state may provide certain financial services through branches or across borders in any other country in the Community under the supervision of the home country. This entire process is often referred to as the "single passport."

The Second Banking Directive, which will take effect on January 1, 1993, will allow EC banks to engage in activities associated in the U.S. with commercial and investment banking. It will be possible for any bank established in the EC to offer a full range of services -- sometimes referred to as "universal banking" -- throughout the European Community.

2. Impact on U.S. Firms

The impact of EC developments on U.S. firms will depend, first, on the extent to which they are applied in the context of national treatment, and second, on the extent to which they affect the ability of U.S. firms to compete. The Second Banking Directive provides for reciprocal national treatment and effective market access. Because the U.S. offers EC banks national treatment, we believe U.S. banks will not be discriminated against by the EC in the present environment. Nevertheless, the European Commission has indicated that Glass-Steagall and interstate banking restrictions in the United States may be the subject of future negotiations. In addition, there is a grandfathering provision in the Second Banking Directive that guarantees national treatment for those U.S. banks that establish a European subsidiary prior to 1993.

Whether U.S. firms will be able to compete successfully is more difficult to predict. European banks that operate under a variety of constraints in different markets will be able to consolidate and focus their strategies. Those in the U.S. market will bring sharpened skills and improved products.

Moreover, let me mention one provision of U.S. law that may adversely affect the ability of our firms to compete in foreign markets. The Federal Reserve's Regulation K imposes strict

limits on the absolute and relative size of equity securities dealing, distribution and underwriting activities of overseas subsidiaries of U.S. banks. We welcome the Federal Reserve's recent proposal to expand the limits on equity activities abroad and will study carefully the proposed revisions.

Finally, let me make one other point. It will be more difficult for U.S. firms to compete on foreign turf when they cannot provide the same services at home, because the knowledge and expertise developed at home will be a crucial foundation to gaining market share abroad.

B. Developments in Japan

Let me now turn to developments in Japan. The Japanese have been moving incrementally for several years to liberalize and modernize their financial regulatory structure. They invariably describe their approach as "step by step." Financial services are highly compartmentalized -- far beyond what we have in the United States under the Glass-Steagall approach. In addition, regulation is burdensome, ad hoc, and not predictable, particularly for newcomers and outsiders.

There has been some progress in liberalizing and opening Japanese financial markets. However, the pace of change on the whole has been slow and the process of liberalization is not yet

complete. Treasury has consistently and vigorously worked in the U.S.-Japan Working Group on Financial Markets to accelerate this pace of change.

The Japanese Ministry of Finance has been reconsidering the Japanese equivalent of Glass-Steagall -- embodied in Article 65 of the Japanese Securities Exchange Law. In various advisory groups representing the banks and the securities industry, the Japanese are debating financial deregulation. Rivalries between the banking and securities industries are intense, however, and deregulatory steps are frequently a compromise among financial players and regulators.

In short, the improvement in the international position of Japanese banks has occurred in spite of an inefficient and burdensome regulatory structure. The positive causes of this success include interest rate controls that affect the Japanese saver and provide lower cost funds, the inclination to regard banks as a major international competitive asset, a persistently high current account surplus and a high personal savings rate. These factors may help explain the increasing penetration of the U.S. banking market by Japanese banks, which now account for 11.8% of all U.S. banking assets, compared to 20.6% for all foreign banks in total.

You asked specific questions regarding the effect of Japanese regulation on foreign competition.

The manner in which the Japanese regulate their banking and securities markets gives their institutions competitive advantages over foreign firms. For example, interest rates on more than 40 percent of bank deposits -- mainly at the retail level -- are still regulated, and retail deposit taking is not easily available to foreign banks without extensive branch networks. As a result, Japanese banks active internationally gain a cost advantage, on a consolidated basis, to the extent they still fund themselves domestically with regulated deposits paying interest rates which are lower than would prevail in a free-market environment. Deregulation of interest rates and development of an attractive money market in Japan have been major issues in the U.S.-Japan Working Group on Financial Markets.

The regulatory regime also allows for "main bank" relationships between banks and non-financial firms. This pattern of cooperation between banks and businesses can also be found in other countries. Nevertheless, the extensive interrelationship among banks and non-financial firms is particularly dominant in Japan, and presents a difficult challenge to U.S. financial firms seeking Japanese corporate business in Japan and worldwide. These relationships, apart

from other factors such as performance, contribute substantially to the success of Japanese financial institutions.

Finally, the Japanese regulatory system involves supervisory procedures, regulations, changes in policy and approval requirements that cannot be readily grasped and easily accessed in written documents. Foreign financial firms are particularly disadvantaged because the Japanese rely extensively on informal consultation with leading domestic financial firms. This is especially true when rules are changed, or new procedures are established. While information appears to flow freely among the domestic firms and the regulators, foreign firms have difficulty breaking into the dialogue.

In the face of these regulatory and structural difficulties, foreign penetration of the Japanese banking market has been low. For example, the foreign share of total deposits was only 0.8 percent, and of loans 1.7 percent in March 1989. In the securities industry, however, some U.S. investment banks have fared better, as market opening measures have allowed foreign firms, in a few areas, to exploit their expertise. These areas include the government debt market and derivative products. In other areas where foreign firms have considerable talent, such as pension fund and investment trust management, they are still effectively excluded. The introduction of innovative financial products has also been difficult.

III. Competitive Position of U.S. Banks

The discussion above demonstrates the contrasts and similarities between the structure and regulation of our financial services firms and the trends in the financial services industry abroad. It seems to me that there are lessons to be learned both from the EC and from Japan. In the EC, we see a strong trend toward financial modernization which appears to lead in the direction of EC-wide universal banking. This process of reform forces us to face up to the inadequacies of our own regulatory system if we hope to keep up in the 1990s.

By contrast, despite the beginnings of change, the Japanese regulatory structure does not appear to offer us an attractive model for reform. Rather, the well-reported success of Japanese banks is a function of interest rate controls, a national policy of treating banks as an important competitive asset, the trade surplus, and a high savings rate.

In light of the developments described above, how do we find our banks faring against their international competitors? The competitive position of U.S. commercial banks in global markets today can be measured in different ways. By many measures, we are losing market share and competitive standing, both at home and abroad. On the positive side, in some areas our banks

continue to innovate and to develop new products and services, such as financial advisory services, interest rate swaps and various consumer banking products such as debit/credit cards, electronic banking, and mortgage products.

In terms of assets, U.S. commercial banks have fallen behind foreign commercial banks in the global banking market. Foreign banks have also increased their share of assets in the U.S. market. Specifically, U.S. banks' share of international banking assets has fallen from 27.2 percent in 1983 to 14.1 percent in 1989. Banks from Japan have increased their share of international banking assets from 20.5 percent to 38.3 percent over this period. Banks in France and Germany experienced moderate increases in their share of international assets in this period, although British banks have retreated somewhat. Part of the U.S. international share decline reflects exchange rate changes: with a higher value of the Yen and European currencies, the dollar value of foreign currency deposits abroad is greater.

During this same period (1983 to 1989), foreign banks have increased their share of U.S. commercial and industrial loans from 21.4 percent to 28.5 percent.

While these figures indicate one important aspect of competitiveness, one should not look exclusively at assets,

because size may not be a good indicator of performance. Capital strength, profitability, skill of management, and innovativeness are all elements of international competitiveness where U.S. banks have fared better than they have in comparisons of asset size.

Nevertheless, U.S. banks have faced difficult times in the late 1980s due to economic and structural factors beyond their control. These factors help explain the reduced competitive standing of U.S. banks, and include:

- the U.S. balance of payments deficit;
- the relatively low U.S. personal savings rate;
- the relatively high U.S. cost of capital;
- the trend toward disintermediation; and
- the structural rigidities of the U.S. financial system.

Given this situation, the Committee's review of the status of the banking system and proposal for regulatory reform is timely as is its consideration of the Fair Trade in Financial Services Act of 1990. We share the objectives of this bill which is designed to open foreign financial markets and ensure effective market access for U.S. firms. As you know, however, the Administration has opposed the bill because of our concern that even limited reciprocity could invite retaliation and lead

to still further measures -- a slippery slope. We are in the process of reviewing revisions as the bill moves forward.

IV. Guiding Principles for Regulatory Changes

As I mentioned at the outset, it is impossible to develop specific recommendations for change in the U.S. system without considering their broader relationship to deposit insurance and other elements of the federal safety net. The fundamental structural issues that must be addressed in financial institutions reform include the appropriate relationship between banking and other financial services, and between banking and commerce; the extent and usefulness of firewalls; and the extent to which consolidated supervision is necessary -- all of which are interrelated. These and other structural issues will be addressed in our study of deposit insurance. Nevertheless, it is possible to make some general observations and identify several guiding considerations.

The overall considerations in recommending any changes to the regulation of financial services must include: (1) the competitiveness of U.S. financial firms and markets; (2) the exposure of the taxpayer through the federal safety net; and (3) the stability of the financial system. Some have argued that the first consideration conflicts with the other two -- that enhanced

competitiveness through broader powers will automatically increase the exposure of the taxpayer and destabilize the system.

But is that necessarily so? U.S. banking organizations are losing traditional businesses to new technologies and new markets, yet they are not permitted to fully adapt to new lines of business. The result has been concentration in the riskiest lines of permitted business, such as commercial real estate lending, highly leveraged transactions, and loans to lesser developed countries, that creates greater risk to the system and the taxpayer, not less. The ability to adapt prudently to changes in the marketplace could reduce that risk by fostering growth in fee income and diversification of funding sources and asset risk. Moreover, properly supervised diversification into other financial activities could contribute to greater profitability, diversified risk, and a stronger capital base.

Finally, it may also be possible to insulate the federal safety net from the increased risk created by new activities. The fact is that every developed country has some form of broad safety net for its financial firms, yet most countries permit their firms to engage directly or indirectly in a broader array of financial services than we do. At the same time, there have been few substantial losses to their systems and none anywhere near the magnitude of our thrift losses.

The challenge, then, is to devise reforms that will reduce or contain the risk to the taxpayer while at the same time increasing the long-term stability and competitiveness of our financial firms.

It seems to me that there are a number of important principles that ought to be embraced in any future recommendation for change. These are set forth below.

1. Capital. Broader activities for banking organizations ought to be linked to strong capital requirements, preferably risk-based. We learned all too painfully from the thrift crisis that a crucial protection for the taxpayer is requiring firms to have a substantial amount of their own money at risk to absorb losses. This Administration has consistently insisted on prudent capital requirements for financial firms that have the potential to expose the government to losses, whether they are thrifts or government sponsored enterprises. Moreover, the Federal Reserve Board recently testified before this committee that enhanced capital is a critical element of any proposal for reform.

Reliance on stringent capital requirements and increased market discipline can serve as an offset to excessive regulation. And to attract sufficient capital, banks must be profitable. Thus, any regulatory reform must be undertaken with a view to

enhancing the profitability of our system. To put it another way, the surest way to threaten the safety and soundness of our financial system is to render it unprofitable.

2. Uniformity of Regulation. Our system of regulation has become a hodge podge, gerry-built structure of rules and exceptions. Whatever direct or indirect activities are authorized for banking organizations, they ought to be authorized on an equal basis for comparable institutions. We need rational regulations consistently applied.

3. Functional Regulation. The Treasury Department has long supported the concept that the primary regulation of financial activities should be by function, rather than by institution. In general, we believe that a firm's securities activities should be regulated by the Securities and Exchange Commission; its banking activities by the banking regulators; its insurance activities by the state insurance authorities; and so on. This is more efficient than having different agencies each regulate a range of different functions.

4. Streamlining Regulation and Supervision. Our system now has three federal bank regulators; one thrift regulator; one credit union regulator; and 50 state regulators. Regulations and regulatory responsibilities are often overlapping and duplicative. The banking supervisory structures of most of

our major competitors are, by contrast, more unified and coherent. As we explore the reform of our financial institutions, we will also need to explore the reform of our regulatory structure -- although, to be frank, the inevitable turf fights involved may prevent the full achievement of this goal.

5. Efficient Geographic Diversification. Interstate banking permits banks to diversify and avoid being too closely tied to the vicissitudes of local economies. Because of the actions of state legislatures, full interstate banking is fast becoming a reality. As of January 31, 1990, only four states did not permit some degree of interstate banking. Yet interstate branching is for the most part prohibited, even though it will entail lower costs than establishing separate banks in separate states with separate capital structures and separate officers and directors. Any reform proposal should carefully examine the concept of interstate banking and permit market participants to determine whether it is more efficient to branch or to establish separate subsidiaries.

6. International Convergence and Harmonization. With the increasing interdependence of national financial systems, we support international efforts toward convergence and harmonization where appropriate of the supervision and regulation of financial firms. The Basle agreement on risk-based capital

promises to be successful, and we can expect this type of convergence effort to extend to other kinds of activities. It is imperative, as other systems develop and progress, that we keep pace; we should not be left behind from any movement toward the standardization of the rules governing the international provision of financial products and services.

7. Market-based Structures. Much has been written about the appropriate structure of financial firms that have access to the safety net. The three basic models are:

(1) the U.S.-style holding company, in which banking activities are carried out in a banking subsidiary of the holding company, and non-banking activities are carried out in separate subsidiaries of the holding company;

(2) the English and Canadian-style universal bank, in which banking activities are carried out in the bank, non-banking activities are carried out in direct subsidiaries of the bank, and no separate holding company exists; and

(3) the German-style universal bank, in which a single entity engages in all banking and securities activities directly but through segmented departments.

It is difficult to imagine the German-style universal bank structure with our current system of deposit insurance. In evaluating the holding company and subsidiary models for separating banking and non-banking activities, we should start from the premise that market participants should decide the appropriate structure for their own organizations depending on their own particular circumstances, so long as this does not create supervisory problems.

8. Glass-Steagall. The fact is that Glass-Steagall is no longer the rigid wall between banking and securities that it once was. Increasingly, firms engage in both banking and securities, but under a set of rules and exceptions that is sometimes arbitrary and inefficient. These rules need to be rationalized.

9. Enforcement. There is no substitute in a market driven industry with strict fiduciary obligations for quality management of high integrity. Just as there should be ample shareholder capital at risk, so too must there be managers of integrity. I have said before during our difficult debates on FIRREA and I will say it again, civil and criminal violations will be prosecuted to the fullest extent of the law.

V. Conclusion

Mr. Chairman, that concludes my remarks. I am happy to answer any questions you may have.

* * * *

TREASURY NEWS

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

For Release Upon Delivery
Expected at 1 p.m.
July 25, 1990

STATEMENT OF
MICHAEL J. GRAETZ
DEPUTY ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to present the views of the Treasury Department on the advisability of a Federal tax amnesty program.

The views we shall express here today are necessarily of a general nature. As you know, current interest in a Federal tax amnesty has been sparked largely by the widespread experience during the last decade of state tax amnesty programs. These programs, however, have been as varied as the states that conducted them.

There is no specific amnesty proposal before this Committee for consideration. Our testimony focuses primarily on a potential Federal tax amnesty program under which certain penalties would be waived for taxpayers who admit voluntarily to failing to pay the correct amount of tax in the past and who pay the full amount of the unpaid tax, including interest due.

We believe that such a general Federal tax amnesty program would be unwise. First, contrary to certain extravagant claims, we do not believe a Federal amnesty program would raise large additional revenues, and there is a risk that such a program, in fact, might lose revenue. Most states did not have effective income tax enforcement systems in place when their amnesty programs were instituted, and those state amnesty programs that have been most successful in raising revenue generally were coupled with increased enforcement efforts -- enforcement efforts that

already are a part of the Federal tax system. The Treasury Department is also concerned about the actual and perceived fairness of a Federal amnesty program, as well as about the possible adverse effects of an amnesty on taxpayer morale and compliance.

Carefully targeted relief from tax penalties for taxpayers who step forward to pay unpaid or understated taxes might be desirable in some cases, but only if such relief is linked with significant, additional enforcement programs, such as new withholding requirements. We caution, however, that even before targeted relief is provided, Congress should carefully consider the trade-off between collecting unpaid taxes, on the one hand, and the potential for damage to the voluntary compliance system, on the other hand.

My testimony today has three parts. First, I shall describe briefly the experiences of the states with amnesty programs. Second, I will outline important differences in the state and Federal systems that make it difficult to translate the states' experiences to the Federal level. Finally, I shall review the revenue implications of a Federal amnesty program and explain why we believe substantial revenue increases would be unlikely.

I. STATE AMNESTY EXPERIENCE

Beginning in December 1981, with Illinois, 29 states and the District of Columbia have conducted some form of an income tax amnesty program. Connecticut and Maine have scheduled tax amnesty programs for September 1 and November 1, 1990, respectively. Three states, Florida, Illinois and Louisiana, have offered two tax amnesty programs.

No agreement currently exists on the degree of success or failure of state amnesties, largely because data relating to the long-term effects are not available. Moreover, the specifications and conditions of amnesty programs have varied considerably from state to state. In general, state amnesty programs have offered reduced penalties to those individuals or corporations that voluntarily come forward and correct their situation with the state tax authorities. Some state programs have required amnesty applicants to pay interest and penalties, but with a reduced penalty rate; other programs have waived all penalties and interest. None have forgiven the actual tax liability.

State amnesty programs also have differed as to eligible participants. All state programs have included nonfilers. State programs, however, have varied concerning the eligibility of taxpayers who filed returns but underreported their taxes. Some state programs have allowed participation by people who are under investigation, or even with identified tax arrears.

A number of states have included accounts receivable under their amnesty programs. These accounts receivable represent tax liabilities that state tax authorities had already identified and

in some cases would have collected independently of the amnesty. States that have included accounts receivable have obtained significantly greater gross tax receipts through the amnesty than states not including accounts receivable. A 1987 Internal Revenue Service study showed that fully two-thirds of state amnesty revenue came from accounts receivable.

Many states' amnesty programs were instituted when enforcement of their tax laws was lax. Several states historically have had little or no auditing and many have long depended entirely on information provided by the IRS. For example, Kansas, Pennsylvania and Michigan do virtually no auditing. Virginia, Ohio, West Virginia, North Dakota, Nebraska, Colorado, Louisiana, Oklahoma and Hawaii have tended to rely solely on information provided by the IRS in conducting state income tax audits. As IRS audit rates fell over the last decade, many state enforcement programs have concurrently suffered.

The vast majority of state amnesty programs have been coupled with increased enforcement efforts and increased civil or criminal penalties for tax evasion. Twenty-four of the states conducting income tax amnesty programs instituted these programs just prior to, or in conjunction with, strengthening enforcement or penalties. Virtually every state vowed to pursue more vigorously tax delinquents and to impose harsher penalties.

In many cases, the states' enforcement and penalty increases were quite extensive. For example, Massachusetts enacted legislation that raised the crime of tax evasion to a felony, permitted the contracting out of tax collection, authorized the hiring of more revenue agents, and made tax compliance a prerequisite for obtaining or renewing a state license, for example, for doctors and other professionals. To take but one other example, Louisiana doubled the number of its auditors and collectors.

In general, the increased enforcement efforts included: (1) increased financial penalties for tax evasion and delinquency; (2) shifts in certain tax evasion crimes from misdemeanors to felonies and increased jail terms for certain crimes; (3) expanded authority for property seizures; (4) improved automated systems; and (5) increased staff for audits and collections.

Advertisements emphasized the increased enforcement aspects of the states' amnesties, in particular, the significantly increased risk of tax delinquents being apprehended and subjected to stiffer penalties. The publicity campaigns were often dramatic:

- California: "Get to us before we get to you."
- Louisiana: "Pay now or pay later."
- Minnesota: "Amnesty -- an offer you shouldn't refuse."

. Colorado: "Don't say we didn't warn you."

. Maryland: "Are you sure you can beat Maryland out of back taxes? Come forward and come clean."

. New Mexico: "We have got your number, have you got ours?"

Most recently, Virginia's amnesty program featured advertisements of a shark and "Jaws" music warning of impending increased enforcement of state tax laws.

Indeed, some states increased their enforcement efforts just before starting the amnesty program. For example, Massachusetts conducted a highly visible campaign of business and property seizures prior to its amnesty program. In California, enforcement actions also were stepped up shortly before the amnesty period and were widely publicized. Similarly, in Louisiana, tax enforcement was increased before the amnesty program through the use of strike forces. The enforcement component is widely agreed to have been central to successful state amnesties, and, in fact, amnesty programs without enhanced enforcement have gained little revenue.

In short, few states simply have used amnesties primarily as a quick revenue source. Rather, state amnesty programs have routinely been offered as the last chance for tax evaders to come clean in light of greatly increased levels of enforcement. State amnesty programs have been fashioned as one element in a statutory restructuring of tax enforcement, coupled with enhanced administrative capacities.

The gross revenue collected under state amnesty programs has ranged from lows of $150,000 and $240,000 for North Dakota and Louisiana, respectively, to highs of $182 million and $401 million for New Jersey and New York. Gross amnesty revenue as a percent of the prior year's tax collections of the state ranged from a low of 0.2 percent in Idaho to 2.36 percent in New Jersey. These amounts represent gross liabilities shown on amnesty returns.

Very little information, however, is available on the <u>net</u> gain in revenue attributable to the state amnesty programs. States such as Massachusetts, that substantially increased tax penalties and enforcement, almost certainly would have experienced significant revenue increases solely from the change in compliance policy. I shall discuss further differences between gross and net amnesty revenues toward the end of this statement.

II. COMPARABILITY OF STATE AND FEDERAL EXPERIENCE

The states' amnesty experiences are unlikely to be mirrored at the Federal level. A number of factors will contribute to making a Federal experience with an amnesty program quite different from the state experiences.

First, state and Federal tax systems are rather different and measures that might increase compliance in one system may have little or no impact in another. Thus, for example, a significant amount of state noncompliance involves sales taxes, which do not constitute an important part of Federal tax collections. Also, a large component of some states' amnesty receipts result from out-of-state residents failing to report their state income. No similar opportunities exist for a Federal amnesty program to obtain such revenues.

Second, states have lower income tax rates than the Federal system. Thus, it generally is less costly for delinquent taxpayers to participate in a state amnesty program than would be the case with a Federal program. These higher costs may deter participation in a Federal program.

Third, most state amnesty participants had not filed state returns. Data from some state amnesty programs, however, indicate that most amnesty participants had already filed Federal income tax returns. This suggests that Federal enforcement efforts may have already identified and assessed most of the likely participants in an amnesty program. This leaves a pool of more knowledgeable and aggressive noncompliers who seem less likely to be influenced by an amnesty offer. If that is true, Federal amnesty participation (and consequently, revenue) would be lower than state amnesty participation (and lower than state revenue as a percentage of the prior year's tax collections).

Fourth, most state tax amnesties forgave criminal as well as civil penalties. At the Federal level, more than one-half the criminal cases currently being pursued involve nontax crimes, such as drug offenses and money laundering. Great caution must be exercised so that a Federal tax amnesty does not become an occasion for excusing people engaged in other criminal activities.

Finally, and most importantly, the state amnesty programs that achieved the greatest success were those coupled with increased enforcement programs. Many states that tried amnesty programs did so when enforcement had been virtually nonexistent In contrast with these states, the Federal government has long pursued vigorous enforcement policies and, indeed, already has many measures that were instituted by the various states as part of their amnesty packages. For example, as part of its amnesty package, South Carolina conformed its tax penalty and interest provisions to those applicable under the Federal tax law. Even if the IRS received significant increases in its enforcement budget, the percentage increases in enforcement effort could not match those of states that started from much lower enforcement levels.

Moreover, the kinds of penalty reforms undertaken by many of the states are not feasible at the Federal level. Federal tax penalties were dramatically increased during the 1980s and a comprehensive penalty reform measure was included as part of

last year's tax Act. Three out of every four persons convicted of Federal tax crimes are now receiving prison sentences, and the recently promulgated Federal sentencing guidelines will tend to increase the prison time served. There is little room at the Federal level for the kinds of enforcement reforms adopted by the states. A successful amnesty needs sticks as well as carrots.

In short, the Treasury Department questions whether a Federal amnesty program would provide comparable incentives for many of those currently noncomplying taxpayers to come forward. The states' experience simply does not translate to a Federal tax amnesty program.

The Treasury Department is also concerned that enacting a Federal amnesty program could raise serious public concern about the fairness of the current tax system. The vast majority of taxpayers comply dutifully with the Federal tax laws and routinely pay their fair share of tax. They may feel cheated when others, who knowingly broke the rules, are allowed to escape punishment, or even to profit from their wrongdoing if the amnesty forgives interest on overdue taxes. Their natural reactions might be increased cynicism about the tax laws, which would undermine future compliance. Such a potential response would pose serious risks to a tax system that depends on taxpayers honestly reporting their own tax liability.

If a Federal amnesty program produces adverse responses from currently compliant taxpayers, it could have a substantial negative effect on long-term tax revenues. Even a program described as a "one-time" opportunity may lead taxpayers to believe the program might be repeated. Three states, for example, have already had two amnesties in this decade. The system's ability to raise revenue would suffer from any program that jeopardizes voluntary taxpayer compliance. A Federal tax amnesty program therefore is a gamble with our tax system's most important asset -- the general willingness of taxpayers to obey the law.

Unfortunately, we do not have data necessary to evaluate with confidence the net impact of an amnesty program on long-run compliance. State tax administrators have not collected the data necessary to measure the effects of amnesty programs on compliance levels, and in those many cases where enforcement initiatives and amnesty were married, such an analysis might not be possible.

III. REVENUE ISSUES

Estimates of large revenue receipts from a Federal tax amnesty program appear to be based on rough extrapolations of gross state amnesty receipts. These estimates fail to take into account the important differences between the state and Federal tax systems that I described earlier. They also fail to account for the costs of an amnesty and do not distinguish between revenues attributable to increased enforcement and revenues due to the amnesty.

Gross receipts from state amnesties significantly overstate the beneficial impact on revenues of an amnesty program because these receipts ignore the costs of an amnesty program. Net amnesty revenue is necessarily less than gross revenue shown on amnesty tax returns since some, and perhaps most, of the amnesty amount would be collected without the amnesty, although perhaps in a later fiscal year.

Net amnesty revenue consists of gross amnesty tax revenues less:

-- Taxes that have already been collected, mainly through withholding.

-- Accounts receivable and other known liabilities that would have been collected without an amnesty, payment of which is only accelerated. Accelerating the receipt of these amounts may not increase net revenue if the cost of acceleration is forgiveness of some or all outstanding penalties.

-- Penalties that are forgiven during the amnesty on taxes that would have been collected during that same period without an amnesty and on taxes that would have been collected later without an amnesty. At the Federal level, forgiven penalties could amount to billions of dollars.

-- Actual costs of administering and publicizing the amnesty program.

-- The costs of transferring examiners and other tax administration personnel away from other work, offset by reduced audit and collection costs because some delinquent taxpayers use the amnesty program. The revenue foregone from transferring examiners to amnesty work may be significant. The IRS would have to review amnesty returns or run the risk that amnesty participants would be allowed to escape their past liability by admitting and paying only a small portion of their unpaid taxes. Not checking amnesty returns could also adversely affect future compliance.

One should also attempt to disaggregate gross revenues from state amnesty programs to identify revenues attributable to improved state enforcement activities. States that stiffened penalties and enforcement in conjunction with their amnesty programs no doubt would have experienced significant revenue increases solely from the change in compliance policy. The Federal government would also experience revenue increases from heightened enforcement efforts, with or without an amnesty. It would be a mistake to credit an amnesty program with such revenues.

No specific proposal is under consideration here today. Therefore, we are not providing any revenue estimate for a Federal amnesty program. However, the Treasury Department believes that there has been great overstatement of the potential revenues that would occur from a general Federal tax amnesty forgiving penalties and criminal prosecution. We regard, for example, figures used by the Senate Budget Committee predicting many billions of dollars of increased Federal revenues to be very exaggerated.

One design feature that would affect the revenue estimate is the amount of time between the date a Federal amnesty program is announced to the general public and the date the amnesty takes effect. A long lead time might reduce net revenues. Once an amnesty were scheduled, taxpayers would have an incentive to postpone paying taxes and filing returns since they might be able to do so without penalty. Tax receipts would be delayed, and some would be lost permanently. Anticipation of an amnesty could cause currently delinquent taxpayers to delay settlement of examinations and final payment until the beginning of the amnesty period in order to avoid penalties. At best, this would delay receipt of tax payments, perhaps into a later fiscal year. Such a loss of penalties might quickly convert an amnesty from a small revenue gainer to a revenue loser. Moreover, whenever payments are delayed, it is inevitable that some will never be made, further reducing any potential revenue gain.

IV. CONCLUSION

In the current budgetary context, we should emphasize our conclusion that a Federal amnesty program has limited short-term revenue potential. Putting additional enforcement resources and weapons into place cannot occur immediately, but only over a longer term. Amnesty absent enhanced enforcement is simply not wise tax policy. And, in any event, the administrative demands of a Federal amnesty program would require a substantial delay between enactment and the beginning of the amnesty program. In sum, we have little comfort to offer those who are looking to a Federal tax amnesty as a relatively painless antidote to the current Federal deficit.

Our lack of support for a general Federal tax amnesty program should not be mistaken for a lack of concern with current levels of taxpayer noncompliance. Nor do we mean to preclude consideration of targeted tax enforcement programs, coupled with targeted tax relief. The principal lesson of the states' programs is that an amnesty must be part of a package that includes enhanced enforcement. Thus, for example, even penalty relief aimed only at nonfilers should be considered only as part of a package including new IRS enforcement capabilities, and perhaps increased tax penalties or an extended statute of limitations on tax assessments or collections.

Finally the risks of long-term, adverse effects of an amnesty on voluntary compliance suggest that even targeted relief should be undertaken with considerable caution.

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

TREASURY NEWS

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FOR IMMEDIATE RELEASE
July 25, 1990

CONTACT: Office of Financing
202/376-4350

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $11,655 million of $40,487 million of tenders received from the public for the 2-year notes, Series AC-1992, auctioned today. The notes will be issued July 31, 1990, and mature July 31, 1992.

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

	Yield	Price
Low	8.05%	99.909
High	8.07%	99.873
Average	8.07%	99.873

Tenders at the high yield were allotted 50%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted
Boston	$ 82,405	$ 82,405
New York	37,167,265	10,189,415
Philadelphia	40,715	39,215
Cleveland	64,445	64,445
Richmond	319,380	137,630
Atlanta	63,535	59,535
Chicago	1,235,360	234,360
St. Louis	99,070	89,070
Minneapolis	31,875	31,875
Kansas City	133,875	133,875
Dallas	43,915	38,915
San Francisco	867,890	216,860
Treasury	337,425	337,425
Totals	$40,487,155	$11,655,025

The $11,655 million of accepted tenders includes $1,582 million of noncompetitive tenders and $10,073 million of competitive tenders from the public.

In addition to the $11,655 million of tenders accepted in the auction process, $755 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,478 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-891

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TESTIMONY OF THE HONORABLE

ROBERT R. GLAUBER

UNDER SECRETARY OF THE TREASURY FOR FINANCE

BEFORE THE INTERNATIONAL COMPETITIVENESS TASK FORCE

ON U.S. FINANCIAL INSTITUTIONS

OF THE HOUSE BANKING SUBCOMMITTEE

ON FINANCIAL INSTITUTIONS

July 26, 1990

Chairman LaFalce and Members of the Task Force, thank you for inviting me to discuss the strength of the U.S. financial services sector, especially in light of increased international competition for U.S. financial firms and markets. My statement today will be essentially identical to the testimony of Secretary Brady yesterday before the Senate Banking Committee.

The Treasury Department shares the Task Force's concern about the international competitiveness of our financial firms. As you know, financial systems are undergoing dramatic changes abroad, especially in Europe as part of EC 1992. The trend in the industrialized countries is clearly to explore the expansion and diversification of financial services firms as a means of benefitting wholesale and retail consumers and strengthening the competitiveness of financial institutions. While ours is still the most innovative financial industry in the world, we are

looking over our shoulder more and finding our competitors closing the gap.

At the same time, we are deeply concerned about the relationship of financial services activities to deposit insurance and other aspects of the so-called "federal safety net" that applies to depository institutions. Obviously, this relationship is particularly critical in view of the cost of making good on deposits in failed thrifts. As a result, we have added this crucial issue to the Treasury's comprehensive study of deposit insurance mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

This study is not due until February 9, 1991, although we intend to complete it by the end of this year. As the Task Force is aware, the project involves the cooperation and labors of all of the relevant federal banking agencies, including the Federal Reserve Board, the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of Management and Budget.

Because we are now deeply involved in the study, it would not make sense today to offer specific proposals for change. In fact, much of this testimony is necessarily descriptive rather than conclusive. Those who are hoping for an advance preview of

Treasury's study may, therefore, be left unsatisfied. As I have said, we expect to complete the study by year end and will be presenting its conclusions and any legislative recommendations early in the next Congress.

Nevertheless, I assure you that, with the thrift experience so fresh in mind, we will not propose changes to the financial services regulatory structure that would increase the taxpayers' exposure. But we must also bear in mind the relationship between competitiveness and profitability on the one hand, and safety and soundness on the other. A system that produces institutions that are less profitable and less competitive is inherently unsafe and unsound in the long run. And if you conclude that our banking system is indeed becoming less profitable and less competitive, and therefore less safe, then retaining the status quo is not an attractive option. Simply put, the task is to enhance competitiveness while decreasing taxpayer exposure.

My statement today will set forth our current perspective on financial services regulation in the United States; briefly compare that to financial services regulation in Europe and Japan, particularly in light of recent developments; and set forth several guiding principles that we think should apply to any proposal for change in the United States.

I. Financial Services in the United States

This Task Force has received countless pages of testimony about the disjointed nature of financial services regulation in this country. Nevertheless, I believe it is useful to summarize the current situation in order to underscore the importance of changes occurring in international markets.

A. The Traditional Banking Franchise

Through a series of laws passed beginning in the early 1900s, especially after the 1929 stock market crash and the ensuing wave of bank failures, the government succeeded in rigidly segmenting and protecting the business of commercial banking in the United States. Banks received a number of special benefits, including deposit insurance, interest rate controls, and a prohibition on the payment of interest on demand deposits. Even before the 1930s, banks had gained ready access to the Federal Reserve's discount window and payments system. All of this was a prescription for steady profitability in the banks' traditional activity of short-term commercial lending to businesses.

The flip side of this coin, of course, was heavy regulation and supervision as well as the numerous restrictions on bank activities. Banks were prohibited from engaging in anything <u>but</u>

traditional banking activities, and there were strict limits on geographic expansion.

For example, banks were sharply restricted from engaging in securities activities by the Glass-Steagall Act of 1933, and the later Bank Holding Company Act of 1956 curtailed their ability to affiliate with firms engaged in insurance and commercial activities. Banks had limited branching rights within states and were prohibited from crossing state lines by state laws, the McFadden Act of 1927, and the Douglas Amendment to the Bank Holding Company Act. Moreover, the Home Owners Loan Act and the Federal Home Loan Bank Act gave special privileges to thrift institutions that allowed them to dominate the mortgage business.

In short, the banking franchise created by the government was protected, restricted and potentially quite profitable. While banks were prohibited from engaging in most non-banking activities, they were also sheltered from competition from firms engaged in such activities. In addition, because of limitations on interstate banking, our system produced thousands of small banks that prospered. And even though the system generated a complex web of state and federal regulation -- 50 state regulators and three federal regulators -- it afforded both stability and pluralism over a number of years.

B. The Erosion of the Franchise

In the last two decades, however, the picture has changed dramatically. First, the benefits and protections of a banking franchise have significantly eroded. Interest rate controls are gone, as is the ability to avoid interest payments on transaction accounts.

More important, technology and changing markets have eaten directly into the traditional banking business on both sides of the balance sheet. On the liability side, money market funds with credit card and check-writing privileges now compete directly with traditional bank deposits. Thrifts and credit unions now offer accounts and services that in many instances are indistinguishable from those offered in commercial banks. And securities firms sell bank certificates of deposit in brokerage offices around the country.

On the asset side, many of the banks' most creditworthy loan customers, including blue chip corporations, now borrow directly from investors in the commercial paper market at lower rates. In fact, in the past decade, commercial paper outstanding increased nearly fivefold, from $112 billion in 1979 to $525 billion in 1989, while total commercial and industrial loans only doubled, from $295 billion to $639 billion over the same period.

This competition for traditional bank business has produced substantial benefits for the consumer, including lower borrowing rates and more choice and flexibility. But it has also diminished the franchise value on which the banking system was built.

C. The Current Situation

How have banks responded? Many banks have found their lending concentrated in riskier lending activities due to the erosion of the traditional business of lending at attractive spreads to highly creditworthy customers. These riskier activities have included loans to less developed countries; greater commercial real estate lending; regionally concentrated energy and agricultural loans; and loans in highly leveraged transactions. This Task Force is well aware of the problems associated with these activities, including the potential for reduced earnings and higher provisions for loan losses.

On the positive side, U.S. banks have been innovative in developing businesses in which they have regulatory freedom. For example, bank credit cards and automatic teller machines have revolutionized banking for the convenience and benefit of the American consumer. Moreover, in response to the erosion of the traditional corporate lending business, banks have expanded into

fee generating businesses like mortgage banking and financial advisory work.

But as the traditional banking business has grown less attractive, banks have also sought to expand into businesses in which they were prohibited or "protected" from competing, including securities, insurance, and other financial services. At the same time, diversified financial companies have aggressively sought to expand into the most attractive banking lines of business in order to provide the full range of financial products and services demanded by their customers.

Despite statutory and regulatory impediments, these efforts to expand into new lines of business have succeeded in part. A limited degree of statutory change, particularly at the state level, combined with regulatory and judicial interpretations of existing law, has produced a new patchwork quilt of rules and exceptions. This new "system" allows some new activities and geographic expansion, as summarized below.

Securities Activities. Banks now have the ability to engage directly or indirectly in a broad range of securities activities, although with numerous restrictions. They can engage with few limits in the underwriting and dealing of U.S. government and agency securities, general obligation municipal bonds, agency-guaranteed mortgage-backed securities, and certain

kinds of municipal revenue bonds. In addition, they may engage in private placement activities, discount and full service brokerage, and financial advisory services. A recent court decision has permitted banks to securitize loans that they have originated or purchased. Moreover, banks may serve as investment advisors to mutual funds.

Finally, through recent interpretations by the Federal Reserve of Section 20 of the Glass-Steagall Act, bank holding companies may establish non-bank subsidiaries that derive up to 10 percent of their revenue from a wide range of otherwise prohibited securities activities -- including the underwriting of corporate bonds and, at least in principle, corporate equities. However, strict "firewall" requirements have been established to limit transactions between the insured bank and its securities affiliate. In practice, the Section 20 affiliates only benefit the very largest banks, and only in a limited way because of the strict firewalls.

Insurance Activities. State legislatures in Delaware and California have recently granted much more authority to banks chartered in these states to engage in insurance activities. The courts have thus far upheld the general principle that bank holding companies -- including ones from outside the state -- can take advantage of state insurance authority through the purchase of a state bank. However, such insurance activities must be

conducted within the acquired state bank or an operating subsidiary (as opposed to a holding company affiliate, where it would clearly be prohibited). In addition, a number of banking organizations have extensive insurance authority that has been grandfathered under amendments to the Bank Holding Company Act. Finally, recent legal and regulatory interpretations permit national banks to sell title insurance, municipal bond insurance, fixed rate annuities, and insurance nationwide from branches in towns of fewer than 5,000. And banks have been permitted for some time to sell credit-related insurance.

Affiliation with Commercial Firms. Through legal loopholes that have opened and closed over the years, commercial and diversified financial companies have acquired a significant number of banks, principally through the earlier "nonbank bank" exception to the Bank Holding Company Act. Likewise, commercial and diversified financial firms have long been permitted to acquire thrift institutions. The result is a number of major companies that own both banks and other financial and commercial concerns. These firms include Sears, American Express, Merrill Lynch, Household Financial, and a number of major insurance companies. However, these companies now have strict limits on the operations of their banks, and other commercial and financial companies have been prohibited from expanding into banking.

<u>Geographic Expansion</u>. The states have taken interstate banking into their own hands. With few developments at the federal level, a number of states formed regional compacts in which interstate banking was permitted. A number of these regional compacts include so-called "nationwide triggers" (as do certain individual states) which permit full interstate banking on a reciprocal basis after 1991. For example, California will move to full interstate banking at the beginning of next year.

Nevertheless, despite this clear trend, a number of states still restrict interstate banking, and in virtually all cases banks are prohibited from branching across state lines. This is true even if the costs of interstate branching would clearly be less than incorporating separate banks in separate states with separate capital structures and separate management. The result is a haphazard expansion of geographic opportunities, which includes numerous inefficiencies.

Stepping back, then, how do we generally view the competitiveness of the United States banking system? We see it as a system that, through ongoing changes in the marketplace, appears to have outgrown its historical regulatory structure. The result is overcapacity; layers of regulation; concentration in the riskier parts of traditional commercial lending; uneven product diversification, with rules and exceptions that sometimes

make little sense; and inefficient limitations on geographical diversification.

II. Developments in Europe and Japan

Let me now turn to the important changes taking place in the global financial services market. I will focus my remarks on developments in Europe and Japan and their impact on United States firms and markets. Before doing so, however, let me clarify that today's discussion will not address in detail the degree of national treatment accorded U.S. firms in these foreign markets. Treasury Under Secretary Mulford has testified recently before both the Senate Banking Committee and the House Banking Committee on national treatment issues. Preparation of the 1990 National Treatment Study is underway, and we will submit our detailed report by December.

A. The Challenge of EC 1992

The Treasury Department strongly supports the European Community's objective of economic liberalization. The EC's efforts toward the eventual goal of economic and monetary union have significant implications for the United States and world economy. An Economic Policy Council (EPC) Working Group on European Monetary Reform and Financial Liberalization, chaired by the Treasury Department with participation from key agencies and

advice from financial regulators, is reviewing the implications of these changes.

1. The "Single Passport" Program

The new EC program for financial services is based on the principle of "mutual recognition." Essential supervisory rules are harmonized among the member states, which agree to recognize each other's national laws, regulations, and supervisory practices that have not been harmonized.

Based on minimal harmonization of rules, a financial institution established in any member state may provide certain financial services through branches or across borders in any other country in the Community under the supervision of the home country. This entire process is often referred to as the "single passport."

The Second Banking Directive, which will take effect on January 1, 1993, will allow EC banks to engage in activities associated in the U.S. with commercial <u>and</u> investment banking. It will be possible for any bank established in the EC to offer a full range of services -- sometimes referred to as "universal banking" -- throughout the European Community.

2. Impact on U.S. Firms

The impact of EC developments on U.S. firms will depend, first, on the extent to which they are applied in the context of national treatment, and second, on the extent to which they affect the ability of U.S. firms to compete. The Second Banking Directive provides for reciprocal national treatment and effective market access. Because the U.S. offers EC banks national treatment, we believe U.S. banks will not be discriminated against by the EC in the present environment. Nevertheless, the European Commission has indicated that Glass-Steagall and interstate banking restrictions in the United States may be the subject of future negotiations. In addition, there is a grandfathering provision in the Second Banking Directive that guarantees national treatment for those U.S. banks that establish a European subsidiary prior to 1993.

Whether U.S. firms will be able to compete successfully is more difficult to predict. European banks that operate under a variety of constraints in different markets will be able to consolidate and focus their strategies. Those in the U.S. market will bring sharpened skills and improved products.

Moreover, let me mention one provision of U.S. law that may adversely affect the ability of our firms to compete in foreign markets. The Federal Reserve's Regulation K imposes strict

limits on the absolute and relative size of equity securities dealing, distribution and underwriting activities of overseas subsidiaries of U.S. banks. We welcome the Federal Reserve's recent proposal to expand the limits on equity activities abroad and will study carefully the proposed revisions.

Finally, let me make one other point. It will be more difficult for U.S. firms to compete on foreign turf when they cannot provide the same services at home, because the knowledge and expertise developed at home will be a crucial foundation to gaining market share abroad.

B. Developments in Japan

Let me now turn to developments in Japan. The Japanese have been moving incrementally for several years to liberalize and modernize their financial regulatory structure. They invariably describe their approach as "step by step." Financial services are highly compartmentalized -- far beyond what we have in the United States under the Glass-Steagall approach. In addition, regulation is burdensome, ad hoc, and not predictable, particularly for newcomers and outsiders.

There has been some progress in liberalizing and opening Japanese financial markets. However, the pace of change on the whole has been slow and the process of liberalization is not yet

complete. Treasury has consistently and vigorously worked in the U.S.-Japan Working Group on Financial Markets to accelerate this pace of change.

The Japanese Ministry of Finance has been reconsidering the Japanese equivalent of Glass-Steagall -- embodied in Article 65 of the Japanese Securities Exchange Law. In various advisory groups representing the banks and the securities industry, the Japanese are debating financial deregulation. Rivalries between the banking and securities industries are intense, however, and deregulatory steps are frequently a compromise among financial players and regulators.

In short, the improvement in the international position of Japanese banks has occurred in spite of an inefficient and burdensome regulatory structure. The positive causes of this success include interest rate controls that affect the Japanese saver and provide lower cost funds, the inclination to regard banks as a major international competitive asset, a persistently high current account surplus and a high personal savings rate. These factors may help explain the increasing penetration of the U.S. banking market by Japanese banks, which now account for 11.8% of all U.S. banking assets, compared to 20.6% for all foreign banks in total.

You asked specific questions regarding the effect of Japanese regulation on foreign competition.

The manner in which the Japanese regulate their banking and securities markets gives their institutions competitive advantages over foreign firms. For example, interest rates on more than 40 percent of bank deposits -- mainly at the retail level -- are still regulated, and retail deposit taking is not easily available to foreign banks without extensive branch networks. As a result, Japanese banks active internationally gain a cost advantage, on a consolidated basis, to the extent they still fund themselves domestically with regulated deposits paying interest rates which are lower than would prevail in a free-market environment. Deregulation of interest rates and development of an attractive money market in Japan have been major issues in the U.S.-Japan Working Group on Financial Markets.

The regulatory regime also allows for "main bank" relationships between banks and non-financial firms. This pattern of cooperation between banks and businesses can also be found in other countries. Nevertheless, the extensive interrelationship among banks and non-financial firms is particularly dominant in Japan, and presents a difficult challenge to U.S. financial firms seeking Japanese corporate business in Japan and worldwide. These relationships, apart

from other factors such as performance, contribute substantially to the success of Japanese financial institutions.

Finally, the Japanese regulatory system involves supervisory procedures, regulations, changes in policy and approval requirements that cannot be readily grasped and easily accessed in written documents. Foreign financial firms are particularly disadvantaged because the Japanese rely extensively on informal consultation with leading domestic financial firms. This is especially true when rules are changed, or new procedures are established. While information appears to flow freely among the domestic firms and the regulators, foreign firms have difficulty breaking into the dialogue.

In the face of these regulatory and structural difficulties, foreign penetration of the Japanese banking market has been low. For example, the foreign share of total deposits was only 0.8 percent, and of loans 1.7 percent in March 1989. In the securities industry, however, some U.S. investment banks have fared better, as market opening measures have allowed foreign firms, in a few areas, to exploit their expertise. These areas include the government debt market and derivative products. In other areas where foreign firms have considerable talent, such as pension fund and investment trust management, they are still effectively excluded. The introduction of innovative financial products has also been difficult.

III. Competitive Position of U.S. Banks

The discussion above demonstrates the contrasts and similarities between the structure and regulation of our financial services firms and the trends in the financial services industry abroad. It seems to me that there are lessons to be learned both from the EC and from Japan. In the EC, we see a strong trend toward financial modernization which appears to lead in the direction of EC-wide universal banking. This process of reform forces us to face up to the inadequacies of our own regulatory system if we hope to keep up in the 1990s.

By contrast, despite the beginnings of change, the Japanese regulatory structure does not appear to offer us an attractive model for reform. Rather, the well-reported success of Japanese banks is a function of interest rate controls, a national policy of treating banks as an important competitive asset, the trade surplus, and a high savings rate.

In light of the developments described above, how do we find our banks faring against their international competitors? The competitive position of U.S. commercial banks in global markets today can be measured in different ways. By many measures, we are losing market share and competitive standing, both at home and abroad. On the positive side, in some areas our banks

continue to innovate and to develop new products and services, such as financial advisory services, interest rate swaps and various consumer banking products such as debit/credit cards, electronic banking, and mortgage products.

In terms of assets, U.S. commercial banks have fallen behind foreign commercial banks in the global banking market. Foreign banks have also increased their share of assets in the U.S. market. Specifically, U.S. banks' share of international banking assets has fallen from 27.2 percent in 1983 to 14.1 percent in 1989. Banks from Japan have increased their share of international banking assets from 20.5 percent to 38.3 percent over this period. Banks in France and Germany experienced moderate increases in their share of international assets in this period, although British banks have retreated somewhat. Part of the U.S. international share decline reflects exchange rate changes: with a higher value of the Yen and European currencies, the dollar value of foreign currency deposits abroad is greater.

During this same period (1983 to 1989), foreign banks have increased their share of U.S. commercial and industrial loans from 21.4 percent to 28.5 percent.

While these figures indicate one important aspect of competitiveness, one should not look exclusively at assets,

because size may not be a good indicator of performance. Capital strength, profitability, skill of management, and innovativeness are all elements of international competitiveness where U.S. banks have fared better than they have in comparisons of asset size.

Nevertheless, U.S. banks have faced difficult times in the late 1980s due to economic and structural factors beyond their control. These factors help explain the reduced competitive standing of U.S. banks, and include:

- the U.S. balance of payments deficit;
- the relatively low U.S. personal savings rate;
- the relatively high U.S. cost of capital;
- the trend toward disintermediation; and
- the structural rigidities of the U.S. financial system.

Given this situation, the Task Force's review of the status of the banking system and proposals for regulatory reform is timely, as is consideration of Senator Riegle's Fair Trade in Financial Services Act of 1990. We share the objectives of this bill which is designed to open foreign financial markets and ensure effective market access for U.S. firms. As you know, however, the Administration has opposed the bill because of our concern that even limited reciprocity could invite retaliation

and lead to still further measures -- a slippery slope. We are in the process of reviewing revisions as the bill moves forward.

IV. Guiding Principles for Regulatory Changes

As I mentioned at the outset, it is impossible to develop specific recommendations for change in the U.S. system without considering their broader relationship to deposit insurance and other elements of the federal safety net. The fundamental structural issues that must be addressed in financial institutions reform include the appropriate relationship between banking and other financial services, and between banking and commerce; the extent and usefulness of firewalls; and the extent to which consolidated supervision is necessary -- all of which are interrelated. These and other structural issues will be addressed in our study of deposit insurance. Nevertheless, it is possible to make some general observations and identify several guiding considerations.

The overall considerations in recommending any changes to the regulation of financial services must include: (1) the competitiveness of U.S. financial firms and markets; (2) the exposure of the taxpayer through the federal safety net; and (3) the stability of the financial system. Some have argued that the first consideration conflicts with the other two -- that enhanced

competitiveness through broader powers will automatically increase the exposure of the taxpayer and destabilize the system.

But is that necessarily so? U.S. banking organizations are losing traditional businesses to new technologies and new markets, yet they are not permitted to fully adapt to new lines of business. The result has been concentration in the riskiest lines of permitted business, such as commercial real estate lending, highly leveraged transactions, and loans to lesser developed countries, that creates greater risk to the system and the taxpayer, not less. The ability to adapt prudently to changes in the marketplace could reduce that risk by fostering growth in fee income and diversification of funding sources and asset risk. Moreover, properly supervised diversification into other financial activities could contribute to greater profitability, diversified risk, and a stronger capital base.

Finally, it may also be possible to insulate the federal safety net from the increased risk created by new activities. The fact is that every developed country has some form of broad safety net for its financial firms, yet most countries permit their firms to engage directly or indirectly in a broader array of financial services than we do. At the same time, there have been few substantial losses to their systems and none anywhere near the magnitude of our thrift losses.

The challenge, then, is to devise reforms that will reduce or contain the risk to the taxpayer while at the same time increasing the long-term stability and competitiveness of our financial firms.

It seems to me that there are a number of important principles that ought to be embraced in any future recommendation for change. These are set forth below.

1. Capital. Broader activities for banking organizations ought to be linked to strong capital requirements, preferably risk-based. We learned all too painfully from the thrift crisis that a crucial protection for the taxpayer is requiring firms to have a substantial amount of their own money at risk to absorb losses. This Administration has consistently insisted on prudent capital requirements for financial firms that have the potential to expose the government to losses, whether they are thrifts or government sponsored enterprises. Moreover, the Federal Reserve Board recently testified before this committee that enhanced capital is a critical element of any proposal for reform.

Reliance on stringent capital requirements and increased market discipline can serve as an offset to excessive regulation. And to attract sufficient capital, banks must be profitable. Thus, any regulatory reform must be undertaken with a view to

enhancing the profitability of our system. To put it another way, the surest way to threaten the safety and soundness of our financial system is to render it unprofitable.

2. Uniformity of Regulation. Our system of regulation has become a hodge podge, gerry-built structure of rules and exceptions. Whatever direct or indirect activities are authorized for banking organizations, they ought to be authorized on an equal basis for comparable institutions. We need rational regulations consistently applied.

3. Functional Regulation. The Treasury Department has long supported the concept that the primary regulation of financial activities should be by function, rather than by institution. In general, we believe that a firm's securities activities should be regulated by the Securities and Exchange Commission; its banking activities by the banking regulators; its insurance activities by the state insurance authorities; and so on. This is more efficient than having different agencies each regulate a range of different functions.

4. Streamlining Regulation and Supervision. Our system now has three federal bank regulators; one thrift regulator; one credit union regulator; and 50 state regulators. Regulations and regulatory responsibilities are often overlapping and duplicative. The banking supervisory structures of most of

our major competitors are, by contrast, more unified and coherent. As we explore the reform of our financial institutions, we will also need to explore the reform of our regulatory structure -- although, to be frank, the inevitable turf fights involved may prevent the full achievement of this goal.

5. Efficient Geographic Diversification. Interstate banking permits banks to diversify and avoid being too closely tied to the vicissitudes of local economies. Because of the actions of state legislatures, full interstate banking is fast becoming a reality. As of January 31, 1990, only four states did not permit some degree of interstate banking. Yet interstate branching is for the most part prohibited, even though it will entail lower costs than establishing separate banks in separate states with separate capital structures and separate officers and directors. Any reform proposal should carefully examine the concept of interstate banking and permit market participants to determine whether it is more efficient to branch or to establish separate subsidiaries.

6. International Convergence and Harmonization. With the increasing interdependence of national financial systems, we support international efforts toward convergence and harmonization where appropriate of the supervision and regulation of financial firms. The Basle agreement on risk-based capital

promises to be successful, and we can expect this type of convergence effort to extend to other kinds of activities. It is imperative, as other systems develop and progress, that we keep pace; we should not be left behind from any movement toward the standardization of the rules governing the international provision of financial products and services.

7. Market-based Structures. Much has been written about the appropriate structure of financial firms that have access to the safety net. The three basic models are:

(1) the U.S.-style holding company, in which banking activities are carried out in a banking subsidiary of the holding company, and non-banking activities are carried out in separate subsidiaries of the holding company;

(2) the English and Canadian-style universal bank, in which banking activities are carried out in the bank, non-banking activities are carried out in direct subsidiaries of the bank, and no separate holding company exists; and

(3) the German-style universal bank, in which a single entity engages in all banking and securities activities directly but through segmented departments.

It is difficult to imagine the German-style universal bank structure with our current system of deposit insurance. In evaluating the holding company and subsidiary models for separating banking and non-banking activities, we should start from the premise that market participants should decide the appropriate structure for their own organizations depending on their own particular circumstances, so long as this does not create supervisory problems.

8. Glass-Steagall. The fact is that Glass-Steagall is no longer the rigid wall between banking and securities that it once was. Increasingly, firms engage in both banking and securities, but under a set of rules and exceptions that is sometimes arbitrary and inefficient. These rules need to be rationalized.

9. Enforcement. There is no substitute in a market driven industry with strict fiduciary obligations for quality management of high integrity. Just as there should be ample shareholder capital at risk, so too must there be managers of integrity. I have said before during our difficult debates on FIRREA and I will say it again, civil and criminal violations will be prosecuted to the fullest extent of the law.

V. Conclusion

Mr. Chairman, that concludes my remarks. I am happy to answer any questions you may have.

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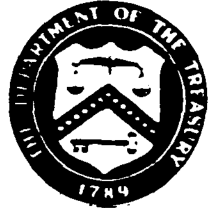
TREASURY NEWS



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For Immediate Release
July 26, 1990

Contact: Cheryl Crispen
566-5252

Remarks by
Secretary of the Treasury
Nicholas F. Brady
at the
Annual Awards Ceremony

Thank you Linda (Combs). Good morning, and welcome to the Treasury's Annual Awards Ceremony.

It has now been almost two years since I was sworn in as Secretary of the Treasury. During this time, I have learned a very important truth: If you count on the men and women who work in the Treasury Department, they will always come through.

The standard of quality and the dedication of purpose exhibited by Treasury employees is quite exceptional. Every single day, I am privileged to work with the most highly qualified professionals in their field. It is a truly rewarding experience.

Last fall, when Treasury celebrated its bicentennial, President Bush visited our Department on the 200th anniversary of the day Alexander Hamilton took the oath of office as the first Treasury Secretary. The President noted that throughout its 200-year history, Treasury has remained at the center of the national agenda.

President Bush said, "Many of the challenges our nation and the world will face in the decade ahead will be the challenges you face each working day at Treasury." And he paid tribute to "the dedicated public servants who carry on Hamilton's tradition."

Today, we honor the very best among us -- more than 100 friends and colleagues who exemplify excellence in public service. From public finance to law enforcement to the challenge of international debt, sustaining our economic expansion, restructuring savings and loans -- our award recipients have made contributions in every facet of the Treasury's diverse domain.

We recognize several employees who have used their unique technical expertise to make our operations more efficient, productive and cost-effective; others who have provided exceptionally sound advice and counsel; some who have overcome physical disabilities, and still others who have contributed to a more equitable workplace.

We also pay tribute to four individuals who have 50 or more years of dedicated service to the Treasury Department -- a lifetime of commitment that we all can admire. By the way, I'd like to welcome Senators Akaka (Ah-ka-ka) and Inouye (In-uh-way) from Hawaii, who are here this morning to help us recognize two of these 50-year employees who are from Hawaii.

Finally, we honor the memory of two who have given their lives for their country: Customs Inspector Timothy McCaghren (Mc-Cag-Ren) and Customs pilot George Saenz (Sanz). To the families of these brave men, I express on behalf of President Bush and all Americans our heartfelt gratitude for their willingness to risk their lives on the front lines of the battle for freedom from crime and drugs. If America is to remain a force for good in the world, we must face times of sadness and loss. But no words are sufficient to measure the sacrifice of those you loved and we so admired. Their true legacy derives not from our words, but from the way they led their lives with honor in dedication and service to their country. They were heroes.

As Federal employees, our mandate is to serve the American people. The values and strengths of Treasury's employees have made the Department preeminent in the delivery of good Government for more than two centuries. I commend all those receiving awards today, and want to personally express my admiration and gratitude for your outstanding contribution. Keep up the good work, and thank you for setting a fine example for all of us to emulate.

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TREASURY NEWS

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FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
July 26, 1990

STATEMENT OF THE HONORABLE
ROBERT R. GLAUBER
UNDER SECRETARY OF THE TREASURY FOR FINANCE
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to discuss the Administration's recommendations to enhance the financial safety and soundness of Government-sponsored enterprises (GSEs) and to minimize the potential risk of another costly Federal rescue.

The recent failure of many federally insured savings and loan institutions, and the massive Federal funding required to resolve the thrift problem, have focused the attention of Congress and the Administration on other areas in which the taxpayer may be exposed to financial risks. In this connection, FIRREA directed the Secretary of the Treasury to assess the financial safety and soundness of GSEs. Treasury submitted its study to Congress in May of this year.

Government-sponsored enterprises are entities which have been established and chartered by the Federal Government to perform specific credit functions, but are now, with one exception, entirely privately owned. GSEs generally serve as financial intermediaries to facilitate the flow of credit to private borrowers in three major areas: (1) agriculture, (2) housing, and (3) postsecondary education. They do this by raising funds in the capital markets to make or purchase loans, by issuing pass-through securities, or by guaranteeing the liabilities of others. The GSEs covered by our proposal had borrowed or guaranteed $863 billion by the end of calendar year 1989.

NB-894

The market's perception of Federal backing for GSEs weakens the normal relationship between the availability and cost of funds to the GSEs and the risks that these enterprises assume. As a result of this perception, GSEs are able to borrow in the market at rates only slightly higher than the Treasury itself pays, but significantly lower than corporations. In addition, they are able to employ much greater leverage in their activities; considerably higher than corporations that do not benefit from any special ties to the Federal Government. This ability to employ greater balance sheet leverage results in significantly higher returns for shareholders, when a GSE is successful, but it can result in tremendous pressure for Government assistance if a GSE encounters financial difficulty. This is what happened with the Farm Credit System a few years ago and very similar to the problems of excessive risk-taking that occurred in the thrift industry. The asymmetry of this relationship with the Government makes it incumbent upon Congress and the Administration to scrutinize closely the financial stability of the GSEs and the risks associated with their activities.

The S&L crisis will cost the taxpayer a staggering amount of money. There are lessons we learned the hard way from this experience that must never be forgotten. Two of the most important are:

(1) when a business benefits from an explicit or implicit Federal guarantee, it should be required to put up significant amounts of its own equity capital to absorb any losses first, and to provide the business with strong incentives to monitor and control risks; and

(2) there should be effective Federal supervision, and the program regulator should be separate and different from the regulator of financial safety and soundness, which must focus exclusively on limiting unnecessary or excessive risk taking.

President Bush, in his FY 1991 Budget, gave recognition to the underwriting risks associated with Federal credit programs. He suggested that "structural reforms and better incentives for evaluating credit risk can preserve the benefits of Federal credit programs while avoiding excessive Federal risk".

In light of the desire of the Administration and Congress to improve the safety and soundness of GSEs and to correct for the bias toward excessive risk in the GSEs' incentive structures, the Treasury proposed the following guiding principles and recommendations in its study.

Principle 1: A GSE Should Be Adequately Capitalized, Meet High Credit and Operational Standards, and Be Subject to Effective Government Supervision or Congress Should Terminate All Government Ties with the GSE.

Principle 2: A Private Market Mechanism Should Be Used to Evaluate GSE Risk.

Principle 3: The Program Regulator Should Be Different from the Implementer of Financial Safety and Soundness Standards.

Principle 4: The Value of the Government's Financial Support Should Be Disclosed.

We believe these principles should form the basis for any proposed legislation that would address the issue of financial safety and soundness of GSEs. More specifically, the Administration would suggest that any legislative initiative might include the following elements:

I. Require each GSE to obtain a triple-A rating, without regard to any implicit or explicit Federal guarantee, from two nationally recognized statistical rating organizations within 3 months of passage of legislation, and annually thereafter.

The Administration is convinced that a triple-A rating is appropriate because it represents the most safe and sound level of credit quality in the private sector, and thereby the best protection for the taxpayer from potential risk. Three of the GSEs probably already qualify for a triple-A rating exclusive of Government support. If these GSEs can efficiently and effectively meet their public purpose with a triple-A rating, this is a reasonable request to make of other GSEs. To suggest a lower level of creditworthiness would provide incentives for these highly rated GSEs to take more risk. We feel this is the wrong message to send.

Because GSEs are (with one exception) privately owned corporations, we feel it is appropriate to use a private market mechanism to evaluate each GSE. These rating organizations are better able to focus on the full range of factors that affect creditworthiness, not just capital alone. Given the uniqueness of each GSE and the diversity and complexity of their operations this approach provides a superior method for evaluating the Government's potential risk. At the same time it provides the GSEs with the benefits of sophisticated credit analysis, rather than requiring them to adhere to a single standard that does not recognize their unique characteristics. This solution is also better than subjecting GSEs to a formal system of comprehensive regulation and oversight similar to that for banks and thrifts.

The rating requirement is in no way an abdication of the Government's responsibility to oversee the activities of GSEs. It only uses private sector analysts to assess the creditworthi ness of each GSE, while leaving the actual safety and soundness oversight to the Federal Government.

II. Require that a GSE which initially fails to obtain two triple-A ratings develop and submit to the Treasury a comprehensive business plan, acceptable to Treasury, that shows how the GSE intends to achieve the rating no later than 5 years from the passage of the legislation.

If the GSE does not adhere to the business plan, Treasury would be authorized to impose sanctions that could include limits on dividend payouts, financial leverage, and/or debt issuance. These limitations are similar to the powers HUD currently has with respect to Fannie Mae and Freddie Mac. If in subsequent years, after achieving the triple-A rating, the rating of a GSE falls below triple-A, the GSE would be required to submit a new business plan detailing how it would re-establish its rating within two years.

Some GSEs have said that any business plan would require them to raise too much capital and force them to either shut down their operations or to reduce their level of service. Statements such as this are unwarranted. The use of the rating organization's sophisticated credit analysis allows for the development of business plans by a GSE that do not focus exclusively on capital as the only means for reducing risk. Clearly, a GSE that is not rated triple-A would probably need to raise some amount of additional capital. However, the amount needed is not arbitrary or fixed, it will vary according to the level of risk a GSE chooses to undertake in its operations. Any plan that modifies or reduces the risk inherent in the GSE's activities should result in a lower need for capital to achieve the necessary rating.

III. Eliminate special Federal characteristics of new obligations issued or guaranteed by a GSE after it fails to obtain the required triple-A rating.

If a GSE fails to obtain a triple-A rating by the end of the five year period after legislation is passed, the GSE itself would retain all of its special ties with the Government, including its Federal charter and its discretionary authority to borrow from the Treasury. However, any obligation issued or guaranteed after that date, and until the triple-A rating was obtained and maintained for one year, would lose some of the special Federal characteristics that the other GSE securities have. These could include eligibility for bank or thrift unlimited investment, exemption from SEC registration, treatment

as Government securities under the Securities Exchange Act of 1934, and exemption of interest paid from State income tax.

Elimination of these special characteristics would not impair the ability of the GSE to continue to issue debt or guarantee pass-through securities. It would attempt to place these securities on an equal footing with other corporate and mortgage backed securities.

Only newly issued securities would be affected by our proposal. All outstanding debt and guaranteed securities would not be affected. In fact, they would continue to have the same unique GSE characteristics they had when they were purchased. As a result, holders of existing GSE securities would not suffer any loss of value, and more importantly, holders of GSE debt would receive the additional benefit of having financially stronger credits underlying their securities.

IV. <u>Provide for a financial safety and soundness regulator which is separate and different from the program regulator</u>.

The Administration strongly believes that the regulatory authority which oversees a GSE's program, or fulfillment of its Congressionally mandated public purpose, should be separate from the entity responsible for safety and soundness. There may be an inherent conflict if the entity responsible for seeing a GSE succeed from a programmatic perspective must switch roles to become an effective advocate of safety and financial soundness. Separating these two regulatory functions will minimize risk to the taxpayers by eliminating the potential for regulatory conflict of interest. That is why FIRREA divided the thrift regulator's chartering and chief supervisory functions from its insurance function, assigning the former to the Office of Thrift Supervision and the latter to the FDIC.

The Administration's proposal would have the current program regulator continue to be responsible for ensuring that the GSE meets its Congressional mandate by effectively serving its intended beneficiaries. For example, the Department of Housing and Urban Development would continue to exercise specific and general regulatory oversight over Fannie Mae and Freddie Mac, including new program approval, and provide assurance that they meet their obligation to provide ongoing assistance to the secondary market for home mortgages. Issues related to ensuring that a GSE meets the requirements for a triple-A rating would be dealt with by the Treasury as the safety and soundness regulator.

As I said at the outset of my testimony, the need for Congress to provide financial assistance to the Farm Credit System, and the catastrophic cost of the thrift crisis have effectively drawn the Federal Government's attention to one simple and undeniable conclusion. When the implicit or explicit

guarantee of the Government is "on-the-line," there must be effective Federal supervision and there must be significant private equity capital at risk to protect the taxpayer from the potential risks of another costly Federal rescue. We believe that the Administration's recommendations would achieve these objectives.

In conclusion, our recommendations would:

(1) most importantly, provide for enhanced safety and soundness to protect taxpayers still reeling from the cost of the thrift bailout;

(2) ensure that the public purpose constituents will continue to receive the benefits Congress intended without disruption or needless increase in price, both now and well into the future;

(3) protect the status and value of all of the outstanding securities of the GSEs; and

(4) minimize the regulatory burden on the GSE if it is already triple-A, or once it becomes triple-A.

Very simply, the Administration's approach will enhance safety and minimize risk to the taxpayer while maintaining the GSE's ability to efficiently and effectively serve America's special credit needs.

This concludes my prepared statement. I will be happy to answer any questions that you may have.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
July 26, 1990

CONTACT: Office of Financing
202/376-4350

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $10,544 million of 52-week bills to be issued August 2, 1990, and to mature August 1, 1991, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)	Price
Low -	7.33%	7.87%	92.589
High -	7.35%	7.90%	92.568
Average -	7.34%	7.88%	92.578

Tenders at the high discount rate were allotted 39%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 36,950	$ 36,950
New York	27,999,650	9,701,000
Philadelphia	14,350	14,350
Cleveland	27,300	27,300
Richmond	35,600	35,600
Atlanta	16,725	16,115
Chicago	1,053,880	58,130
St. Louis	13,780	10,170
Minneapolis	18,785	12,685
Kansas City	31,940	31,940
Dallas	25,895	17,845
San Francisco	1,025,540	314,440
Treasury	267,620	267,620
TOTALS	$30,568,015	$10,544,145
Type		
Competitive	$27,922,700	$ 7,898,830
Noncompetitive	719,615	719,615
Subtotal, Public	$28,642,315	$ 8,618,445
Federal Reserve	1,900,000	1,900,000
Foreign Official Institutions	25,700	25,700
TOTALS	$30,568,015	$10,544,145

An additional $124,300 thousand of the bills will be issued to foreign official institutions for new cash.

TREASURY NEWS

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

For Release Upon Delivery
Expected at 10:00 AM
July 27, 1990

STATEMENT OF
ROBERT R. WOOTTON
TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON ENERGY AND AGRICULTURE TAXATION
COMMITTEE ON FINANCE
UNITED STATES SENATE

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to present the views of the Treasury Department on steps that can be taken to increase domestic energy production and reserves within current budgetary restraints.

Recognizing the importance of maintaining a strong domestic energy industry, the Administration has consistently called for the Congress to enact measures to stimulate domestic exploration and production. The Administration's budgets for both fiscal year 1990 and fiscal year 1991 contain a number of tax incentives specifically targeted to the domestic energy industry. These incentives are intended to address the drop in domestic exploratory drilling that has occurred during the past decade and the continuing loss of production from mature fields and marginal properties.

From the late 1970s to the mid-1980s the United States enjoyed a significant decline in oil consumption while domestic production remained about constant. More recently, however, consumption has risen and oil production has begun to decline. U. S. domestic oil production has fallen by about 15% since 1986, according to data supplied by the Department of Energy.

The tax incentives proposed in the Administration's budget are intended to respond to this unfavorable trend in domestic production. I would now like to review the specific budget proposals in more detail.

Summary of Budget Proposals

The budget for fiscal year 1991 again proposes the enactment of a program of oil and gas tax incentives first proposed in the Administration's budget for fiscal year 1990. Consisting of five

separate proposals, the program has two major objectives: increasing domestic exploratory drilling and sustaining production from mature and marginal fields.

While other approaches have been proposed, as evidenced by the variety of legislative proposals introduced during this Congress, the reality of the current budget environment requires that every proposal be evaluated in terms of its cost. The Administration's proposals offer real help in meeting energy independence goals within the constraints of responsible fiscal policy.

The Administration's proposals would amend the Internal Revenue Code to: (1) allow a temporary 10% tax credit for the first $10 million of expenditures (per year per company) on exploratory intangible drilling and development costs (IDCs) and a 5% credit for the balance; (2) allow a temporary 10% tax credit for all capital expenditures on projects that represent new applications of tertiary enhanced recovery techniques to a property; (3) eliminate the "transfer rule," which discourages the transfer of proven properties to independent producers and royalty owners by prohibiting percentage depletion after such a transfer; (4) increase the percentage depletion deduction limit for independent producers and royalty owners to 100% of the taxable income from each property; and (5) eliminate 80% of current alternative minimum tax (AMT) preference items generated by exploratory IDCs incurred by independent producers. The temporary tax credits would apply against both regular and minimum tax liability (although the credits could not, in conjunction with all other credits and net operating loss carryovers, eliminate more than 80% of tentative minimum tax in any year). The credits would be phased out if the average daily U.S. wellhead price of oil is at or above $21 per barrel for a calendar year.

Exploratory Drilling

New discoveries of domestic oil and gas are needed to increase reserves and allow for long-term growth of domestic energy production. Industry and government data show that the level of exploratory well drilling has fallen about 70% in recent years, and new additions to oil reserves in 1988 (the latest year for which data are available) were at the second lowest level ever reported.

The Administration's budget provisions that are aimed at increasing exploratory drilling are the tax credit for exploratory IDCs and the alternative minimum tax relief for exploratory IDCs. The proposed tax credit would serve to reduce the cost of exploratory drilling, thereby encouraging more activity. Exploratory drilling must be encouraged if new reserves are to be found.

Current law treats the deduction for IDCs on successful oil and gas wells as an item of tax preference for purposes of the individual and corporate alternative minimum taxes, to the extent that the taxpayer's excess IDCs exceed 65% of the taxpayer's net income from oil and gas properties. Excess IDCs are the amount by which the IDC deductions for the taxable year exceed the deductions that would have been allowed had the IDCs been capitalized and recovered over 120 months or, at the taxpayer's election, through cost depletion. Percentage depletion is also an alternative minimum tax preference item to the extent it exceeds a taxpayer's basis in the property.

The rationale for treating excess IDCs as an item of tax preference begins with the observation that IDCs generally fit the description of a capitalizable cost--that is, a cost which creates a benefit extending beyond the year in which it is incurred. Following the capitalization approach, IDCs would generally be added to the cost of the properties whose value they enhance and recovered through depletion or depreciation over a period of years. IDCs may be viewed as an item of tax preference to the extent that the tax law allows a current deduction in excess of the amount that would be allowable if the IDCs were capitalized.

For taxpayers subject to the alternative minimum tax, the deductibility of intangible drilling costs for regular tax purposes is of limited benefit. The decline in oil prices in recent years has had the effect of reducing the taxable income of independent producers, and many have become subject to the alternative minimum tax. Thus, independent producers, who have historically drilled a majority of our exploratory wells, receive limited benefit from the deduction for IDCs. Although we recognize the rationale for treating excess IDCs as items of tax preference, the Administration believes that relief from the alternative minimum tax in the limited case of exploratory IDCs will provide a real incentive for independent producers to undertake exploratory activities at an acceptable cost in foregone tax revenues.

Marginal and Enhanced Production Properties

Marginal Properties. The Administration believes that discouraging abandonments of marginal properties is an important objective of energy policy. Production from a well is normally lost forever upon its being abandoned, because the well is permanently cemented and requires redrilling to reopen. Stripper well abandonments are reported by the Interstate Oil Compact Commission to have increased from 7,668 in 1979 to 17,423 in 1988. Keeping marginal properties in operation will enhance current oil and gas production and also help to preserve the industry infrastructure that our nation needs to maintain an appropriate degree of energy independence.

The current percentage depletion rules allow certain taxpayers to deduct 15% of the gross income from an oil- or gas-producing property in each taxable year. The amount deducted cannot exceed 50% of the taxable income from the property for the taxable year, computed without regard to the depletion deduction (the "net income limitation"). This restriction is most likely to affect marginal wells, where operating costs are high relative to revenues. The Administration's budget proposals would encourage continued production from these wells by increasing the net income limitation to 100% of the taxable income from the property.

Under current law, only independent producers and royalty owners may use percentage depletion, for up to 1,000 barrels of average daily domestic crude oil production, or an equivalent amount of domestic natural gas. Integrated producers, those that refine or retail oil or gas, must use the generally less favorable cost depletion method. The "transfer rule" prevents the transferee of a proven oil or gas property from claiming percentage depletion with respect to production from the property. The rationale originally offered for the transfer rule was to prevent integrated producers from benefiting from percentage depletion by selling proven properties to independent producers. However, the transfer rule applies equally to transfers of property among independents in situations where the transferor could itself claim percentage depletion. In addition, the transfer rule creates a disincentive for the transfer of marginal properties to those who, because of specialized expertise, economies of scale or other operating efficiencies, or greater capacity to use the depletion tax benefits, would be more likely to keep the property in production. In its budget proposals, the Administration recommends repeal of the transfer rule.

Enhanced Recovery Properties. The Internal Revenue Code currently provides a deduction for the cost of tertiary injectants used as part of a tertiary recovery method. A tertiary recovery method includes any method enumerated in subparagraphs (1) through (9) of section 212.78(c) of the June 1979 energy regulations. A taxpayer may also use any other method approved by the Secretary.

While the deductibility of injectants is undoubtedly of some benefit to tertiary projects, the Administration believes more needs to be done. By providing a 10% tax credit for all capital expenditures in new tertiary enhanced recovery projects, the Administration's budget would encourage investment in such projects. As more such projects are undertaken, technology should improve and recovery rates should rise.

Nonconventional Fuels Credit

Under current law, fuels produced from certain nonconventional sources qualify for a production tax credit. Eligible fuels must be produced from a well drilled or a facility placed in service before January 1, 1991. Eligible fuels include gas from a tight formation, or "tight sands gas," as long as the gas is subject to price regulation. Under a 1988 U.S. Supreme Court opinion upholding an order of the Federal Energy Regulatory Commission, and other subsequent developments, the price of virtually all tight sands gas is unregulated and therefore is not eligible for the tax credit.

The 1989 budget reconciliation provisions approved by the Finance Committee would have (i) caused production of tight sands gas to be eligible for the credit even if the gas is not price regulated and (ii) extended the wells drilled/facilities placed in service date to January 1, 1993. The estimated 5-year cost of this provision was approximately $685 million. Similar proposals are included in S. 234 and S. 449.

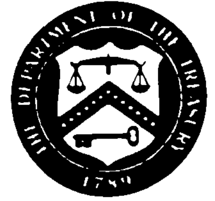
It is likely that Congress originally specified price controls as a precondition to the credit for tight sands gas on the assumption that the regulated price would be below the price that would exist in an unregulated market, and that in such circumstances a special incentive was needed to encourage the production of gas from this particular source. Because the price of tight sands gas is now virtually unregulated, this justification for the tax credit no longer exists. Each of the proposals relating to the tight sands gas credit is relatively costly. The budget reflects a choice of other policies as more directly related to energy independence goals than proposed enhancements or extensions of this credit. Enactment of any of the various proposals relating to this credit would reduce the funding available in the budget for the proposals offered by the Administration.

Conclusion

We believe that the Administration's budget proposals are a cost effective means of stimulating exploratory drilling and preserving marginal and tertiary production. We look forward to working with the Subcommittee, the full Committee, and the Congress in enacting legislation consistent with sound fiscal policy to promote energy independence.

I appreciate the opportunity to appear before your Subcommittee today. I will be pleased to answer questions at this time.

TREASURY NEWS



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

TESTIMONY OF THE HONORABLE

ROBERT R. GLAUBER

UNDER SECRETARY OF THE TREASURY FOR FINANCE

BEFORE THE

COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

UNITED STATE HOUSE OF REPRESENTATIVES

July 30, 1990

NB-897

Mr. Chairman, Members of the Committee, I am pleased to appear before you to discuss the status of funding for the Resolution Trust Corporation (RTC).

The stated purpose of this hearing is to determine whether the RTC has sufficient resources to carry out the duties assigned to it by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). As Secretary Brady testified in the Senate on May 23 and again before this Committee on June 14, it does not. This morning, I will attempt to address with greater specificity the question of when the RTC is likely to run up against the limitations established by FIRREA.

My statement will begin with a brief overview of the need for additional authority. This will be followed by a more detailed explanation of the two resource limitations imposed by FIRREA: the overall $50 billion limitation on losses and the obligation limitation. I will then address RTC spending plans for the next two quarters and close with a discussion of the process required to ensure that the RTC has the necessary resources to continue to carry out its duties.

Our goals in managing the savings and loan cleanup are to protect depositors, require safety and soundness in the industry, put the criminals in jail, and get the job done expeditiously to minimize the loss to the taxpayers. We must not allow a lapse in funding to interrupt the momentum established by the RTC toward the achievement of these goals.

Overview

By the enactment of FIRREA, Congress provided the RTC with $50 billion to fulfill the government's pledge to insured depositors in failed thrifts. FIRREA allows the RTC to enter into obligations in excess of that amount, but limits the amount of loss which the RTC may incur to $50 billion.

As Secretary Brady stated to the Committee in June, it is clear that the amounts projected and authorized for the RTC in FIRREA will fall short of what is needed. There are three major reasons for the increased estimates: because losses in individual thrifts are larger than expected, in part because of the downturn in real estate and in part because we had not been inside these institutions at the time the earlier estimates were made; because marginal thrifts are likely to fail sooner than expected, becoming the responsibility of the RTC instead of SAIF; and because the total number of projected thrift failures has increased.

These same factors -- uncertainty about the number of institutions to be handled by the RTC and the level of losses in those institutions -- make it extremely difficult to provide a single estimate of the ultimate cost. Our estimates remain in the range of $90 billion to $130 billion, in present value terms.

Last month, we indicated that the RTC could, with an aggressive schedule of case resolutions, run out of loss funds by the end of this calendar year or early next year. That

projection has not changed. It appears unlikely that the RTC will have any substantial amount of loss funds to carry beyond December 1990.

We also stated that the RTC is likely to run up against FIRREA's obligation limitation as soon or sooner than it uses up the $50 billion. With the number of resolutions achieved by the RTC during the last three months and similarly ambitious plans for the current quarter, it now appears that the obligation cap will begin to bind by the start of first quarter of fiscal year 1991. This will restrict the RTC's ability to borrow for working capital, which in turn would place severe limitations on its ability to proceed with resolutions.

From the enactment of FIRREA through July 20, the RTC resolved 211 failed thrift institutions with over $60 billion in assets. This is more than double the asset size of institutions handled by the FDIC during its first 50 years. Having achieved this substantial level of progress, RTC will have to be provided additional funds to tackle the problem which remains.

The RTC uses funds solely to <u>protect insured depositors</u>. It does this by closing down or arranging the acquisition of failed institutions. To date, the RTC has protected some six million accounts with an average balance of about $10,000. It must continue to resolve failed institutions so that individuals and businesses who have savings in an insured account do not lose their money.

Our ability to continue progress on the savings and

loan cleanup and keep the costs down depends on an adequate and steady flow of resources. If we do not provide the RTC with additional resources, it will be unable to continue resolving failed savings and loan institutions. Costs would escalate and depositor confidence could begin to erode.

Losses

FIRREA provides $50 billion in funding for thrift losses from three sources: $18.8 billion appropriated in fiscal year 1989; $1.2 billion in contributions from the Federal Home Loan Banks, also in fiscal year 1989; and $30 billion in contributions from the Resolution Funding Corporation (REFCORP). To date, the RTC has received $18 billion from REFCORP.

Through July 2, 1990, the RTC had resolved 207 failed thrifts with estimated losses of $24.6 billion. With the substantial progress achieved by the RTC during the third quarter of fiscal year 1990, it is clear that the pace of resolutions has hit a new high level and loss funds will be committed more quickly.

The RTC plans to resolve another 77 cases during the July through September period, for which losses are estimated at $11.6 billion. In addition, the Oversight Board has approved the expenditure of up to $1 billion in loss funds during the fourth quarter for a test of the accelerated resolution program (ARP). ARP is a joint pilot program of the RTC and Office of Thrift Supervision to determine whether there are cost savings to be

realized from resolving institutions before putting them into conservatorship. Adding in administrative expenses not reimbursed by receiverships brings the cumulative losses through the end of September to an estimated $37.3 billion.

We have not received an operating plan for the first quarter of fiscal year 1991. It is reasonable to assume, however, that most or all of the remaining $12.7 billion in loss funds will be expended during that period. Near the end of December 1990, case resolutions would cease unless Congress provided additional authority.

Obligation limitation

There is a second funding issue which directly affects the RTC's ability to operate. As you know, the RTC borrows from the Federal Financing Bank (FFB) for working capital and enters into other obligations in the course of resolving failed institutions. FIRREA contains a limit on the maximum amount of obligations which the RTC can have outstanding.

While the RTC has committed $24.6 billion toward losses through July 2, it had spent a total of nearly $59 billion. The difference represents working capital, which the RTC uses to acquire assets, replace high cost funds, or provide liquidity advances to institutions in conservatorship. These are funds which the RTC expects to recover through the sale of assets or at resolution.

Through the end of fiscal 1990, RTC spending is

projected to total just over $100 billion. Again, the difference between this and the $37.3 billion in projected losses through the end of the same period is working capital.

The "note cap" in FIRREA attempts to limit the amount of obligations to 85 percent of the fair market value of assets held by the RTC, cash on hand, and the amount of unused REFCORP authority. The effect of this cap is that the RTC cannot utilize the full amount of authorized funds for losses.

The Oversight Board monitors compliance with the note cap through the review and approval of quarterly operating plans and by requiring the RTC to certify compliance in connection with each advance of funds from the FFB. In approving the most recent operating plan, the Oversight Board declared "its specific intent that the RTC take all actions necessary during the fourth quarter of fiscal year 1990, including management of cash and funding requirements, to ensure that the RTC borrowings do not exceed the Note Cap." It requires the RTC to provide the Oversight Board with a detailed calculation demonstrating compliance at each request for an advance of funds from the FFB.

Table 1 illustrates the status of the RTC with respect to the obligation limitation at the end of the third quarter and as projected at the end of the fourth quarter. It shows that the RTC will have nearly reached the intended $50 billion limit by the end of September. At that point, its ability to borrow against assets acquired will be nearly exhausted.

It is important to note that the determination of the

Table 1

RTC STATUS WITH RESPECT TO OBLIGATION LIMITATION

($ billions)

	As of 7/2/90	As of 9/30/90
REFCORP and Treasury funds received	33.0	38.0
Outstanding obligations:		
FFB borrowings	26.6	60.6
Other liabilities, guarantees and contingencies	0.2	0.2
(A) TOTAL REFCORP & TREASURY FUNDS RECEIVED PLUS OBLIGATIONS	59.8	98.8
Cash	0.6	0.6
85% of fair market value of advances	6.1	4.8
85% of fair market value of receiver claims	19.9	44.1
85% of fair market value of other assets	0.4	0.4
(B) TOTAL CASH PLUS 85% OF FAIR MARKET VALUE OF ASSETS	26.5	49.9
(A) MINUS (B)[1]	33.3	48.9

[1] As intended, the obligation limitation provides that this amount may not exceed $50 billion. The amount of additional obligational authority available will depend on the various elements of the equation, particularly the value of assets acquired.

RTC's status with respect to the obligation limitation is based not on the language of the statute but on what we understand the intent to have been. A literal reading would include only REFCORP contributions (not Treasury contributions) in the calculation, which would give the RTC an additional $18.8 billion to collateralize working capital borrowings.

In the absence of action by Congress, we would be faced with a choice between using the $18.8 billion to raise working capital and shutting down the resolution activity of the RTC. We would not, however, approve any RTC funding plan which relies on this additional authority without first advising Congress.

RTC spending plans

The Committee has requested a discussion of RTC spending plans for the next two quarters. We have covered in the previous sections the spending plans for the fourth quarter of fiscal 1990, but as noted, have not received a plan for the first quarter of fiscal 1991.

We understand from the RTC that it is reasonable to expect resolutions to continue at approximately the same pace as the third and fourth quarters of fiscal year 1990, resolving institutions with total assets of roughly $40 billion to $50 billion a quarter. These projections, of course, assume that the RTC has adequate resources to do the job.

We recognize the difficulty faced by the RTC in projecting resolution activity, costs, and collections during the

initial months of operations. In approving funding for the fourth quarter of fiscal 1990, however, the Oversight Board has requested that the RTC prepare its next proposed operating plan for the six-month period beginning on October 1, 1990.

Providing additional resources

Congress must act to provide additional resources to the RTC before the end of the year to keep the cleanup process going. While, as Secretary Brady said in his June 14 testimony, funds will have to come from the Treasury, there are a number of alternatives from which to choose.

One alternative would be to consider appropriating an amount sufficient to keep resolutions going into the beginning of calendar year 1991. At that point, funding legislation could be considered against the backdrop of the study of federal deposit insurance mandated by FIRREA and which the Treasury has indicated it expects to submit at the end of this year.

We estimate that an appropriation of $5 billion, combined with a literal reading of the obligation limitation, should allow the RTC to continue resolution activity through January. An appropriation of about $10 billion (and the same reading of the note cap) should fund resolutions through February.

A second alternative would be to provide the RTC with permanent, indefinite authority to complete the job of resolving failed thrifts. The government has already incurred the

obligation to insure deposits and has no choice but to provide funding. Such authority would permit the process to continue uninterrupted by potential funding delays.

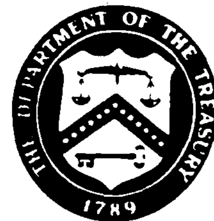
A third alternative would be to provide funding in an amount likely to cover RTC's estimated needs for fiscal year 1991 or another intermediate period.

Whatever alternative is chosen, it will be necessary for the Congress to take some action before adjourning for the year. Moreover, it will be necessary to address the limitations imposed by the note cap. We cannot afford to let the RTC run out of money and we must not let the process grind to a halt.

The Treasury and the Oversight Board stand ready to work with the Congress to develop legislation based on any of the proposals outlined above or to explore additional options.

Mr. Chairman, this completes my formal statement. I will be happy to answer the Committee's questions.

TREASURY NEWS



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FOR RELEASE
UPON DELIVERY
1:00 P.M. PT

JULY 30, 1990

TESTIMONY OF
PETER K. NUNEZ
ASSISTANT SECRETARY OF THE TREASURY
FOR ENFORCEMENT
BEFORE THE SENATE SUBCOMMITTEE ON TREASURY,
POSTAL SERVICE AND GENERAL GOVERNMENT
COMMITTEE ON APPROPRIATIONS
PHOENIX, ARIZONA

Mr. Chairman, members of the Committee, thank you for the opportunity of appearing before you today and offering testimony concerning the Southwest Border High Intensity Drug Trafficking Area designation.

Mr. Chairman, as you are aware, the January 1990 National Drug Control Strategy mandated a number of items specifically pertaining to the Southwest Border and the High Intensity Drug Trafficking Area designation. As a former U.S. Attorney who has lived and worked on the Southwest border, I have a particular interest in this program. I have made a concerted effort to involve state and local law enforcement in our preparatory deliberations. I would like to briefly tell you what Treasury has done with the help of local advice as well as our own.

The National Strategy designated the Department of the Treasury as the lead agency responsible for the coordination of the Southwest Border High Intensity Drug Trafficking Area. The strategy also required Treasury to assign a senior official to coordinate these efforts, with responsibility to conduct all necessary coordination with state and local officials. Furthermore, the strategy required the coordinator to serve as the Director of Operation Alliance.

In March of this year, I named Mr. Warren Reese to the position of Coordinator of the Southwest Border High Intensity Drug Trafficking Area and Director of Operation Alliance.

Mr. Reese, who is here with me today, has a long and distinguished career as an Assistant United States Attorney in the San Diego area. His experience and expertise make him uniquely qualified for this position.

Since being named to this position, Mr. Reese has been traveling extensively around the Southwest Border, meeting with state and local officials, as well as the Federal agencies,

both to better familiarize himself with the variances along the Border and to solicit suggestions and recommendations on how to improve the coordination process.

In accordance with the National Strategy, and at my direction, Mr. Reese and Operation Alliance have been tasked to coordinate and handle the day-to-day administration of the Southwest Border High Intensity Drug Trafficking Area. This reflects the excellent coordination mechanism already in place through Operation Alliance.

Mr. Reese has also been working very closely with the Senior Tactical Coordinator and the staff of Operation Alliance on the recently completed Southwest Border strategy and the high intensity drug trafficking area spending plan for the current fiscal year as well as for Fiscal Year 1991.

Mr. James Bowen, the Senior Tactical Coordinator of Operation Alliance will be testifying as to the actual procedures utilized in preparing the Southwest Border Strategy and the Fiscal Year 1990 High Intensity Drug Trafficking area funding proposals. However, there are a number of items that I would like to stress.

The Southwest Border Strategy, like Operation Alliance, is not meant to be be a rigid document. Rather, it is intended to grow and undergo modifications as new ideas and techniques are developed. If a portion of the strategy is found to be ineffective, or changing conditions make a portion obsolete, then the strategy will be modified to address whatever the current conditions necessitate. This will be a continual reviewing and updating process.

The Southwest Border Strategy mirrors the National Strategy and is intended to complement it. Now, for the first time, there is a single strategy for the entire Southwest Border area. The development of this strategy has enabled all of the various law enforcement agencies along the Southwest Border to work toward common, identified goals. I anticipate that these agencies will develop sub-strategies based upon the Southwest Border Strategy, identifying how each of them are going to accomplish the goals and address the requirements delineated in the strategy.

The Fiscal Year 1990 High Intensity Drug Trafficking Area funding proposals are consistent with the Southwest Border strategy.

In closing Mr. Chairman, I would like to make one final point. We still have a long and difficult way to go before we once and for all halt the flow of drugs crossing our Southwest Border. However, I believe that we now have a solid base upon which we can build, and ultimately win this war on drugs.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions that you or the committee might have.

TREASURY NEWS

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

CONTACT: Office of Financing'
202/376-4350

FOR IMMEDIATE RELEASE
June 30, 1990

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $9,255 million of 13-week bills and for $9,243 million of 26-week bills, both to be issued on August 2, 1990, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 1, 1990			26-week bills maturing January 31, 1991		
	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/	Price
Low	7.48%	7.73%	98.109	7.36%	7.75%	96.279
High	7.50%	7.75%	98.104	7.38%	7.77%	96.269
Average	7.50%	7.75%	98.104	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 17%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 44,665	$ 44,665	$ 43,780	$ 43,780
New York	26,886,945	8,406,745	25,939,095	8,078,590
Philadelphia	21,920	22,790	25,845	25,845
Cleveland	47,575	46,515	39,970	39,970
Richmond	41,335	41,335	78,210	57,460
Atlanta	36,915	34,915	36,200	36,200
Chicago	1,552,300	113,800	2,276,065	153,165
St. Louis	49,350	33,450	31,470	23,810
Minneapolis	12,775	7,775	13,180	13,180
Kansas City	49,590	49,590	53,955	53,955
Dallas	30,190	20,190	29,755	20,605
San Francisco	1,003,165	202,410	1,016,630	113,600
Treasury	230,590	230,590	583,110	583,110
TOTALS	$30,007,315	$9,254,770	$30,167,265	$9,243,270
Type				
Competitive	$27,138,140	$6,385,595	$26,456,720	$5,532,725
Noncompetitive	1,051,605	1,051,605	1,307,590	1,307,590
Subtotal, Public	$28,189,745	$7,437,200	$27,764,310	$6,840,315
Federal Reserve	1,544,200	1,544,200	1,700,000	1,700,000
Foreign Official Institutions	273,370	273,370	702,955	702,955
TOTALS	$30,007,315	$9,254,770	$30,167,265	$9,243,270

An additional $123,730 thousand of 13-week bills and an additional $320,645 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

NB-899

TREASURY NEWS

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

FOR RELEASE UPON DELIVERY
Expected at 10:00 a.m.
July 31, 1990

TESTIMONY OF THE HONORABLE
ROBERT R. GLAUBER
UNDER SECRETARY OF THE TREASURY FOR FINANCE
BEFORE THE COMMITTEE ON FINANCE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
UNITED STATES SENATE

I appreciate the opportunity to appear before you today to advise you of the need for Congressional action to increase the debt limit before the scheduled August Congressional recess.

DEBT LIMIT

Treasury's current estimates show that the permanent ceiling of $3,122.7 billion will be sufficient only until mid-August. Without an increase in the debt limit, it appears highly likely that the Treasury will run out of cash and borrowing authority and default on the Government's obligations on August 15.

As you know, the limit usually is raised to a new permanent level sufficient to fund the Government's needs for the coming fiscal year. We estimate that a debt limit of $3,509 billion will be sufficient to last through FY 1991. This figure is based on OMB's Mid-Session Review estimate of the deficit for FY 1991

NB 900

of $176 billion. Since the debt subject to limit is expected to hit a peak level in early September 1991, when the normalized tax transfer to the social security trust funds is invested, this figure includes a $30 billion allowance above the $3,479 billion of debt subject to limit estimated by OMB in the Mid-Session Review. I should note that RTC outlays, which are subject to substantial forecast uncertainty, play a large role in the overall FY 1991 outlay figure. Depending on actual RTC experience, we could reach the proposed debt limit before or after the end of the fiscal year.

In the spirit of the bipartisan negotiations to reduce Federal budget deficits, it is appropriate at this time to consider increasing the permanent debt limit in an amount that is sufficient to accommodate Treasury securities issues over the next several years. In this connection, we will be glad to discuss with this Committee a longer-term debt limit that would reflect the work of the bipartisan budget summit.

If Congress were to leave for its August recess without increasing the debt limit, the Treasury would very likely default on $23 billion of notes maturing on August 15 and be unable to make interest payments totaling an additional $21 billion that same day. Also, along with defaulting on numerous other obligations, the Treasury most likely could not make, on August 31, $3 billion of military retirement and salary payments,

nor could it make payments totaling over $11 billion to social security and supplemental security income recipients, railroad retirees, and veterans.

I want particularly to emphasize that August 13 is the last day on which final Congressional action could occur in time for the Treasury to auction securities on August 14 and settle them on August 15. If Congress does wait until August 13 to act, Treasury's financing options will be limited and costly.

Treasury would normally announce the terms of the regular mid-August refunding on August 1. Under our usual auction schedule, the securities would be auctioned on Tuesday, Wednesday, and Thursday, August 7, 8, and 9. This schedule allows time between our announcement and the auctions for orderly distribution of the securities by the investment community. However, without the assurance of sufficient debt limit room to settle these new securities on August 15, Treasury's mid-August refunding announcement would be conditioned on Congressional action to increase the debt limit.

Congressional action after August 1 would reduce the normal time for distribution, because distribution of these securities could not begin until Treasury could assure investors that the securities could be auctioned and settled. Final Congressional action after August 6 would disrupt the auction schedule itself

and introduce an element of uncertainty into the Government securities market that, all other things being equal, would tend to raise the Treasury's cost of financing.

I urge Congress to act in a timely manner to increase the debt limit. Defaulting on Government obligations already incurred -- such as the Treasury notes and interest payments that are due on August 15 -- is very different from halting Government operations when spending authority is allowed to lapse. In the event of a lapse in spending authority, such as when appropriations are delayed, the Government cannot incur new obligations. Once an obligation is incurred, however, it must be paid.

Finally, default would have very serious adverse consequences on domestic and international confidence and trust in the United States.

RTC CLEAN UP COSTS

I want to turn now to the financing needs of the RTC. We have attached for your information Secretary Brady's May 23 testimony before the Senate Committee on Banking, Finance, and Urban Affairs, which gives a more complete description of our estimates of the cost of the thrift clean up.

Original Cost Estimates

The $50 billion provided in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) to the RTC for thrift resolution during the 1989-92 period was based on the most credible estimates at the time, prepared by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office. All three of these agencies estimated that $50 billion would be sufficient to meet the RTC's needs. FIRREA also provided an additional $32 billion for resolutions in the post-RTC period and to fund the Savings Association Insurance Fund.

However, as we said during the legislative process, the level of resources needed, no matter how thoroughly researched or widely agreed upon, was still based only on estimates. Uncertainties included the level of interest rates and the strength of the economy, the timing and amount of asset sales, as well as many other factors that could have a significant impact on the size of the problem.

Revised Estimates

Actual experience over the past eleven months indicates that RTC losses have increased because: the losses in individual thrifts are larger than expected; marginal thrifts are likely to

fail sooner than expected (becoming the responsibility of the RTC, not the Savings Association Insurance Fund); and the total number of projected thrift failures has increased.

A number of factors have contributed to these higher projections:

- The population of thrifts which has become the responsibility of the RTC has been in worse financial condition than anticipated. Until the RTC was able to get inside these institutions, it could not make an effective evaluation.

- There has been a sharper than previously assumed decline in regional real estate markets, particularly commercial real estate, in many parts of the country. Unfortunately, RTC thrifts' assets are heavily concentrated in real estate, whether through direct investments, foreclosed property, or real estate loans.

- Interest rates, which are now higher than we had projected, have increased operating losses for thrifts in conservatorships and caused softer real estate markets.

- There have been unexpected losses in below-investment grade bonds, sometimes referred to as "high yield" or "junk"

bonds -- RTC has $4 billion of junk bonds in its portfolio. Again, all of these factors have produced not only higher than expected losses, but also an increase in the population of savings and loans that will require attention.

<u>When Will More Funding Be Needed</u>?

Even though the RTC has spent only about half of the $50 billion provided in FIRREA to cover losses, if it maintains its aggressive schedule of case resolutions, it will exhaust the $50 billion by the end of this calendar year. However, the RTC faces another important constraint in the form of the obligation limitation included in FIRREA. This is the provision which limits RTC obligations -- most notably, working capital borrowings -- to the amount of unused REFCORP authority, cash on hand, and 85 percent of the fair market value of assets held by the RTC.

Based on its current method of calculating the working capital obligation limitation, the RTC will run up against that limitation sooner than it uses the $50 billion to cover losses -- that is, not later than very early in the fourth calendar quarter of this year. If the RTC cannot raise additional working capital and the cost of acquiring assets exceeds the amount generated from sales, it cannot proceed with resolutions. To assure that the pace of resolutions is not constrained by the availability of funds, and that the cost to

the taxpayer is not increased by the consequent delay, it is essential that the RTC receive increased funding by the end of the third quarter -- by September 30, 1990.

How Much More Will Be Needed?

There are too many variables to pick a single number -- number of cases, losses on assets, interest rates, and market conditions, among others. The most responsible course, we believe, is to consider a range of possible outcomes.

Taking into account all of the uncertainty and all of the variables, it appears that the cost, in present value terms, of resolving institutions which are likely to come under the control of the RTC will be in the approximate range of $90 billion to $130 billion.

Any attempt to convert these present value costs to yearly expenditures must incorporate an additional factor, the pace at which the RTC can resolve institutions. This greatly affects the amount of RTC outlays on a yearly basis, but has relatively little impact on the overall size of the loss. A representative range of the resources the RTC may need in fiscal year 1991 to cover losses should be from slightly over $30 billion to slightly over $50 billion. We estimate that working capital needs would be from $20 billion to $40 billion.

How Should Additional Funds Be Raised?

The Federal Home Loan Bank System simply does not have the financial capacity to back substantially more Resolution Funding Corporation (REFCORP) borrowing than was provided for in FIRREA. Additional resources will have to come from Treasury funds.

Providing Additional Resources

Congress must act to provide additional resources to the RTC before the end of the fiscal year to keep the cleanup process going. While, as Secretary Brady said in his May 23rd testimony, funds will have to come from the Treasury, there are a number of alternatives from which to choose.

One alternative would be to consider appropriating an amount sufficient to keep resolutions going into the beginning of calendar year 1991. At that point, funding legislation could be considered against the backdrop of the study of Federal deposit insurance mandated by FIRREA and which the Treasury has indicated it expects to submit at the end of this year.

We estimate that an appropriation of $5 billion, combined with a literal reading of the obligation limitation, should allow the RTC to continue resolution activity through January. An appropriation of about $10 billion (and the same reading of the note cap) should fund resolutions through February.

A second alternative would be to provide the RTC with permanent, indefinite authority to complete the job of resolving failed thrifts. The Government has already incurred the obligation to insure deposits and has no choice but to provide funding. Such authority would permit the process to continue uninterrupted by potential funding delays.

A third alternative would be to provide funding in an amount likely to cover RTC's estimated needs for fiscal year 1991 or another intermediate period.

Whatever alternative is chosen, it will be necessary for the Congress to take some action before adjourning for the year. Moreover, it will be necessary to address the limitations imposed by the note cap. We cannot afford to let the RTC run out of money and we must not let the process grind to a halt.

The Treasury and the Oversight Board stand ready to work with the Congress to develop legislation based on any of the proposals outlined above or to explore additional options.

Mr. Chairman, this completes my formal statement. I will be happy to answer the Committee's questions.

OVERSIGHT BOARD
RESOLUTION TRUST CORPORATION
Washington, D.C. 20232

STATEMENT OF SECRETARY NICHOLAS F. BRADY

ON BEHALF OF THE

OVERSIGHT BOARD

OF THE RESOLUTION TRUST CORPORATION

BEFORE THE

SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

MAY 23, 1990

Mr. Chairman, members of the Committee, we are pleased to have this opportunity to present our views on the progress to date under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and to discuss the outlook for the months to come.

I address the Committee this morning in my capacity as Chairman of the Oversight Board and am accompanied by the other members of the Board: Chairman Greenspan, Secretary Kemp, Philip Jackson, Jr., and Robert Larson. We are also accompanied by William Taylor, who has served for the last several months as the Acting President of the Oversight Board.

Speaking for a moment for the three charter members of the Board, let me tell you how pleased we are to have been joined by two such able individuals as Philip Jackson and Bob Larson. We are all grateful for their willingness to sign on and of course for their experience and judgment.

This testimony will cover our efforts since the enactment of FIRREA nine months ago. We are dealing with a moving target, made greatly more expensive by a weakening real estate market and constantly changing economic conditions. It is not susceptible to easy answers or simple solutions. The problems are complex and massive -- as we knew they were a year ago as we worked together to adopt legislation. If anything, the experience of nine months has revealed that the task is even more formidable than any of us then imagined.

As we proceed, we do so under three principles which have guided us from the start:

- First, we will make sure that the millions of men and women who put their life savings in savings and loan institutions are protected to the full extent of their federal deposit insurance.
- Second, we will do all within our power to do the job at the least cost to the taxpayer.
- Third, we will aggressively pursue and prosecute the crooks and fraudulent operators who helped create the S & L problem.

It is important to bear in mind that money spent on the savings and loan crisis is spent with a single purpose in mind. The United States government made a promise to millions of Americans. We promised to protect their savings if deposited in a federally-insured savings and loan. Now we make good on that promise.

We are not using taxpayer dollars to bail out any thrift institution, their owners, or the savings and loan industry in general. We are living up to the government's end of the agreement represented by federal deposit insurance.

There are many who are impatient to wish these unpleasant problems behind us. We must remember, however, that it took over a decade for the thrift problem to become so costly and so difficult to fix. The enactment of FIRREA less than a year ago was only the beginning of the solution; we still have a long way to go before we reach the end.

There are no magic solutions. We cannot predict with certainty the amount of money or the amount of time it will take to finally resolve this problem. What we can promise is to seek sound advice, use common sense, and see that the problem is effectively managed.

Our statement first takes a brief look back at the circumstances which led up to the enactment of FIRREA. It then provides a report on progress from last August to the present, covering the following areas: case resolutions, assets acquired and sold, enforcement efforts, costs incurred, affordable housing, minority outreach, and management issues. Finally, we look ahead to consider the question of resources.

Before we do so, we should face squarely the fact that the real estate market in a number of areas in the U.S. is in a weakened state and has become particularly so in the last year. This affects every aspect of the problem we face, especially the job of estimating the size of the problem. The condition of the real estate market affects the number of institutions which fail, the value of their assets, the speed at which assets can be sold, and thus, the ultimate loss.

FIRREA requires that we estimate the remaining exposure of the U.S. government from institutions which will come under the control of the RTC. We have attempted to do so in this statement, but note that such estimates are highly uncertain because they require market predictions, which are themselves highly uncertain. For that reason, no one should assume that the estimates presented today will not change. They will.

A LOOK BACK

The problems we are wrestling with today have roots which reach back over many years. They extend back to events of more than a decade, as the thrift industry struggled to cope with economic adversity and fundamental changes in financial markets; to broadened powers, coupled with insufficient policing by government regulators; to capital requirements which resulted in

too little of thrift owners' money being at risk; to problems in real estate and the junk bond markets; and, in many instances, to mismanagement and misdeeds. Many of these problems flow together and feed on one another.

The savings and loan problem was there to greet President Bush when he took office in January 1989 and he wasted no time in responding. Less than a month after taking the oath of office, the President came forward with a plan and made it one of his highest priorities to enact it into law.

You in the Congress and we in the Administration worked together last year as architects of a plan to repair the damage and reform the system. Together we devised a plan to resolve the savings and loan crisis and to help prevent it from happening again. While comparisons with other government rescues are inevitable, this is not a bailout. We are not bailing out shareholders. We are not bailing out management. We are not in this to preserve institutions. In fact, many will be lost. It bears repeating that monies spent are to protect depositors.

It was just over a year ago that Congress took up consideration of FIRREA, under your leadership, Mr. Chairman, and that of your Committee. The Banking Committee marked up the Administration's bill in record time, preserving the essence of the plan but adding its imprint. For example, reforms were put forward in matters such as capital requirements; the creation of the Federal Housing Finance Board; the membership of the FDIC and Oversight Board; the tightening of the qualified thrift lender test; provisions to avoid asset "dumping"; restrictions on the activities of state-chartered thrifts; limits on loans to one borrower; and curtailing "junk" bond investment.

With the enactment of FIRREA on August 9, 1989, the machinery was put in place.

A PROGRESS REPORT

Under the provisions of FIRREA, the Oversight Board must report on case resolutions, costs incurred, and asset sales during the period from October 1, 1989 through March 31, 1990, along with providing certain other financial information. While reporting on the six-month period as required, we have not limited ourselves to that and, where possible, provide in this statement information on more recent RTC activities.

As we review the progress to date, it is important to remember that a key purpose of FIRREA is to provide the money and mechanisms to separate out insolvent and failing thrifts, so that the industry which remains can compete successfully and safely in the financial marketplace.

The evidence is that FIRREA is working. Based on fourth quarter 1989 figures, OTS has analyzed the thrifts which remain after removing the institutions already resolved, those currently at the RTC for resolution, and those likely to be sent to the RTC in the near future. The industry which remains is profitable, has on average more than three percent tangible capital, and is growing by adding deposits.

Case resolutions

When the RTC started its work on August 9, 1989 there were 262 institutions in conservatorship. Since August, the RTC has resolved 93 cases (including 28 between October 1 and March 31), while adding 161 institutions to the caseload. That left the RTC, as of May 14, 1990, in control of 330 conservatorships.

There has been discussion about the RTC's relatively slow start in case resolutions. We believe it is important to try to understand why it has taken longer to resolve institutions than some may have initially expected or hoped.

First, let us make clear that it has not been for lack of resources. Immediately after FIRREA was signed, $20 billion was provided to the RTC in appropriated funds and industry contributions. The Resolution Funding Corporation has provided $13 billion. The Oversight Board acted in February to allow the RTC to borrow working capital from the Federal Financing Bank. The availability of those resources has ensured that no disruption has occurred for lack of resources.

One factor that certainly affected the pace of resolutions during the first several months is that it takes time to build an organization, particularly one so large and with so difficult a task as the RTC. Given the magnitude and the complexity of the task and the need to make sure the process serves the public interest, there has been a need to establish policies and procedures. The Oversight Board and the RTC Board have attempted to guide the process in a way that is consistent with the law, serves the interest of the taxpayers, and tries to avoid repeating mistakes. The staffs of both organizations have labored mightily to establish systems, methods, and order.

Yet it takes time to put people in place, to establish operating procedures and to make sure they are working out in the field; to learn their way around the problem; and to work out snags. I am surprised by those who so readily dismiss the difficulties of creating in just nine months an organization that is roughly the size of Citicorp.

But the major problem faced by the RTC in trying to resolve cases is that there simply have not been many interested buyers for the assets taken over, especially for whole thrifts.

We are concerned about the effect of the conservatorship program -- in essence, the government warehousing of private sector assets -- on franchise values. In presenting the idea of RTC's new accelerated resolution program, Chairman Seidman referred to the deterioration in value of institutions which remain under the control of the government for a prolonged period and made the case for early intervention. We support this goal -- that is, to deal with an institution when resolution costs the least -- but continue to focus on the need to resolve the existing conservatorship caseload.

RTC's concern about a pile-up of retained assets of failed thrifts seems to have been another factor affecting the pace of resolutions. The RTC rightfully recognizes the difficulty of managing and disposing of assets and will therefore attempt to pass as many assets as possible to private sector acquirers. We certainly share that as a goal, but tend to support the quicker pace of resolutions, while moving on a separate track to return the assets quickly to the private sector.

We have encouraged the RTC over the past several months to place greater reliance on liquidations (including deposit transfers) as a method of resolution. The RTC's third quarter plan reflects such a shift in emphasis.

One action requested by the RTC and taken by the Oversight Board may help speed resolutions. In February, the Board approved a policy establishing a general limit of twelve months on the amount of time that an acquirer has to decide to put assets back to the RTC. This policy will give acquirers adequate time to get to review the assets of an institution without a lengthy period of review preceding the acquisition. The hope is that this will not only quicken the pace but also increase the likelihood that acquirers will take on assets.

With policies in place and the lessons of nearly eight months of operations, the RTC in March laid out an ambitious schedule of case resolutions for the third quarter of fiscal year 1990. The plan calls for resolving 141 institutions with assets totalling nearly $50 billion between April 1 and June 30, 1990.

The Oversight Board endorsed the third quarter plan and approved the funds necessary to carry it out. The plan approved by the Oversight Board provides for up to $51.6 billion in spending on case resolutions during the quarter, of which $19.1 billion represents estimated net losses and $32.5 billion the recovery value of receivership assets.

We recognize that the RTC has set a challenging goal for itself in the third quarter plan and we will continue to provide the support needed to allow the maximum possible success.

Assets acquired and sold

There are two groups of assets under the control of the RTC: those in conservatorship and those in receivership. As of March 31, 1990, there were 350 institutions in conservatorship with gross assets, in book value, of $159.9 billion (based on December 31, 1989 financial data). The composition of assets held at that time was as follows:

Table 1

CONSERVATORSHIP ASSETS
350 Conservatorships as of March 31, 1990
Book Value of Gross Assets

($ billions)

Cash and securities	$41.6	26%
Mortgages	$80.4	50%
Other loans	$13.5	8%
Real estate owned	$13.8	9%
Other assets	$10.6	7%
Total	$159.9	100%

The composition of assets under the control of RTC receiverships as of March 31, 1990 was as follows:

Table 2

RECEIVERSHIP ASSETS
52 Receiverships as of March 31, 1990
Book Value of Gross Assets

($ billions)

Cash and securities	$ 1.7	13%
Mortgages	$ 7.1	53%
Other loans	$ 0.9	7%
Real estate owned	$ 2.9	22%
Other assets	$ 0.7	5%
Total	$13.3	100%

The largest part of the RTC's asset disposition efforts has been sales from conservatorships. This follows from the guidance provided by the Oversight Board in the Strategic Plan, which provides "to the extent feasible and cost effective, the asset side of the balance sheet [of thrifts in conservatorship] should be reduced through the packaging or securitization and sale of financial assets."

While the RTC has compiled a substantial record on sales from conservatorships, there has been less progress in disposing of receivership assets. To some extent, this is understandable, because the receivership assets are the most troubled. The Oversight Board and the RTC, however, are anxious to establish a record of steady and solid progress in the sale of assets.

Table 3 shows the level of sales and other collections on assets held or managed by the RTC through March 31, 1990. It shows that, through March 31, 1990, the RTC has reduced the volume of assets under its control -- including both conservatorships and receiverships -- by $41.9 billion through March 31, 1990. We recognize that the most marketable assets are sold first, but we are nonetheless pleased to see this level of reduction.

Of the $173.2 billion in assets under the control of the RTC at the end of March (both in conservatorships and receiverships), $16.7 billion or ten percent was owned real estate. It is too early in the process to assess the impact of RTC real estate sales on local markets.

It becomes critically important to achieve greater progress in the area of asset sales as the number of resolutions increases. At the end of the second quarter of the fiscal year, the estimated fair market value of receivership assets totalled about $7 billion. Under the third quarter operating plan, that total could increase as high as $39.5 billion.

We must take advantage of the opportunity to dispose quickly of assets which have a ready market, such as single-family mortgages. If reasonable representations and warranties are required, as are customary in the marketplace, we would support the RTC in giving them.

We also support the RTC in the procedures recently adopted for determining the market value of assets and establishing prices for sales by auction. We believe that the RTC Board has taken an initial step toward dealing with appraised values which may in some cases overstate market values and so communicated that to the RTC during its deliberations. We find the approach which they have taken to be responsible.

Table 3

Balances of Assets Held or Managed by RTC from Inception through March 31, 1990
402 Institutions *

($ in billions)

		Reductions during Conservatorship			Resolution & Receivership Reductions			
Asset Type	Beginning Conservatorship	Sales Proceeds	Payments & Maturities	Other Changes (Net) **	Passed to Acquirer	Principal Collections	Other Changes (Net)	Balance at March 31, 1990
Mortgages	102.8	-2.3	-7.2	-1.8	-3.8	-0.2	0.0	87.5
Other Loans	17.1	-0.4	-2.3	0.7	-0.9	-0.1	0.2	14.4
Cash & Secur.	60.9	-14.8	-6.0	3.2	-1.0	-0.1	1.1	43.3 ***
Owned Assets	16.3	-1.8	-0.1	2.4	-0.0	-0.1	-0.0	16.7
Other Assets	17.7	-0.6	-0.3	-4.9	-0.6	-0.0	-0.0	11.3
TOTALS	214.9	-19.9	-16.0	-0.3	-6.3	-0.5	1.3	173.2

* At March 31: 350 Conservatorships
52 Receiverships

** Changes in Other Assets include charge-offs of certain intangible assets and equity investments

*** Includes approximately $1.1 billion in receivership cash available for the payment of expenses and dividends.

Just two days ago, the members of the Oversight Board met with Chairman Seidman to discuss ways to expedite asset disposition.

Enforcement efforts

We must vigorously pursue those whose criminal and fraudulent activities helped create the current situation. As we observe the failed institutions and contemplate the mounting losses, we continue to be convinced that the government must provide the resources that are needed to make certain that those who have abused insured institutions know the effects of justice.

The RTC has established an Office of Investigations in Washington and has teams of investigators throughout the country. The RTC's investigations staff is planned to reach 300 by year end. These investigators will help to identify negligent and reckless mismanagement, fraud, and criminal conduct that contributed to thrift insolvencies. The RTC's investigators will be involved throughout civil litigation proceedings and also will assist the FBI and the U.S. Attorneys in criminal prosecutions.

Thrift regulators and institutions have made over 17,000 criminal referrals in the last three years. Over the same period, OTS and its predecessors required 664 institutions to enter into binding agreements terminating unsafe and unsound practices; removed over 150 senior officers and directors from thrifts and forbade them ever again to be employed by an insured thrift institution; and issued 111 cease and desist orders, to stop unsafe and unsound practices and to require restitution. In addition, there are over 1,000 civil law suits seeking to recover billions of dollars from the former directors, officers and professionals -- including accountants and lawyers.

Criminal referrals have already resulted in prosecutions and convictions. The Woody Lemons case in Dallas, Texas provides a dramatic recent example. Lemons, the former Chairman and Chief Executive Officer of Vernon Savings and Loan in Vernon, Texas, was sentenced to spend 30 years in prison, following his conviction for an elaborate bank fraud scheme, misapplication of Vernon's funds, and bank bribery.

As of May 11, 1990, the Dallas Bank Fraud Task Force, in which OTS and RTC personnel are working closely with the Department of Justice, has charged 70 defendants and obtained 49 convictions. That Task Force also has succeeded in having the courts impose criminal restitution orders of over $16 million.

Despite the extent of our present enforcement activities, the government needs to do more. To accomplish this goal, the Attorney General and I are working to see that financial

misconduct is punished. We are establishing priorities for the major criminal referrals and civil cases of all financial regulatory agencies and are working with the Department of Justice to see that the most important criminal cases receive the priority attention they deserve.

Affordable housing

Since we last appeared before the Committee, the RTC has proposed and the Oversight Board has approved an interim rule for the Affordable Housing Disposition Program. This is the rule which implements the provisions of FIRREA requiring the RTC to offer certain residential properties to qualified purchasers for a 90-day marketing period. The interim rule was published in the Federal Register on April 16, 1990 and comments must be submitted by June 15.

The development of this rule was a collaborative process between RTC and Oversight Board, as has been the development of an interim rule for the disposition of properties having no reasonable recovery value. The guidelines will provide for the conveyance of properties from which the RTC expects no reasonable recovery, for purposes such as housing for lower income families, homeless shelters, and day care centers.

In March, the Oversight Board approved a policy encouraging the RTC to enter into agreements with state and local housing finance agencies to provide financing for RTC affordable housing properties. These programs use tax-exempt financing to make mortgages at below-market interest rates. The Oversight Board has authorized the RTC to spend up to $6 million during the balance of fiscal year 1990 to pay reasonable and customary commitment fees, thereby reserving funds for RTC properties.

The first use of this program will be in Texas, where the state housing agency will issue $140 million in bonds to fund approximately 3,000 homes at an expected interest rate of about 8.5 percent. Negotiations are under way for similar programs in four or five other states.

The Strategic Plan did not provide for the use of direct subsidies, such as price discounts and concessionary financing, in the marketing of its affordable housing inventory. The goal was to test the right-of-first-refusal period, with the RTC to report to the Oversight Board by May 30 on the results of this pilot program. We believe that the 90-day marketing period and arrangements such as that entered into with the Texas Housing Agency will help in meeting FIRREA's affordable housing goals.

Minority outreach

The minority outreach efforts of the RTC fall into two major categories: outreach to minority and women contractors and preservation of minority- and women-owned institutions.

The RTC has developed policies and procedures implementing both the three percent price advantage for minority contractors, provided for in the Strategic Plan, and a preference point system. Thus far, the RTC has concentrated much of its energy on getting eligible minority contractors registered. To date, some 20 percent of contractors registered are minorities and women.

The second major area of outreach attempts to facilitate the continuation of minority institutions, as directed by FIRREA. The Oversight Board has authorized the RTC to postpone closing a transaction for up to nine months or provide bridge financing for the same duration in order to assist minorities acquiring minority institutions.

The Oversight Board will supplement these efforts through a program of information and outreach to minority- and women-based organizations. On a quarterly basis a list will be provided of all institutions in conservatorship, identifying those which are minority-owned.

FUTURE REQUIREMENTS

Since the thrift crisis first emerged, there have been a number of sources providing explanations and estimates of the size of the problem. Each has a projection as to how many thrifts will require government expenditures and how much the entire cleanup will cost.

Some give cost estimates on a present value basis while others give them on a cash basis. Some estimate total costs for resolving the thrift crisis, while others focus on additional funds required.

Estimates also vary on whether they include REFCORP interest costs, interest on working capital, and even the effect on government borrowing costs. Including interest costs treats the savings and loan program differently from other government programs and has the effect of dramatically increasing cost estimates.

In short, there are a myriad of estimates prepared using a variety of methods. Of course, the highest estimates get the most attention. Let me give you our view of where things stand.

FIRREA established a funding structure which has three parts. First, it provided for the payment of prior commitments of FSLIC from the old FSLIC fund, anticipated insurance premiums from SAIF members, other revenues received by FSLIC, and, as a last resort, Treasury funds. At the time FIRREA was signed into law, it was estimated that the cost of winding down FSLIC, in present value terms, would be about $40 billion. Given market conditions, it now appears that the cost will be higher than originally estimated.

FIRREA requires the RTC to review all of FSLIC's 1988 assisted thrift acquisitions and report to Congress and the Oversight Board. Under the Strategic Plan, the report is to be completed by August 31, 1990. At that time, we will be better able to evaluate the long-term cost of these cases and to pursue modifications where savings would accrue.

Second, FIRREA provided $50 billion ($18.2 billion in appropriations, $1.2 billion from the Federal Home Loan Banks, and $30 billion from REFCORP) to resolve the RTC caseload -- that is, insolvent savings and loans which fail during the three years subsequent to the enactment of FIRREA.

At the time FIRREA was enacted, there were approximately 350 insolvent thrifts with assets of about $170 billion and roughly another 150 institutions with $100 billion in assets that would almost certainly become insolvent in the near term. The $50 billion requested was based on the most credible estimates at the time, prepared by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office.

Finally, FIRREA established the Savings Association Insurance Fund (SAIF) to bear the cost of thrift failures which occur after August 9, 1992. Though we did not have a firm estimate of the funds that would be required by SAIF to meet its obligations, FIRREA authorized the Treasury to provide up to another $32 billion for this purpose. The present value of these future commitments is $23 billion.

At the time of the legislation, there was a great deal of uncertainty about the long-term cost of fixing the problem. The Administration stated repeatedly in letters and testimony that we could not say precisely which or how many institutions would fail, the nature and quality of their assets, what it would take to resolve them, how the performance of the economy and the real estate market would affect costs, or where interest rates would be -- all key variables in estimating the cost. Those same difficulties exist today.

To further illustrate this point, let me quote from a letter which I sent to Chairman Riegle, dated June 23, 1989, in response to his question about the adequacy of funds to be provided in

FIRREA:

"Let me emphasize ... that this level of resources, no matter how thoroughly researched or widely agreed upon, is still based only on estimates. Uncertainties include the level of interest rates, the strength of the economy, as well as many other factors that could have a significant impact on the size of the problem. As a result, the actual cost of case resolutions could be higher or lower, depending on the actual circumstances."

As of May 14, there have been a total of 423 thrifts with $215 billion in assets placed in conservatorship. The RTC has resolved 93 cases for which the estimated loss totals about $11.5 billion. In other words, the RTC has incurred losses equal to about 23 percent of the $50 billion provided in FIRREA.

If the RTC were to resolve all 141 institutions planned for the third quarter of fiscal year 1990, estimated losses would accumulate to $28.3 billion by June 30. At that point, there would be 189 institutions left in conservatorship, plus additional thrifts which come under the RTC's control.

When we appeared before you in January, we stated "when we became convinced that additional resources are necessary to continue the program, we will request them in a timely manner." It is now clear that the amounts projected and authorized for the RTC in FIRREA will fall short of what is required.

The causes of these increased RTC losses appear to fall in three different categories: the losses in individual thrifts are larger than expected; marginal thrifts are likely to fail sooner than expected (becoming the responsibility of the RTC, not SAIF); and the total number of projected thrift failures has increased.

Why has this happened? We believe the answer lies in a combination of the factors causing uncertainty. The fact is that we now have what we simply could not have had at the time FIRREA was considered and enacted -- actual experience with the cost of marketing insolvent thrifts and their assets. This experience with 93 resolutions has made us more pessimistic about losses embedded in thrifts both inside and outside the RTC's current caseload.

A number of factors have contributed to these higher projections, including ones with which this Committee is very familiar. The first is a general decline in regional real estate markets, particularly commercial real estate. This has been true not only in the southwest, but in the northeast, southeast, and other parts of the country. Unfortunately, thrift assets are heavily concentrated in real estate, whether through direct investments, foreclosed property, or real estate loans. FIRREA

sharply curtailed the amount of commercial real estate activities that thrifts can engage in going forward, but obviously, it could not address the losses already embedded in troubled thrifts.

A related concern involves the institutions that we expected would be the primary purchasers of thrift deposits and thrift assets -- other depository institutions. It's no secret that healthy banks and thrifts have become much more leery about taking real estate assets onto their balance sheets in view of current market conditions. Unfortunately, that is exactly what the RTC is trying to sell to them. The result has been few "whole thrift" transactions, where both good and bad assets pass to an acquirer, and few transactions where the acquirer takes <u>any</u> bad assets. This means more bad assets piling up at the RTC with lower expectations of the ultimate revenues they will produce.

A third factor is interest rates, which are now higher than we had projected. That translates directly into increased operating losses for thrifts in conservatorships and indirectly into softer real estate markets, since interest rates always play a key role in that sector of the economy.

A fourth factor is unexpected losses in below-investment grade bonds, sometimes referred to as "high yield" or "junk" bonds. As you know, FIRREA required thrifts both to divest these bonds and to carry them on their books at market value. The market for these bonds has dropped off substantially in recent months, and virtually all of the major thrift holders of these bonds have been taken over by the RTC. The result is that the RTC is now one of the largest owners of junk bonds, with some $4 billion in its portfolio, and it could end up with substantially more. At the same time, we just don't know exactly how much these bonds will be worth when they are finally sold.

A fifth factor is that, at least for some purchasers, thrifts just are not as attractive a franchise relative to banks as they once were. This is true in part because it is no longer possible either to run a thrift with low capital or to invest insured deposits in risky activities like direct real estate investment. That is as it should be, since it was activities like these that helped cause the problem.

But other restrictions imposed by FIRREA that are unrelated to safety and soundness, like the tighter qualified thrift lender test, may have also reduced the value of the thrift charter. However, it is too soon to say by how much.

Again, all of these factors have produced not only higher than expected losses, but also an increase in the population of savings and loans that will require attention. To some extent, this results from the fact that cases which we expected to be handled in the future by SAIF -- and for which FIRREA provided

$32 billion -- will in fact be handled by the RTC. These cases are merely moving forward in time.

When will more funding be needed? Even though the RTC has committed less than a quarter of the $50 billion, it could, with an aggressive schedule of case resolutions, run out of funds by the end of this calendar year or early next year. If progress occurs at a slower pace than we would hope, RTC resources will last longer.

Of course it would be possible to slow the pace on the hope that market conditions will improve in the future. We believe that there has been too much speculation already. Our job is to be steady, do the work, and take no further gambles with the taxpayers' money.

How much more will be needed? As we have discussed, there are too many variables to pin a single number on it -- again, number of cases, losses on assets, interest rates, and market conditions, to name a few. The most responsible course, we believe, is to consider a range of possible outcomes.

The Office of Thrift Supervision has indicated that there are some 299 institutions with assets totalling $193 billion -- over and above the 423 that are or have been in conservatorship -- which are likely candidates for transfer to the RTC. We cannot say for sure, however, whether all of these institutions will come under the RTC's control.

There are another 315 thrifts with $152 billion in assets for which the future is uncertain but which currently have positive tangible net worth and do not require assistance. We simply do not know which and how many of these institutions will come to the RTC and what condition they will be in when they get there.

In short, at this point in time, the number of institutions which the RTC will have to resolve is simply unknowable. Yet this number drives the cost estimate.

Another source of uncertainty is the level of loss incurred by the RTC on institutions which come under its control. Losses in turn depend on a variety of factors which are difficult to predict. What will be the condition of institutions taken over by the RTC? How many will be resolved on a whole thrift basis and how many clean?

The more liquidations and clean thrift resolutions that the RTC does, the more assets it must sell and the more uncertainty there is about losses. The discount which the market places on assets will vary by category. For example, performing mortgage loans generally can be sold for a higher percentage of their book

value than can owned real estate. In the end, the loss rate on assets will depend on unpredictable factors such as market conditions, including the state of the real estate market, and interest rates.

This is clearly a formidable list of factors, each of which can substantially affect the total cost of resolving the RTC's caseload of institutions. For example, a reasonable lower limit on the number of institutions which will have to be resolved, together with small, medium, and high levels of losses on selling the assets of these thrifts, produce cost estimates (in present value terms) of $89 billion, $97 billion, and $114 billion.

For reference, the estimates in this statement should be compared with $73 billion provided in FIRREA. In other words, they include the $50 billion provided for the 1989-92 period and the $23 billion (in present value terms) provided for the succeeding eight years.

The same loss factors applied to a reasonable upper limit on the number of institutions to be resolved yields cost estimates (in present value terms) of $99 billion, $113 billion, and $132 billion. Again, these figures should be compared with amounts already provided by FIRREA, not added to them.

Of course, one could make even bleaker assumptions and make an estimate based on even higher populations of failed thrifts and even higher loss factors. This would dramatically increase the top range of the cost estimate. While such an scenario is theoretically possible, we believe it to be quite unlikely under any reasonable set of economic conditions.

As has become the convention, all of these estimates are given in present value terms. Presenting estimates in constant dollars allows us to compare better, but admittedly does also produce a lower total than nominal dollar estimates.

Any attempt to convert these aggregate 1990 dollar costs to yearly expenditures must incorporate an additional factor, the pace at which the RTC can resolve institutions. This greatly affects the amount of loss which the RTC must absorb on a yearly basis. A representative range of the resources the RTC may need in fiscal year 1991 would be $34 billion to $54 billion, excluding working capital. FIRREA already provides some of these resources to fund losses through REFCORP.

The other major source of uncertainty in measuring the yearly effect of RTC spending is of course working capital. We have provided the RTC access to working capital through the Federal Financing Bank. When the RTC uses these borrowed funds to acquire assets, it counts in the budget as an outlay; when assets are sold, it counts as a receipt. Thus RTC's short-term

borrowing requirements will result in enormous budgetary swings and distort the true picture of the deficit.

All of this suggests that there are too many unknowns to provide a single estimate of the ultimate cost. Taking into account all of the uncertainty and all of the variables, it appears that the cost of resolving institutions which are likely to come under the control of the RTC will be in the approximate range of $90 billion to $130 billion. Once again, these figures are in present value terms and include the $73 billion provided in FIRREA ($50 billion for 1989-92 and $23 billion for future SAIF cases).

How should additional funds be raised? The Federal Home Loan Bank system simply does not have the capacity to back substantially more Resolution Funding Corporation (REFCORP) borrowing. Additional resources will have to come from the Treasury funds.

Finally, how should the funds be provided? There appear to be two basic choices: either provide a specified amount to cover some or all remaining losses or provide the RTC such sums as are necessary to complete the job. No matter how the funds are provided, it will not change the cost of resolving the savings and loan crisis. This is not a discretionary activity; the government's deposit guarantees must be fulfilled.

There is precedent in the federal budget for providing indefinite authority to fund mandatory activities. Congress can choose to provide resources to the RTC in increments, but that means having to face the prospect of returning at relatively short intervals as markets changes and, along with them, the estimates.

The RTC faces another important constraint in the form of FIRREA's obligation limitation. This is the provision which limits obligations -- most notably, working capital borrowings -- to the amount of unused REFCORP authority, cash on hand, and 85 percent of the fair market value of assets held by the Corporation.

The RTC is likely to run up against the obligation limit as soon as or even sooner than it reaches $50 billion in losses. If the RTC cannot raise additional working capital and the cost of acquiring assets exceeds the amount generated from sales, it cannot proceed with resolutions.

The Oversight Board intends to work with the Congress and the Administration to develop an approach which will provide the RTC the resources necessary to finish the job, while maintaining adequate controls. Given the enormous significance of this issue for the federal budget, we believe that this is a matter which

should be considered in the current budget discussions between the Administration and the Congressional leadership.

In closing, we would echo a view expressed recently by Chairman Seidman. This is a long, hard job and it will take an extended period of time to finish it. However, we stand behind the commitment made by President Bush in his first weeks in office: protect depositors; clean up the industry at the least cost to the taxpayers; and punish the criminals.

APPENDIX

Among the requirements established in FIRREA for this appearance, Oversight Board must:

-- "provide an estimate of the short-term and long-term cost to the United States Government of obligations issued or incurred during such period;" and

-- "describe the costs incurred by the Corporation in issuing obligations, managing and selling assets acquired by the Corporation."

As of March 31, the RTC had issued about $2.5 billion in obligations in the form of short-term working capital borrowings from the Federal Financing Bank. No significant costs were incurred in connection with the issuance of these obligations. As required by FIRREA, these borrowings are backed by assets having an estimated fair market value substantially in excess of $2.5 Billion, in order to comply with the 85 percent test. Based on current projections of market value, we expect that the U.S. Government ultimately will not incur any cost in connection with these short-term obligations.

At the present time, virtually all of the assets under the RTC's control are managed either by institutions in conservatorship or, with respect to receivership assets, by acquirers pursuant to short-term contracts. Thus, for the reporting period, the costs of managing and selling RTC assets has been borne at the conservatorship and receivership level, and about $30 million was paid to private contractors for this purpose. It should be noted, however, that the RTC's operating plan for the third quarter of fiscal year 1990 contemplates an expenditure of $70 million for payment of fees to asset management contractors, reflecting the anticipated widespread use of asset management agreements.

TREASURY NEWS

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STATEMENT OF
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SENIOR DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL ECONOMIC POLICY
BEFORE THE SUBCOMMITTEE ON
COMMERCE, CONSUMER PROTECTION, AND COMPETITIVENESS
OF THE
COMMITTEE ON ENERGY AND COMMERCE
U.S. HOUSE OF REPRESENTATIVES
JULY 31, 1990

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify before the Subcommittee to present the Administration's position on H.R. 5225, a bill to amend section 721 of the Defense Production Act of 1950 (the "Exon-Florio provision"). Accompanying me today is Stephen Canner, Staff Chairman of the Committee on Foreign Investment in the United States (CFIUS).

My testimony today will describe U.S. Government policy concerning foreign direct investment, briefly summarize the implementation of the Exon-Florio provision by CFIUS, and comment on H.R. 5225.

Investment policy

At the outset, I would like to summarize the basic U.S. policy towards foreign investment in the U.S. as background for more detailed comments on the proposed bill.

U.S. policy is to welcome foreign direct investment and to treat foreign investors similarly to their domestic counterparts once they are operating within the U.S. economy. This policy has been in place since Alexander Hamilton was Secretary of the Treasury in President Washington's cabinet and has been consistently applied by both Democratic and Republican Administrations. Major reviews of the policy have been periodically undertaken

(e.g., in 1973, 1977 and 1983) and all confirmed the appropriateness of the basic approach, which this Administration supports. The policy is based on sound theoretical principles and two hundred years of experience.

Simple economic theory underlies this policy. When capital is free to flow in response to market demand, it is channeled into its most efficient use. When the United States makes the best use of capital, as determined by the market, we achieve greater productivity and enhanced international competitiveness. This reliance on the marketplace to allocate resources is the hallmark of the Administration's economic policies. Although a small part of our overall economy, foreign direct investment plays a positive role in providing employment, wages, technology and capital that contribute to a higher standard of living for Americans.

To illustrate the benefits of foreign investment in the United States, at year end 1987, data from the Commerce Department's Bureau of Economic Analysis (BEA) benchmark survey indicated that non-bank U.S. affiliates of foreign firms:

- employed 3.2 million Americans;
- had payrolls of $94 billion;
- paid $9.4 billion in U.S. income taxes (plus additional state, county and local taxes); and
- spent $6.2 billion on research and development.

The Administration is concerned that the proposed legislation will have a severe chilling effect on foreign investment in the U.S. that will reduce these benefits to our economy and our workers.

Exon-Florio provision

Our open investment policy has always recognized the need to protect national security, an internationally recognized exception to open investment regimes. The United States has various laws and regulations to provide such protection -- the most recent being the Exon-Florio provision of the Defense Production Act.

The Exon-Florio provision authorizes the President, or his designee, to investigate foreign acquisitions to determine their effects on national security, and to take such action as he deems appropriate to prohibit or suspend such acquisitions if the President finds that:

(1) There is credible evidence to believe that the foreign investor might take action that threatens to impair the national security; and

(2) Existing laws, other than the International Emergency Economic Powers Act and the Exon-Florio provision, do not provide adequate and appropriate authority to protect the national security.

The President may direct the Attorney General to seek appropriate judicial relief -- including divestment. The President's findings are not subject to judicial review. By Executive Order 12662 of December 27, 1988, the President designated the Committee on Foreign Investment in the United States (CFIUS) to receive notices and other information, to determine whether investigations should be undertaken, and once an investigation has been completed, to prepare a report and a recommendation to the President.

CFIUS members are the Secretary of the Treasury (chair), the Secretary of State, the Secretary of Defense, the Attorney General, the Secretary of Commerce, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, and the United States Trade Representative. Other government agencies, such as the Department of Energy, NASA, and the White House Office of Science and Technology Policy, are included in CFIUS deliberations when a notification raises questions within their area of expertise.

Experience to date

The legislative history of Exon-Florio shows that national security is to be broadly defined, "without limitation to particular industries." As a result, CFIUS considers a wide range of transactions. However, it is also clear that Congress drew a line between national security and commercial and economic considerations. The legislative history shows that Congress rejected proposals to expand the statute's coverage to include threats to "essential commerce" and "economic welfare." The Administration opposed proposals to expand coverage in connection with Exon-Florio and, as noted below, continues to oppose such extension in H.R. 5225.

A few statistics will give an idea of the scope of CFIUS activity. Since the 1988 Trade Act became law in August 1988, CFIUS has reviewed some 425 transactions, an increase of 145 since Assistant Secretary Dallara testified before this Subcommittee just four months ago.

So far this year, CFIUS has considered some 200 notifications. That is a rate which should bring total filings for 1990 to close to 400. Some 400 filings annually would represent, we estimate, over 50 percent of annual acquisitions valued at more than $1 million. I should say at this point that filings are coming to CFIUS at a rate two to three times that anticipated when the Exon-Florio provision was enacted two years ago. There is little question that CFIUS is considering virtually every foreign acquisition with national security implications, and quite a few that have no implications whatsoever for national security.

To date, CFIUS has undertaken an extended investigation ten times. In two of those cases, notification was withdrawn with CFIUS permission prior to the completion of the investigation. One transaction is pending decision by the President. Seven cases have been decided by the President. In one case the President exercised his statutory authority to order divestment of a foreign acquisition.

Critics allege that CFIUS is not doing its job because there have been "only" ten extended investigations. It is wrong to conclude that CFIUS is not aggressive in examining transactions which might have an impact on national security. CFIUS has an efficient, effective system for analyzing the national security implications of transactions during the first 30 days. I believe that those who have been through the process can attest to its rigor. If we can complete our work in 30 days, we do so; if not, we do not hesitate to go into an extended 45-day investigation.

The divestment order in the CATIC/MAMCO transaction demonstrated that the President is prepared to act when there is a national security threat. In short, we believe that the current CFIUS process is working well, does not need to be altered or amended, and, together with other existing laws, provides adequate protection of our national security interests.

H.R. 5225

Mr. Chairman, you have, I believe, received a letter from Secretary Brady which states Treasury's strong opposition to H.R. 5225, and his intent to recommend a veto of the bill if it is presented to the President. H.R. 5225 would drastically alter U.S. policy with regard to foreign direct investment here and have adverse ramifications for our economy and for U.S. businesses operating in other countries.

The bill would make a major change in the nature of the Presidential findings necessary to prohibit or suspend a foreign acquisition of a U.S. person, broaden access to confidential

foreign investment data, and empower the government to intervene in private market-place transactions on grounds which go well beyond national security. In the process, H.R. 5225 would harm the economy, change an essential element of our international economic policy, compromise important international negotiations, and limit our ability to lead the world towards a more rational investment regime at a time when the rest of the world is becoming more receptive to liberal economic policies.

More specifically, the proposed legislation would be contrary to the U.S. national interest in the following respects:

1. It ignores the positive impact of foreign direct investment on the U.S. economy; and, if enacted, would have a chilling effect that would reduce foreign investment and deny the U.S. the benefits of such investment;

2. It sends a strong negative signal that foreign investment is not welcome in the U.S., contradicting 200 years of U.S. policy;

3. By discouraging foreign investment, it would weaken the ability of U.S. firms to attract capital at a time when our economy needs new investment;

4. It establishes procedures that mandate extensive government intervention in market decisions between willing sellers and buyers and, in essence, creates a far-reaching mandatory investment screening mechanism similar to those the U.S. consistently opposes in other countries;

5. By requiring "assurances" from foreign investors, it would establish performance requirements which the U.S. has actively opposed when applied by other countries;

6. It is contrary to the growing worldwide movement toward free market principles and more liberal investment regimes;

7. It compromises the U.S. ability to promote reductions in investment restrictions in other countries (e.g., in the TRIMs negotiations in the Uruguay Round and in the recently announced Enterprise for the Americas initiative);

8. It ignores the adverse experience of other countries which have adopted screening procedures in the past;

9. It invites retaliation by foreign governments against U.S. investment abroad; and

10. It undermines long-standing principles of data confidentiality and may compromise the ability of the U.S. to collect data for statistical purposes.

The remainder of the testimony expands on a number of these specific objections to the proposed legislation.

Change in Presidential finding. H.R. 5225 would amend the Exon-Florio provision to significantly alter the basis of one of the findings the President must make if he is to take action to suspend or prohibit an acquisition, merger, or takeover of a U.S. person by a foreign person. Instead of being required to find that there is credible evidence "to believe that the foreign interest exercising control might take action that threatens to impair the national security ...," the President would (under H.R. 5225) be obliged to find that there is credible evidence "to believe that the national security might be impaired by the effect the merger, acquisition, or takeover could have on the industrial and technological base" of the United States. A similar change to Section 721(e)(3), concerning the scope of the factors the President or CFIUS may consider in reaching decisions, would broaden the focus from those relating to "national security" to those affecting "the industrial and technological base."

If enacted into law, H.R. 5225 would represent a major shift in U.S. investment policy. That policy is based on the conviction that the market should allocate investment and that we should maintain an "open door" toward foreign investment in the United States. The market does not make a distinction between investment from foreign sources and investment from domestic sources. H.R. 5225 makes such a distinction, and implies that whatever else a foreign acquiror might do, it is suspect merely because it is foreign.

The proposed legislation would indicate to foreign investors that we are no longer primarily concerned about the actions a foreign investor operating in the U.S. might take that would threaten the national security. Instead, the key finding that would be required by H.R. 5225 focuses on whether the acquisition itself would somehow affect our industrial or technological base in a way that impairs the national security. Under Exon-Florio, there is a general presumption that foreign investment benefits our economy and becomes suspect only if there is credible evidence that the investor will act in a way detrimental to our national security. It is only through actions, not by mere acquisition, that a foreign acquiror could threaten our national

security. Yet under H.R. 5225, there appears to be a presumption that all foreign investment in certain areas is suspect and that assurances as to performance are required to ensure that the investor does not misbehave. This represents a fundamental change in our policy and our attitude toward foreign investors.

In addition to making a fundamental change in the first finding required of the President under Exon-Florio, H.R. 5225 would inevitably alter the second required Presidential finding: that existing laws and regulations are not adequate to protect the national security. If the focus is no longer on actions but merely on the fact of a foreign acquisition, there is little room to consider the other laws, as they focus upon protecting against adverse actions that an acquiror might take. This could give Exon-Florio, which was intended as a last resort, primacy over long-standing statutes that have for years protected the national security in a variety of areas.

The concept of "industrial or technological base" is a broad, vague one, and the linkage between such base and national security is difficult to define with precision and certainty. The proposed expansion in the scope of the Presidential finding increases the need for subjective judgments by government officials without any clearly defined standards and encourages special interest lobbying. Such a change could reduce foreign investment to the detriment of our economy by signaling that the President is empowered to block foreign investment when there is no clear risk that the foreign investor might take action threatening the national security.

The screening process - H.R. 5225 would require the Executive Branch to prepare a list of technologies that are "essential to the industrial and technological base of the United States" and to publish such list in the Federal Register each year. The bill then goes on to mandate an investigation of any transaction that involved an "essential technology" and require the specific assurances noted below from the foreign investor. In this way, H.R. 5225 would create the basis for a far-reaching screening of foreign investment in the United States. If the concept of "essential technology" is broadly defined, the screening process would cover a wide range of economic activity and require a large new bureaucracy to oversee and implement the procedures.

This process -- screening, assurances and monitoring -- would, in essence, establish a thinly disguised industrial policy by expanding the national security criterion to include industrial and technological issues and by substituting the judgment of government officials for decisions of the market. Because essential technologies, including most defense technologies, are generally market-driven, attempting to make a national security judgment about the appropriateness of foreign

direct investment in particular technologies or industries involves the government in making judgments as to ultimate winners and losers. This means second-guessing private investment decisions.

Do we really want civil servants in government agencies to guide decisions on technology, product development, and research and development that are best made by the market place? We don't think so. This is not blind ideology. We have as examples the attempts of other countries which actively employed interventionist policies in investment. The market told those countries that such policies were wrong. History, including recent developments in Eastern Europe and Latin America, provides strong support for the view that market participants make better decisions than governments.

Assurances. H.R. 5225 empowers the Defense and Commerce Departments to solicit and publish assurances from foreign investors in connection with an investment in the United States. In any case where a review and investigation is involved, assurances that the plans and intentions of the foreign investor would not impair the national security may be obtained; and, if obtained, an annual compliance review and report to Congress are required. When "essential technologies" are involved, Defense and Commerce would be required to obtain assurances that (1) no action will be taken that erodes the U.S. industrial or technological base; (2) "necessary" research and development will continue; and (3) supply to U.S. customers will not be disrupted. Publication in the Federal Register of all assurances obtained would also be required. Failure to provide assurances would be grounds for blocking certain transactions and failure to implement assurances with respect to national security would be grounds for reopening investigations, in which case divestment or other Presidential action could be invoked.

As a matter of policy, the Administration opposes the imposition of performance requirements on foreign investors here. They are an unnecessary intrusion and conflict with our policy to provide "national treatment" to foreign investors operating in our economy. All investors look well down the road when making an investment at home or abroad. They must believe that they will be free to make the market decisions necessary to the success of their venture. Markets change in unpredictable ways. Businesses, whether foreign or American, must be able to change with them. If businesses are restrained in reacting to the market place by assurances given to the government, efficiency suffers and the economy is harmed. This holds true for foreign investment here and U.S. investment abroad. That is why a principal U.S. goal internationally has been to eliminate such performance requirements in other countries, so that government interference in markets will be minimized.

Access to data. H.R. 5225 would provide the General Accounting Office access to Commerce Department data on foreign direct investment in this country. The Administration is firmly on record as consistently opposing proposals which threaten the confidentiality of information provided by foreign investors and the integrity of the data collection system. Breaching confidentiality would undermine the statistical system which is based on confidentiality. Businesses have demonstrated that they will provide reliable data for statistical purposes. However, if they believe that the information they supply may be put to a use which may be detrimental to their interests, they may have second thoughts about what they are prepared to reveal to the government. In that case, we would have greater difficulty collecting statistical data that we need for government and private uses.

The bill would also require foreign investors to register, in effect, with CFIUS whenever they inform BEA of an investment. Failure to register with CFIUS would make the investor subject to legal penalty. This would constitute a mandatory CFIUS reporting system which the Administration has strongly opposed as neither desirable nor necessary. CFIUS has ample powers under the Defense Production Act, of which the Exon-Florio provision is a part, to compel (by subpoena if necessary) information it needs. To date, however, CFIUS has had excellent voluntary cooperation from parties to transactions in providing necessary information. CFIUS requests for information, I might add, can be extensive.

International considerations

This legislation is clearly contrary to the world-wide movement towards free market principles and liberalized investment regimes. The United States has been at the forefront in pressing other countries to open up investment policies. We have achieved notable success.

- The Houston Economic Summit Declaration strongly endorsed free flows of investment because of their contribution to global prosperity, saying:

  > "Free flows of investment increase global prosperity by complementing the open international trade system. In particular, foreign direct investment can help restructure the economies of developing and Central and Eastern countries, create new jobs, and raise standards of living.
  >
  > All countries should therefore seek to reduce their barriers to investment and resist protectionist pressures to discourage or discriminate against such investment."

- In the Structural Impediments Initiative talks, Japan committed to undertake revisions in its laws to make foreign investment easier. Japan recognized that its law permitting the restriction of foreign investment is "neither appropriate nor fit" and agreed to change its laws to ensure that restrictions will only be applied to those cases which concern national security or are otherwise permitted by the OECD Code of Liberalization of Capital Movements. Further, Japan acknowledged that international investment contributes to a well-balanced world economy and that countries should minimize investment restrictions.

- The U.S.-Canada Free Trade Agreement significantly liberalized the investment climate for U.S. firms in Canada, and locked in important protection for investors.

- Our bilateral investment treaties, primarily with developing countries, have established the principle of national treatment for foreign investors.

We are leading an effort in the Uruguay Round to impose GATT discipline on trade-related investment measures (TRIMs). TRIMs consist of performance requirements imposed by governments on foreign investors that have the effect of distorting trade. By imposing assurances of the sort which appear to be contemplated by H.R. 5225, we might well be imposing on investors from other countries the very measures which we have forcefully urged be outlawed.

We continue to push for a stronger commitment to national treatment among OECD member countries. This is another instance where enactment of this legislation would put us in the position of saying and urging other countries to do one thing while we do another.

In view of these developments, we have every reason to be optimistic about the future course of investment policy abroad. This is of great importance to the United States because we believe that the world, and especially the U.S. economy and business, will benefit. Such progress directly aids U.S. investment abroad which has been subjected to illiberal investment regimes.

Enactment of H.R. 5225 would put huge U.S. assets abroad at risk by encouraging other countries to enact similar discriminatory legislation. Measured in book value, which reflect prices at the time the investments were made, the $401 billion in foreign investment here is larger than the $373 billion in U.S. investment abroad. However, if measured in

current value, U.S. investment abroad would be raised significantly relative to foreign investment here. Foreign governments can be expected to emulate the United States in investment policy; and, thus far, this has worked to the good.

Conclusion

Our objections to the bill are fundamental. It contradicts clear Administration positions on industrial policy, data confidentiality, registration and screening of foreign direct investment, and performance requirements. It contravenes the long-standing investment and national treatment policy of the United States and compromises our ability to promote more liberal investment regulations in other countries. Finally, it is not necessary as existing laws (including the Exon-Florio provision) provide adequate authority to ensure that foreign investment does not compromise our national security.

Foreign investment is a vote of confidence in the U.S. economy. Its benefits are clear; and we risk significant economic damage by discouraging foreign investment. There is little question that enactment of H.R. 5225 would have a strong negative effect on foreign investment in the U.S. by broadening the Exon-Florio provision and requiring performance assurances.

Our economy will surely suffer if we overtly discourage foreign investment in the United States. Any change in our long-standing "open door" policy will weaken the ability of U.S. companies to attract foreign capital, thereby putting them at a competitive disadvantage at a time when the worldwide competition for capital is intensifying. It is not preordained that the United States will be the country of choice for foreign investors and we must maintain policies that welcome investment and attract capital.

Thank you. I will be happy to try to answer any questions you may have.

TREASURY NEWS

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

CONTACT: Office of Finance
202/376-4350

FOR RELEASE AT 4:00 P.M.

July 31, 1990

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $18,400 million, to be issued August 9, 1990. This offering will provide about $2,350 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $16,062 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, August 6, 1990. The two series offered are as follows:

91-day bills (to maturity date) for approximately $9,200 million, representing an additional amount of bills dated May 10, 1990, and to mature November 8, 1990 (CUSIP No. 912794 VH 4), currently outstanding in the amount of $8,438 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $9,200 million, to be dated August 9, 1990, and to mature February 7, 1991 (CUSIP No. 912794 VU 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 August 9, 1990. 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 $770 million as agents for foreign and international monetary authorities, and $4,479 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-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 one-half hour prior to the closing time for receipt of tenders 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.

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.

If a bill is purchased at issue, and is held to maturity, the amount of discount is reportable as ordinary income on the Federal income tax return of the owner for the year in which the bill matures. 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, any gain in excess of the basis is treated as ordinary income.

Department of the Treasury Circulars, Public Debt Series Nos. 26-76, 27-76, and 2-86, as applicable, 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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TREASURY NEWS

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

FOR RELEASE AT 4:00 P.M.
July 31, 1990

CONTACT: Office of Financing
202/376-4350

TREASURY OFFERS $4,000 MILLION
OF 44-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $4,000 million of 44-day Treasury bills to be issued August 7, 1990, representing an additional amount of bills dated March 22, 1990, maturing September 20, 1990 (CUSIP No. 912794 VC 5).

Competitive tenders will be received at all Federal Reserve Banks and Branches prior to 1:00 p.m., Eastern Daylight Saving time, Thursday, August 2, 1990. Each tender for the issue must be for a minimum amount of $1,000,000. Tenders over $1,000,000 must be in multiples of $1,000,000. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must not be used.

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

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

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:30 p.m., Eastern time, on the day of the auction. Such positions would include bills acquired through "when issued" trading, futures,

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.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately-available funds on Tuesday, August 7, 1990, for both bills.

If a bill is purchased at issue, and is held to maturity, the amount of discount is reportable as ordinary income on the Federal income tax return of the owner for the year in which the bill matures. 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, any gain in excess of the basis is treated as ordinary income.

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.

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