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PRESS RELEASES

TREASURY NEWS

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STATEMENT OF THE HONORABLE
JEROME H. POWELL
ASSISTANT SECRETARY OF THE TREASURY
FOR DOMESTIC FINANCE
BEFORE THE
SUBCOMMITTEE ON SECURITIES
COMMITTEE ON BANKING, HOUSING, AND
AND URBAN AFFAIRS
UNITED STATES SENATE
JANUARY 23, 1992

Last fall, prompted by Salomon Brothers' revelations of wrongdoing, the Treasury, the Federal Reserve, and the Securities and Exchange Commission undertook a comprehensive review of the government securities market, with a commitment to report back to Congress with our recommendations and conclusions. Yesterday, after intensive study conducted over the past several months, the three agencies released the Joint Report on the Government Securities Market.

I would like to emphasize that the three agencies agree that the government securities market is not flawed or broken in any fundamental economic sense. However, there are several specific areas where the workings of the market could usefully be improved. These include mechanisms resulting in better enforcement of Treasury auction rules and in preventing and alleviating "short squeezes."

While the agencies were not able to reach a consensus on every point, the report shows that there is substantial agreement among the agencies and that we share common objectives. Among these objectives are preserving and enhancing the efficiency of the government's financing mechanism, ensuring the integrity and fairness of the marketplace, deterring and detecting fraud, and protecting investors. In particular, the agencies agree that, while change is necessary, it must be managed with care to ensure

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that the public debt is financed at the lowest possible cost. In general, market-oriented solutions have been put forward whenever possible to support the effectiveness and efficiency of this very important market.

The agencies believe that the administrative and regulatory changes announced in the report, some of which are already in effect, in combination with the report's legislative recommendations, will significantly improve the workings of the government securities market. The improvements will ultimately redound to the benefit of the U.S. taxpayer in the form of lower interest costs on the public debt.

I would like now to highlight some of the more significant changes and legislative recommendations made in the report.

Administrative and Regulatory Changes

In order to combat short squeezes, the Treasury will provide additional quantities of a security to the marketplace when an acute, protracted shortage develops, regardless of the reason for the shortage. The reopening of issues will greatly reduce the potential for short squeezes. Reopenings could occur either through standard auctions, through "tap" issues whereby the Treasury offers securities to the market on a continuous basis, or through other means. The Treasury recognizes that this policy could prove difficult to implement but has concluded that it is justified under certain circumstances, given the increased concerns about the potential for prolonged shortages. The other agencies concur in this judgment.

The Treasury also plans to improve the auction process. The Treasury and the Federal Reserve have accelerated the schedule for automating Treasury auctions. It is anticipated that the auctions will be automated by the end of 1992. Automation will allow for the use of different auction techniques and for better monitoring of compliance with Treasury auction rules.

The Treasury will consider implementing an open method of auctioning securities with repeated rounds of bidding at descending yields. The total bids received at each yield would be announced after each round. All securities would be awarded at a single yield. Such a system will be feasible once the auctions are automated and could encourage broader participation in Treasury auctions and discourage attempts to engage in manipulative strategies.

To clarify the auction rules, Treasury has prepared a uniform offering circular, to be published in the Federal Register with a request for comments.

A new working group comprised of the Treasury, the SEC, the Federal Reserve Board, and the Federal Reserve Bank of New York has been formed to improve surveillance and strengthen interagency coordination. The Federal Reserve Bank of New York will enhance and expand its market surveillance efforts, in its role as the agency that collects and provides the agencies with information needed for surveillance purposes.

The Federal Reserve Bank of New York has announced changes to the primary dealer system, which will make the system open to more firms, but will not eliminate primary dealers. The changes will also serve to clarify that the Federal Reserve Bank of New York is not the regulator of the primary dealers. Primary dealers will continue to be required to participate in a meaningful way in Treasury auctions and to be responsive to the needs of the Federal Reserve Bank of New York's Open Market Desk. The Treasury believes that the changes to the primary dealer system are a balanced approach which recognizes an evolving marketplace and the success of the regulatory structure provided by the Government Securities Act of 1986 ("GSA").

Legislative Recommendations

The agencies all support prompt reauthorization of the Treasury's rulemaking authority under the GSA, which expired on October 1, 1991. In this connection, the Treasury appreciates the successful efforts of this Subcommittee in getting legislation to this effect passed by the Senate. We hope that the House of Representatives will act soon on this matter.

The agencies also support the provision in S.1699, which originated in this Subcommittee and was passed by the Senate, that would make it an explicit violation of the Securities Exchange Act of 1934 ("Exchange Act") to make false or misleading written statements in connection with the issuance of government securities.

With respect to the securities of Government-sponsored enterprises ("GSEs"), the agencies support legislation removing the exemptions from the federal securities laws for equity and unsecured debt. Since this recommendation may receive considerable attention, it should be emphasized that this proposal would <u>not</u> affect GSE mortgage-backed securities. This proposal is limited in other ways as well. In particular, any legislation enacting this recommendation should make clear that all GSE securities would maintain their current eligibility for use in repurchase agreement transactions and for trading by government securities brokers and dealers that have registered or filed notice under section 15C of the Exchange Act.

The Treasury, the Federal Reserve Bank of New York, and the SEC support legislation that would give the Treasury backup authority to require reports from holders of large positions in particular Treasury securities. This authority would not be used unless the reopening policy and other measures fail to solve the problem of acute, protracted market shortages.

The report also discusses other reforms of the government securities markets. A summary of the administrative and regulatory changes and legislative recommendations contained in the report is attached to my written statement.

The report represents a serious effort by the agencies to arrive at a consensus on measures that can be taken to improve the government securities market. To a large extent, we were able to reach a consensus. On those matters requiring legislative action by the Congress, we hope that such action can be taken promptly. We look forward, Mr. Chairman, to working with you and your colleagues on these important issues and are grateful for your efforts and those of Senator Gramm in supporting legislation that provides for responsible regulation of the government securities market without increasing the burden on the taxpayer of financing the public debt.

# # #

SUMMARY OF REFORMS[1]

ADMINISTRATIVE AND REGULATORY CHANGES

- **Broadening participation in auctions:**

  — All government securities brokers and dealers registered with the SEC are now allowed to submit bids for customers in Treasury auctions. Formerly, only primary dealers and depository institutions could do so (announced October 25).

  — Any bidder is now permitted to bid in note and bond auctions without deposit, provided the bidder has an agreement with a bank (an "autocharge agreement") to facilitate payment for securities purchased at auctions. Formerly, only primary dealers and depository institutions could do so (announced October 25).

  — To facilitate bidding by smaller investors, the noncompetitive award limitation has been raised from $1 million to $5 million for notes and bonds (announced October 25).

- **Stronger enforcement of auction rules:**

  — The Federal Reserve now engages in spot-checking of customer bids in Treasury auctions for authenticity (announced September 11).

  — The Treasury and the Federal Reserve are instituting a new system of confirmation by customers receiving large awards (over $500 million), to verify the authenticity of customer bids.

  — The Treasury and the Federal Reserve have tightened enforcement of noncompetitive bidding rules.

- **Detecting and combatting short squeezes:**

  — **Improved surveillance of the Treasury market.** A new working group of the Agencies has been formed to improve surveillance and strengthen interagency coordination. The Federal Reserve Bank of New York

[1] Reforms have the unanimous support of the Department of the Treasury, the Board of Governors of the Federal Reserve, and the Securities and Exchange Commission ("SEC") (the "Agencies") unless otherwise noted. All actions listed are recommended or implemented as part of this report, unless otherwise indicated.

("FRBNY") will enhance and expand its market surveillance efforts, in its role as the agency that collects and provides the SEC, the Treasury, and the Federal Reserve Board with information needed for surveillance purposes.

— **Reopening policy to combat short squeezes.** The Treasury will provide additional quantities of a security to the marketplace when an acute, protracted shortage develops, regardless of the reason for the shortage. The reopening of issues will greatly reduce the potential for short squeezes. Reopenings could occur either through standard auctions, through "tap" issues whereby the Treasury offers securities to the market on a continuous basis, or through other means.

Changes to Treasury auction policies:

— **Automation.** The Treasury and the Federal Reserve have accelerated the schedule for automating Treasury auctions. It is anticipated that the auctions will be automated by the end of 1992 (announced September 11).

— **Proposal of uniform-price, open auction system.** The Treasury will consider implementing an open method of auctioning securities with repeated rounds of bidding at descending yields. The total bids received at the announced yield would be announced after each round. All securities would be awarded at a single yield. Such a system will be feasible once the auctions are automated and could encourage broader participation in Treasury auctions.

— **Publication of uniform offering circular.** Treasury auction rules and procedures have been compiled into a uniform offering circular, to be published in the *Federal Register* with a request for comments.

— **Change to noncompetitive auction rules.** To limit noncompetitive bidding to the small, less sophisticated bidders for whom it was designed, the Treasury will not permit a noncompetitive bidder in a Treasury auction to have a position in the security being auctioned in the when-issued, futures, or forward markets prior to the auction. Furthermore, the Treasury will not permit bidders to submit both competitive and noncompetitive bids in a single auction.

— **Change in net long position reporting required on auction tender form.** To streamline reporting requirements, the Treasury will not require competitive bidders to report net long positions at the time of the auction, unless the total of the bidder's net long position plus its bid exceeds a high threshold amount. This threshold amount will represent a substantial share of each auction and will be announced for each auction.

- **Improvements to the primary dealer system:**

  — **Opening up the system by eliminating the market share requirement.** The Federal Reserve will gradually move to a more open set of trading relationships. To this end, the FRBNY is eliminating the requirement that each primary dealer effect at least one percent of all customer trades in the secondary market. The FRBNY expects to add counterparties that meet minimum capital standards, initially in modest numbers, but on a larger scale once open market operations are automated.

  — **Clarification of regulatory authority over primary dealers.** In the future, direct regulatory authority over primary dealers will rest unambiguously with the primary regulator — in most cases, the SEC. Although the FRBNY has no statutory authority to regulate the primary dealers, the primary dealer system may have generated the false impression in the marketplace that the FRBNY somehow regulates or takes responsibility for the conduct of primary dealers. To make clear that its relationship with the primary dealers is solely a business relationship, the FRBNY will eliminate its dealer surveillance program, while upgrading its market surveillance program as described above.

  — **Other features regarding primary dealers.** To remain a primary dealer, firms must demonstrate to the FRBNY that they make reasonably good markets, provide it with market information, and bid in Treasury auctions. Primary dealers must also maintain capital standards. Failure to meet the Federal Reserve's performance standards, or the capital standards, will lead to removal of the primary dealer designation. In addition, any primary dealer that is convicted of (or pleads guilty or *nolo contendere* to) a felony will face suspension of its primary dealer designation.

- **Enhanced GSCC.** The Agencies support enhancements to the Government Securities Clearing Corporation, which provides comparison and netting facilities for reducing risk in the government securities market.

LEGISLATIVE RECOMMENDATIONS

- **Reauthorization of Treasury rulemaking authority under GSA.** Treasury rulemaking authority under the Government Securities Act of 1986 for government securities brokers and dealers expired on October 1, 1991. The Agencies support prompt reauthorization of this authority.

- **Misleading statements as violation of federal securities laws.** The Agencies support legislation that would make it an explicit violation of the Securities Exchange Act of

1934 to make false or misleading written statements to an issuer of government securities in connection with the primary issuance of such securities.

- **Registration of GSE securities.** The Agencies support legislation removing the exemptions from the federal securities laws for equity and unsecured debt securities of Government-sponsored enterprises ("GSEs"), which would require GSEs to register such securities with the SEC.

- **Backup position reporting.** The Treasury, the FRBNY, and the SEC support legislation that would give the Treasury backup authority to require reports from holders of large positions in particular Treasury securities. This authority would not be used unless the reopening policy and other measures implemented fail to solve the problem of acute, protracted market shortages. The Federal Reserve Board believes that the reopening policy makes this authority unnecessary and that it would be difficult to resist activating this authority if it were granted; thus, it opposes this proposal.

- **Sales practice rules.** The Treasury and the SEC support legislation granting authority to impose sales practice rules, but differ on the implementation and extent of such rules. The Federal Reserve does not believe that a case has been made for sales practice rules authority, but would not oppose application of such rules to National Association of Securities Dealers members.

- **Backup transparency authority.** The SEC supports legislation that would grant it authority to require, if deemed necessary, expanded public dissemination of price and volume information in the secondary market for government securities. The Treasury and the Federal Reserve believe that private sector initiatives should be allowed to develop and that the costs of such regulation would outweigh the benefits at this time; therefore, they oppose this proposal.

- **Audit trails.** The SEC supports legislation that would give it authority to require audit trails — time-sequenced reporting of trades to a self-regulatory organization — in the government securities market. The Treasury and the Federal Reserve believe that the costs of such regulation would outweigh the benefits, and oppose this proposal.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $9,271 million of 5-year notes, Series H-1997, to be issued January 31, 1992 and to mature January 31, 1997 were accepted today (CUSIP: 912827D90).

The interest rate on the notes will be 6 1/4%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.26%	99.958
High	6.29%	99.831
Average	6.28%	99.873

Tenders at the high yield were allotted 73%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	24,585	24,585
New York	18,978,260	8,505,020
Philadelphia	21,800	21,800
Cleveland	36,895	36,895
Richmond	70,754	57,118
Atlanta	34,042	22,692
Chicago	756,274	340,294
St. Louis	36,626	30,626
Minneapolis	16,456	16,456
Kansas City	57,648	57,648
Dallas	11,299	11,299
San Francisco	430,548	107,998
Treasury	38,449	38,449
TOTALS	$20,513,636	$9,270,880

The $9,271 million of accepted tenders includes $768 million of noncompetitive tenders and $8,503 million of competitive tenders from the public.

In addition, $70 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $100 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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TREASURY NEWS

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

DEPUTY ASSISTANT SECRETARY OF THE TREASURY
JAMES H. FALL, III

Remarks Before the
Bankers' Association for Foreign Trade

January 23, 1992

It is a pleasure to speak to you this morning. I would like to make a few remarks on the nature of the changing economic and financial relationship between the United States and several economies of the Pacific region. My focus will be on Taiwan and Korea, from which I have just returned.

INTRODUCTION

Let me first try to put our relations with Asia in an appropriate context.

The U.S. security umbrella has provided a stable political framework for development since the 1940s. Bilateral aid and private investment helped rebuild the infrastructure that enabled strong economic growth to occur. The rapidly expanding U.S. economy provided a large and open market for Asian exports. Most importantly, U.S. leadership helped create and maintain an international economic system based on free trade. Many Asian economies have prospered as a result of participation in this open international economic order. Access to global markets for goods, services, capital, and technology has been an integral component of their economic success, and now policy action by Asian economies can help preserve and strengthen access.

As Asian economies have grown and prospered, the nature of their relationship with the United States has changed. In the 1980s, their trade and current account surpluses began to mount, while their domestic markets remained relatively closed. This situation became increasingly unacceptable in the eyes of the global community.

It was against this backdrop that President Bush traveled to Asia earlier this month to encourage our trading partners in the Pacific to further advance market liberalization and thereby contribute to the expansion of world trade and growth. In addition to seeking more open markets for goods, the focus of public attention in this country, the President also emphasized the importance of liberalizing financial markets in the region.

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The President's visit underscored that the Administration, the Congress, and U.S. businesses have a keen interest in securing access for U.S. financial institutions in Asian markets, and in ensuring that U.S. firms operating there are treated on an equal footing with domestic firms.

This was brought home to me in discussions with U.S. banks and securities companies both before and during my most recent trip to Korea and Taiwan. Clearly, the rapid pace of change in global financial markets has important implications for financial institutions operating in Asia, both domestic and foreign. As you know better than I, the extensive restructuring now underway in the United States is generating serious thinking by U.S. financial institutions about their international operations. Developments in rapidly emerging markets, including several in Asia, focus enhanced attention on the viability of operations in markets that are evolving at a slower rate.

The Treasury Department has been heavily involved in the U.S. effort to encourage market access and financial sector liberalization in Asia. In our periodic National Treatment Studies and Foreign Exchange Reports to Congress, we have identified numerous problems confronting U.S. institutions in the region. In addition, we have conducted Financial Policy Talks with the authorities in several Asian economies, including those in Taiwan and Korea. We have also held financial market talks with Japan since 1984, the so-called "Yen-Dollar Talks."

Our broad objectives in the consultations with Korea and Taiwan are twofold. First, we are seeking to improve the treatment of U.S. financial firms and to ensure them equality of competitive opportunity with their domestic counterparts in foreign markets. Our firms have been systematically denied such treatment in Korea and Taiwan -- which are among Asia's strongest and most rapidly growing financial centers.

Second, we are pressing for broader liberalization of financial markets, including interest rate deregulation, elimination of capital controls, and development of foreign exchange regimes that respond to market forces and are not manipulated for trade purposes. National treatment of our institutions will be worth little in the absence of such market liberalization, which will enable them to offer a full range of financial services and products at competitive rates.

I have just returned from Treasury's latest round of financial consultations in Taiwan and Korea. I came away from those talks with the sense that the authorities in Taipei and Seoul are sending confusing and contradictory signals that could have serious, detrimental short- and long-run effects on their economies. Both Taiwan and Korea are major trading economies, ranking among the top 15 in the world, and both have an important

role -- and a vital stake -- in the health of the world economy. Yet, while well-positioned to set a high standard for financial market liberalization in the region, both are adopting an inward-looking and protective stance with respect to their financial sectors.

Korea still lacks a clear vision of an effective financial liberalization plan. Taiwan, in contrast, has established a plan for liberalization, but the approach is highly cautious, and its chances of success doubtful. Furthermore, Taiwan still has far to go in reducing its external surpluses. In both economies there are numerous policies that discriminate against foreign institutions. In Korea especially, the unwillingness to establish a transparent regulatory regime will increasingly undermine foreign bank interest there. Let me devote a few minutes to summarizing our recent talks in Taiwan and Korea.

TAIWAN

Every official we spoke with in Taipei expressed a strong interest in making Taiwan a regional financial center. With $82 billion in foreign exchange reserves -- the largest in the world -- who would argue that Taiwan is not already a financial power? However, despite the plethora of conferences, studies, and recommendations, significant steps have yet to materialize from Taiwan's bureaucracy. Indeed, Taiwan continues to strictly limit foreign banks' access to domestic funding resources and severely restricts foreign exchange activities to such an extent that a forward market hardly functions. Criteria which govern the opening of new branches are opaque, vague and discretionary.

I should note that Taiwan has taken some modest steps to liberalize its financial sector. The most important move on the domestic side has been the establishment of 15 new privately-owned banks. Over the years there has been some liberalization of the ceiling on NT dollar deposits and some marginal increase in remittances. At the same time, however, we have witnessed a decrease in the flow of capital permitted to enter Taiwan.

Much of Taiwan's caution with respect to financial liberalization seems to stem from concerns about increased competition. In activities involving foreign exchange transactions or capital flows, the macroeconomic concerns of the Central Bank, particularly with respect to its trade goals and concerns over capital inflows and outflows, also seem to be impeding further liberalization.

By failing to take firm action to liberalize and to open its market to more foreign competition and by preserving discriminatory practices, Taiwan is missing the opportunity to meet its own professed objective of becoming a regional financial

center, especially as existing centers continue to develop and attract new activities and participants. In order to compete, Taiwan must press the pace of liberalization.

In another area of interest to Treasury and the Congress -- adjustment of Taiwan's persistent trade and current account surpluses -- there seems to be even less commitment to letting market forces play their corrective role. Taiwan's overall trade surplus increased in 1991, and, as I noted earlier, reserves now total more than $82 billion, more than 10% higher than last year. Taiwan's trade surplus with the U.S. decreased somewhat in 1991. However, this correction has been minimal -- only one-fifth to one-third the correction that has taken place in the other Asian newly industrializing economies. The trade imbalance is further distorted as Taiwan's investments in Hong Kong, mainland China and other Asian countries increase exports to the United States. As growth resumes in the United States in coming months, it will be difficult for Taiwan to sustain even the modest decline in the bilateral imbalance without an accommodating adjustment in the exchange rate. An appropriate, market-determined exchange rate of the NT dollar should play a role in the adjustment of external imbalances, and we will be monitoring this prior to submission to Congress of our next Exchange Rate Report in the spring.

In addition to limitations on capital flows, particularly on capital inflows and foreign exchange transactions, other activities of the central bank continue to impede the full operation of market forces in exchange rate determination and in the balance of payments adjustment process. The Treasury Department will scrutinize closely the adjustment in Taiwan's external imbalances and the role currency appreciation must play in that process.

Let me now move on to the situation in Korea.

KOREA

Our most recent Financial Policy Talks with Korea were disappointing, as were our talks last September. Since the talks began in 1990, we have seen virtually no improvement in the Korean attitude, much less significant, concrete action. Despite its impressive achievements and substantial potential, Korea is living up to the widespread perception that it offers a closed, protected, unfair and discriminatory environment for foreign financial institutions.

It was not a casual decision to bring leaders of the financial sector with President Bush on his Asian visit. The commitment that President Roh made to President Bush to work to resolve differences on financial services illustrates the wisdom in having these executives highlight their problems in this manner. Ultimately, it is the market that will judge Korean

action, or lack thereof, on financial liberalization, and I believe the U.S. banking and securities representatives conveyed this to the Koreans.

In our Financial Policy Talks, we have focused on themes that attempt to elicit from the Koreans a vision of their financial and economic future and their role in the global financial community. Their response has demonstrated little conception of the importance, if not the priority, that should be accorded to promoting integration into world capital markets.

Let me give you an overview of the priorities for Korea in this area as I see them.

First, in looking to the future, the Korean Government must give its industry an orientation, a framework, for financial liberalization that will integrate the Korean economy with the rest of the world. The government needs to lay out a timeframe for specific action that will address the antiquated and discriminatory rules and practices now endemic in Korea. Without such a blueprint for action, the Korean Government's assertions of a strong commitment to liberalization are unconvincing. Korea will face increasingly widespread criticism, and, I would expect, direct approaches from other countries about its closed and over-regulated financial system.

Second, the Korean practice of administrative guidance -- by which I mean creatively using the regulatory system with minimal written implementation guidelines or clear instructions to banks, domestic or foreign -- is harmful and out of step with accepted international practice. As we have seen recently, public humiliation of alleged regulatory transgressors is an accepted means of sending a message to the banking community in Korea. On a broader plane, the Korean authorities must come to recognize that in formulating and revising their regulatory system, they need input from the entities that are governed by that system. Korea has much to learn about the standards of doing business around the world. Foreign institutions in Korea have broad expertise and could rapidly enhance the sophistication of both regulators and the financial markets in Korea, if given the opportunity.

Third, the Koreans need to proceed rapidly with the process of revising their foreign exchange control system. The government states with pride that they are moving from a "positive list" to a "negative list" system: in other words, banks may engage in all activities except those that are explicitly prohibited. When pressed, however, the Koreans acknowledge that the negative list will be long and detailed. In fact, foreign exchange activities will continue to be strictly controlled and directed. On one positive note, we have succeeded in securing a commitment from the Korean authorities to seek the

input of domestic and foreign financial institutions as they formulate the new regulations.

In the broadest terms -- to bring my comments full circle -- we have pressed the Koreans to use imagination in formulating and implementing their liberalization program. They cannot credibly offer commitments to liberalization while closing their borders to capital flows, whether inward or outward, and expect not to be penalized by world markets. It was very illuminating during my recent trip to hear statements of Korea's commitment to financial market liberalization while simultaneously being told that liberalization cannot proceed at the present time due to balance of payments difficulties. Furthermore, there seemed to be no recognition of the important contribution to promoting exports and sustaining growth that could be generated by free flows of capital.

The cost of funds is very high in Korea and has become a drag on the phenomenal export growth we witnessed in earlier years. Elimination of directed credit practices and controls on interest rates and inward and outward capital flows could rapidly increase efficiency, bring down the cost of capital, reduce cost pressures on inflation and generate tremendous goodwill.

Will we see such far reaching thinking on the part of Korea? Perhaps, but it is not yet evident. The recent agreement between President Bush and President Roh to work to resolve differences on financial services will hopefully focus Korean policymakers on this commitment by their President.

CONCLUSION

In conclusion, the commitment to financial market liberalization differs in many countries and the pace of implementation of liberalization and opening to international competition varies sharply. Both the commitment and the pace of implementation will, I believe, be under more intense scrutiny as banks, securities firms and businesses react to an entirely new horizon of opportunities. These opportunities will arise in the face of lower world tensions and as economic and financial issues rise in importance in international dialogue. With increased attention to profits and capital costs, market participants will tend to marginalize those economies that do not commit to financial market reform and will likely turn away from those which do not present a convincing story on the pace of liberalization and openness toward investment. This is the challenge that faces Korea and Taiwan.

If more open and equitable financial markets are to be attained, all Pacific economies will have to assume greater responsibility for liberalization. The United States and other industrialized nations have provided leadership in this respect,

particularly through the Uruguay Round, which Assistant Secretary Wethington will discuss in more detail later. It is now up to the newly industrializing economies to take up the challenge of liberalization and opening markets.

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FOR IMMEDIATE RELEASE
JANUARY 24, 1992

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MICHAEL J. GRAETZ
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY
PROMOTED TO ASSISTANT TO THE SECRETARY AND
SPECIAL COUNSEL TO TREASURY SECRETARY

Michael J. Graetz, deputy assistant secretary for tax policy, has been promoted to assistant to the secretary and special counsel, Treasury Secretary Nicholas F. Brady said.

Mr. Graetz, who had planned to return early this year to his position as Justus S. Hotchkiss Professor of Law at Yale Law School, was asked by Secretary Brady to assume this new responsibility through May. He will work on a wide range of economic issues of interest to the secretary.

As the principal deputy to the assistant secretary for tax policy, Mr. Graetz, who was appointed to the position December 12, 1989, has played a vital role in tax policy matters. As deputy assistant secretary he directed the work of the offices of the tax legislative counsel, the benefits tax counsel and the international tax counsel.

Mr. Graetz received a B.B.A. from Emory University in 1966 and a J.D. from the University of Virginia in 1969. A native of Atlanta, Georgia, he is married to Brett Dignam and has three children.

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January 25, 1992

STATEMENT OF THE GROUP OF SEVEN

1. The Finance Ministers and Central Bank Governors of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States met on 25 January in New York and agreed to intensify their cooperative efforts to strengthen world economic growth. Ministers and Governors reviewed world economic developments with the Managing Director of the IMF as part of their ongoing economic policy coordination process and the situation in the former Soviet Union.

2. The Ministers and Governors expressed their concern that economic activity had weakened since their last meeting. In some countries, early signs of recovery had not been sustained, while other countries were experiencing a deceleration from high rates of growth, jeopardising gains in employment achieved during the last decade and raising the danger of renewed protectionism. Consumer and business confidence has remained weak, thus delaying a resumption of economic activity.

3. The Ministers and Governors are convinced, however, that the forces that have been inhibiting economic activity in many countries are dissipating and that the conditions for improved global growth exist. Inflation expectations have eased considerably and, with the exception of some countries, wage and price pressures have been declining markedly. Long term interest rates have fallen in all countries and, in some cases, substantially. Oil prices have remained stable.

4. In order to reinforce the recovery process, the Ministers and Governors agreed that in present circumstances there was a need to intensify their cooperative efforts to improve the conditions for non-inflationary growth in their economies, thereby strengthening the world economy. Ministers and Governors accordingly agreed that a stable policy framework should be provided which creates an environment for renewed economic confidence. They believe strongly that the appropriate framework is one of fiscal and monetary policies geared to sustainable growth with price stability over the medium term. These are the essential conditions for lower interest rates and productive investment that will support the recovery and lead to a reduction in unemployment.

5. Ministers and Governors reconfirmed their commitment to the policy coordination process which has contributed to the good performance of the world economy in the 1980s. They reaffirmed the need to raise world savings. They insisted strongly on the necessity of maintaining open and efficient global markets to assist the economies of both industrial and developing countries. They stressed that a satisfactory conclusion of the Uruguay Round would enhance private sector confidence and make an essential

contribution to global economic growth. It was acknowledgedc
the completion of the internal market of the EC at the end ot
this year and the recent decisions in Maastricht would furthw
strengthen fundamentals for economic growth in Europe. r

6. As to economic policies in their respective countries, c
Ministers and Governors agreed that each country would implew
fiscal, monetary and structural policies to promote the t
conditions for sustainable growth with price stability. Thei
specific mix of policies would vary depending on the t
circumstances in each country. On fiscal policy, Ministers
Governors noted that in some countries public expenditure coe
be reallocated through targeted measures designed to improve
confidence and to enhance productivity. They emphasised theh
need, however, for countries with large fiscal deficits and f
public debt to continue medium term efforts at fiscal s
consolidation as a means of improving national savings and v
reducing real interest rates.

7. On monetary policy, Ministers and Governors acknowledgea
improvement in inflation performance in many countries over t
past year. Monetary policies should be directed to preservit
the gains that have been achieved in reducing inflation whili
providing adequate scope to finance sustainable growth. Thor
countries which in the future experience better than expecteo
inflation performance may have a basis for an easing of monei
conditions and interest rates without jeopardising the commi
to price stability and exchange rate objectives.

8. Ministers and Governors welcomed ongoing German efforts
lower public sector borrowing requirements and expressed the
for wage moderation, thereby helping to mitigate price press
in that country.

9. On structural policies, Ministers and Governors emphasi
the need to continue reforms in order to reduce rigidities, i
strengthen market forces, and to improve the efficiency of t
economies and the world economy generally.

10. The Ministers and Governors reviewed their economic pol
in light of these developments and objectives.

The <u>United States</u> will announce in the President's
State of the Union address a comprehensive program to
strengthen growth and competitiveness. The program
will include measures to improve consumer confidence,
incentives for savings and investment and increased
research and development expenditures. These measures

will be financed in a manner consistent with the pay as you go requirements of the 1990 budget act.

- The Government of Japan submitted to the Diet the fiscal 1992 budget and the Fiscal Investment and Loan Program aimed at strengthening domestic demand by increased public investment through the central government and local governments, and contributing to the world through its official development assistance (ODA) and other measures, despite tight fiscal conditions. The government of Japan expects an early approval by the Diet. The recent decision by the Bank of Japan to reduce interest rates is also intended to maintain sustainable growth with price stability.

- Canada's pickup from its recession has been hesitant, but inflation has dropped a great deal. With the decline in inflation and inflation expectations, monetary conditions have eased. Good performance on inflation lays the essential monetary basis for low interest rates promoting sustainable economic recovery. The Canadian authorities will continue to implement their medium-term policy of deficit reduction and spending control, focusing on policies, including training, to improve competitiveness, to boost growth and job prospects and to improve confidence.

- The French authorities will continue to pursue an economic policy geared to monetary stability and to non-inflationary growth, more productive in terms of jobs. The rate of growth has improved since last spring and the inflation rate has declined (3.1% in 1991), control over public expenditure has been maintained without excessive rigor so as to support growth and the fiscal deficit is higher than the initial forecasts for 1992. Reductions in corporation tax, encouragement of advanced technology industries, the strengthening of small and medium-sized enterprises, measures designed to boost firms' equity capital and the development of vocational training and apprenticeships should contribute to growth.

- In the United Kingdom, with underlying inflation continuing to fall, and interest rates down substantially over the past year, the conditions for a resumption of growth have been established. The U.K. Government remains committed to maintaining sterling's parity within the ERM and to moving in due course to the narrow bands; while fiscal policy continues to be set so as to achieve budget balance over the economic

cycle. These policies, and the continuing effects of structural reforms, offer the prospect of sustained growth combined with low inflation.

- In Germany, growth is expected to remain solid. Investment promotion measures for Eastern Germany are becoming increasingly visible. The discontinuation of the 7-1/2 percent income tax surcharge in mid-1992 and planned tax relief for families will strengthen private consumption. The introduction of special incentives will stimulate residential construction. To further enhance investment activities, business taxation will be reformed with a first step intended for 1992 and further steps to be decided before the end of the year. To reduce possible effects on the fiscal position and to avoid additional borrowing requirements, other expenditures will be reduced, including spending on defense and subsidies. Continued policies of medium-term fiscal consolidation, together with a deceleration of the strong growth in money supply and credit demand as well as an easing of wage pressures and regaining price stability could create room for lower interest rates.

- In Italy, further reduction of inflation and resumption of sustainable growth are twin objectives of economic policy. To this end the present stance of monetary and exchange rate policy must be kept unchanged. Reduction of the budget deficit remains the cornerstone of fiscal policy. The Government will closely monitor the implementation of 1992 budget and will take corrective actions as soon as needed. Ministers and Governors welcome the determination of the Italian Government to contain wages in the public sector within the limits of the budget law, and to reduce the size of the government in the economy.

11. The Ministers and Governors also reviewed developments in foreign exchange markets. In the context of economic policy coordination, they noted that their efforts in recent years had contributed to more stable currency markets. They agreed to continue to monitor market developments and reaffirmed their commitment to cooperate closely in exchange markets, thus contributing to favorable conditions for stable exchange markets and economic recovery.

12. The Ministers and Governors discussed the situation in the former Soviet Union and the reform measures recently implemented

in some of the independent states. They welcomed that the reform process had evolved peacefully while recognising that the transformation of the former Soviet economy would be a difficult and prolonged process. It can only succeed if the independent states of the former Soviet Union cooperate with each other, maintain free trade and create efficient administrative structures. Economic reforms should be formulated and implemented in close cooperation with the IMF. In addition, adherence to the MOU signed in November 1991 between the G7 and 8 Republics, including continued payment of debt service obligations that had not been deferred, would be a precondition for maintaining creditworthiness and for further financial assistance.

13. The Ministers and Governors noted the application for IMF membership by the Baltic States, Russia, Azerbaidzhan, Ukraine, Kazakhstan and Armenia. They requested the IMF to act expeditiously to finalize by the spring meetings the arrangements needed to complete membership procedures for those states with applications under consideration which are able to meet the conditions for membership.

TREASURY NEWS

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

PREPARED FOR DELIVERY
EMBARGOED UNTIL 1:00 P.M. (EST)
January 27, 1992

Contact: Anne Kelly Williams
202-566-2041

The Honorable John E. Robson
Deputy Secretary of the Treasury
Remarks to the
National Association of Home Builders
Las Vegas, Nevada
January 27, 1992

Good morning, and thanks for inviting me here to discuss with the nation's home builders a number of important economic issues that affect not only your industry but the economic vitality of the entire country.

I think it is hard to overstate the importance of home building and home ownership to the economic and spiritual well-being of American society. That is why the Bush Administration has shared your deep concerns about the recent condition of the residential real estate markets, why we have already done some things to help the industry, and why we are committed to doing even more.

Right now we would have to characterize the overall economy as unsatisfactorily sluggish. This is due in part to transitional factors such as consumers and businesses working off debt that was piled up during the 1980's and some fundamental restructuring of U.S. business that is going on. The debt work-off and restructuring hurt us now but will make the economy stronger in the long run.

The statistics are mixed. For example, consumer confidence is weak and so are retail sales. Unemployment is higher than any of us want. And diminished state and local government spending has removed that stimulus from the economy.

On the other hand, exports and inventories are up and the trade deficit is down. And of course we all welcomed the recent encouraging news on December housing starts. Inflation is well under control at just a hair over three percent and only about half of what it was a year ago. And interest rates are significantly down.

NB-1637

The President, the Secretary of the Treasury and others in the Administration recognize the importance of low interest rates to the real estate markets as well as the overall economy. That is why we have been continuously urging the Fed to bring down interest rates. Finally, after a year of taking quarter-of-a-point-baby-step decreases, the Fed dropped the discount rate a full point last December and we now have the prime rate down to a more attractive level and mortgage interest rates at a fourteen-year low. However, with inflation in check, there would seem to be room for even additional easing of interest rates.

But even though there are some positive economic signs -- signs that have led the Congressional Budget Office, the Federal Reserve and a number of private economists to forecast a pretty sturdy economic recovery by about the middle of this year -- the Bush Administration is not content to simply let nature take its course. Therefore, when President Bush delivers his State of the Union Address tomorrow, he will present a comprehensive series of actions to foster more economic growth. And you home builders are going to like what is in the President's plan.

The President's plan will include measures helpful to your industry because we realize that home building is one of the keys to a solid economic recovery and robust long-term growth. If you look at the past three recessions, slow or declining housing starts preceded the economic downturn and an upturn in housing starts preceded and helped drive the post-recession recovery.

So we know that a strong homebuilding market has a lot to do with the strength of the overall economy. And, we know that five million jobs -- carpenters, electricians, architects, plumbers, painters, and many others, are directly supported by the homebuilding industry, and that there are many other businesses whose fortunes are directly affected by homebuilding.

Having formed a certain affection for my job at Treasury, I shall leave to the President the announcement of the details of his economic program. However, there are some things I can tell you today about what his economic growth program will contain and what it will not.

I can tell you that the President's plan will contain actions to provide both short-term economic stimulus and long-term economic growth. Indeed, the President's program will rest firmly on what I consider to be the four pillars of long-term economic growth: savings, investment, education, and health.

I can tell you that the President's plan is designed to stimulate the investment needed to create jobs, bolster real estate values, increase home sales, make American business more competitive, and continue our efforts to control the federal deficit.

I can tell you, quite specifically, that the President's plan will provide incentives for homebuyers to enter the market. We want to help families capture their part of the American dream by buying their first home. And we want to boost home values which will help millions of Americans who have much of their entire wealth in their homes.

And the President's plan will also address other concerns and objectives of the real estate community.

For example, the President will propose a reduction in the capital gains tax, something to which this Administration has been committed since it first came to office. But for three years running, Congress has stymied a capital gains tax reduction even though it would encourage business investment and entrepreneurship, and help create new jobs. All of the nations which are America's principal economic competitors have a capital gains tax differential and it is about time Congress got with it and provided one for the United States of America.

So I'm confident you will find the President's program far reaching, promotive of economic growth both in the short and long-term, and entirely responsible.

That word "responsible" is important -- because there are some ideas being promoted out there that sound good but are going to create bigger problems. We are simply not going to recommend actions that will damage our economic future.

For example, we will not propose actions that blow a big hole in the federal budget and create an increased burden for you, your children and your grandchildren to pay off in future decades. In 1990 we got an enforceable budget agreement that for the first time imposes some fiscal discipline and starts getting a handle on our big deficit that is siphoning money away from productive investment. We are going to stick with the principles embodied in that agreement.

Moreover, if we go on a budget-busting binge we risk raising interest rates, which is about the worst thing we can do to your industry and to business investment generally.

And the Administration's plan will be responsible because we're not going to propose fly-by-night programs that have short-term political sex appeal but don't make long-term economic sense. And we are not going to walk down the primrose path of trade protectionism that is going to lose American jobs and hurt American consumers.

So I think you will like the President's economic growth plan.

However, we are not going to rest on our oars with just the State of the Union in our efforts to foster economic growth and help the homebuilding and real estate industries. There are other things that we will do.

For example, we are going to continue and intensify our efforts to alleviate the credit crunch. As many of you in this room know, we have been working hard at this problem for well over a year now, often hand in hand with representatives of the homebuilding industry.

The credit-crunch problem has a number of causes, but the result is an environment in which many businesses and individuals are unable to borrow, and many bankers are reluctant to lend.

No one knows this better than you home builders who haven't been able to get the credit when you needed it. We don't want situations where the demand for new housing is there but the capital to build it is not.

Frankly, the banks are just not performing the function they were put in business to perform if they continue their timid approach to lending. Just last week I saw statistics showing that, while bank loans fell $47 billion for the year ending September 30th, bank portfolios of Treasury securities grew $27 billion. Folks, the federal and state regulators don't charter these institutions to take deposits and invest them in U.S. Treasury securities. That isn't banking. They charter banks to make loans.

Banking is a business where reasonable risks are taken to make capital available to businesses and consumers so that economic activity can be fostered. And bankers should be stepping forward now -- as President Bush, Secretary Brady and many others of us have been saying for many months -- to make loans to worthy borrowers.

I'm delighted to see others stepping forward to provide financing for homebuilders that they can't get from banks. Just across the border in California the state pension fund plans to invest $220 million for the development of new homes. Perhaps other pension funds will do the same.

But our goal isn't for the banks to lose good business. Our goal is to create a confident lending environment where banks are making loans to worthy borrowers. That is why Treasury has been working with the leadership of the bank and thrift regulatory agencies to make sure that over-regulation of financial institutions is not causing the lack of credit and dampening economic growth. We want the regulators to be part of the solution, not part of the problem.

I hope you've heard of the "credit crunch guidelines". These changes and clarifications in the instructions to bank and thrift examiners -- over 30 in number and more than a year in the making -- are the product of the four regulatory agencies. The goal is to promote balance and good judgment in bank and thrift examinations with straightforward commonsense ideas that simply need equally commonsense application in the field.

For example, it makes sense for bank and thrift examiners to encourage lenders to work with borrowers experiencing temporary problems. And it makes sense for examiners not to assume doomsday scenarios. Our economy will turn around, and so will troubled credits. That's common sense and responsible regulation.

The guidance to bank and thrift examiners addresses a number of important issues that affect the real estate community.

For example, examiners are instructed to take a reasonable, long-term view of real estate values. We want them to get away from a rigid mark everything to market attitude that assesses real estate loans based on liquidation values in markets that are simply not functioning normally. Examiners are instructed to look out beyond the immediate market conditions and expect some return to normalcy over time.

We have also seen a tilt toward conservatism in the appraisal process, so the credit crunch guidelines address these issues as well. I might add that I met with a large group of appraisers last year and we specifically discussed the importance of balanced appraisals in restoring confidence in the lending environment.

Another important issue in the credit crunch guidelines is the injunction to examiners to distinguish between commercial and residential real estate in portfolio examinations. We don't want the concerns of examiners or bankers about overbuilt commercial real estate markets to penalize lending for residential building.

We have also tried to improve communication among the regulators, the bank and thrift management, borrowers and businesses. We want to make sure the credit crunch message gets through and that the guidelines are faithfully applied. In the past year we held over 200 meetings around the country to discuss credit crunch issues and to improve the understanding and implementation of the credit crunch guidelines.

Besides that, there are two changes in regulatory law that we believe will help credit availability for your industry and which we support. The first will give OTS some flexibility in granting extensions relating to the need for thrifts to set aside

capital against their investments in real estate subsidiaries. And the second is a proposal that will reduce the amount of capital thrift institutions must hold against certain residential construction loans. Tim Ryan, will address these issues in his remarks.

Finally, let me say a word about the continuing need for fundamental reform in the banking industry. One of the main reasons we have a credit crunch is because the banking system is weak. And the main reason the banking system is weak is because it operates under antiquated laws that prevent it from becoming financially healthy. Last year, the Bush Administration submitted a comprehensive bank reform bill to Congress. But Congress totally failed to adopt anything resembling the needed degree of reform. Instead, they passed flawed legislation that imposes more regulation, higher costs, and offers no opportunity for the banks to strengthen themselves financially. If we don't correct the fundamental problems in the banking system we are going to unnecessarily expose the American taxpayers to the costs of a potential bank cleanup.

And if we get fundamental bank reform, we'll have a banking system that will be able to make credit available to you homebuilders in good times and bad, and we won't be confronting these credit crunches.

We think fundamental bank reform is so important that we are going to keep pushing it forward this year and see if we can get Congress to act responsibly on that urgent national problem.

Ladies and gentlemen, I hope I have been able to convey to you just how important we believe the homebuilders are to the economy and the country. We intend to convert that belief into continued actions to promote home ownership and homebuilding and to a continuing commitment to work with you to achieve our common goals. Thank you.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 27, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,252 million of 13-week bills to be issued January 30, 1992 and to mature April 30, 1992 were accepted today (CUSIP: 912794YL2).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.83%	3.93%	99.032
High	3.84%	3.94%	99.029
Average	3.84%	3.94%	99.029

Tenders at the high discount rate were allotted 92%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	25,230	25,230
New York	30,552,125	9,329,405
Philadelphia	14,595	14,595
Cleveland	43,005	39,375
Richmond	117,155	47,155
Atlanta	21,090	18,090
Chicago	1,386,740	82,700
St. Louis	49,265	9,265
Minneapolis	10,555	10,555
Kansas City	35,835	34,755
Dallas	22,375	22,375
San Francisco	621,720	61,720
Treasury	557,080	557,080
TOTALS	$33,456,770	$10,252,300
Type		
Competitive	$29,157,125	$6,152,655
Noncompetitive	1,175,845	1,175,845
Subtotal, Public	$30,332,970	$7,328,500
Federal Reserve	2,666,500	2,466,500
Foreign Official Institutions	457,300	457,300
TOTALS	$33,456,770	$10,252,300

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 27, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,201 million of 26-week bills to be issued January 30, 1992 and to mature July 30, 1992 were accepted today (CUSIP: 912794YW8).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.90%	4.05%	98.028
High	3.93%	4.08%	98.013
Average	3.93%	4.08%	98.013

$45,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 43%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	20,615	20,615
New York	29,513,730	9,146,395
Philadelphia	10,055	10,055
Cleveland	30,530	30,530
Richmond	46,090	35,390
Atlanta	26,285	24,390
Chicago	1,424,735	67,735
St. Louis	31,615	13,765
Minneapolis	4,955	4,955
Kansas City	34,980	34,410
Dallas	13,615	13,615
San Francisco	786,955	190,305
Treasury	609,135	609,135
TOTALS	$32,553,295	$10,201,295
Type		
Competitive	$27,959,395	$5,807,395
Noncompetitive	1,011,500	1,011,500
Subtotal, Public	$28,970,895	$6,818,895
Federal Reserve	2,500,000	2,300,000
Foreign Official Institutions	1,082,400	1,082,400
TOTALS	$32,553,295	$10,201,295

NB-1639

Transcript: Secretary of the

Treasury Nicholas F. Brady

G-7 Press Conference

January 25, 1992

(Missing from volume.
Unable to obtain.)

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
January 28, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 20,800 million, to be issued February 6, 1992. This offering will result in a paydown for the Treasury of about $ 250 million, as the maturing bills are outstanding in the amount of $ 21,056 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, February 3, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $10,400 million, representing an additional amount of bills dated May 9, 1991 and to mature May 7, 1992 (CUSIP No. 912794 YM 0), currently outstanding in the amount of $22,768 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $10,400 million, to be dated February 6, 1992 and to mature August 6, 1992 (CUSIP No. 912794 ZF 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 February 6, 1992. 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 $ 1,633 million as agents for foreign and international monetary authorities, and $ 5,437 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).

NB-1640

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

TREASURY NEWS

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

**STATEMENT OF THE HONORABLE
OLIN L. WETHINGTON
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE, TRADE
AND MONETARY POLICY
UNITED STATES HOUSE OF REPRESENTATIVES
JANUARY 29, 1992**

Madame Chair and Members of the Committee:

I welcome this opportunity to discuss U.S. procurement of goods and services for multilateral development bank (MDB) assisted projects. This is an important subject, and an area in which we have taken a number of initiatives to help improve U.S. performance in recent years.

Let me begin by placing procurement in the context of a broad range of U.S. policy objectives in the MDBs. In these institutions, we pursue an array of economic, political, humanitarian, and commercial goals. These goals are in the interests of American business, and over time enlarge their opportunities around the world.

One set of U.S. objectives are developmental in nature. Growing economies in developing countries are important to U.S. national interests. The MDBs contribute to global stability by encouraging growth, and they enable us to pursue other closely-related objectives, such as alleviation of poverty and improvements in the global environment. This is good for American business.

In addition, the MDBs seek to encourage economic policy reforms. Open and competitive markets in developing countries serve U.S. interests. Through structural adjustment and sector loans, the MDBs promote private enterprise and market-based reform, thereby enabling developing countries to enhance their economic performance.

Furthermore, the MDBs are playing an active role in the historic transformation of state controlled economic systems that is taking place. State control of economies is discredited.

This transformation is particularly striking in Latin America and the Caribbean, and in Central and Eastern Europe. The Inter-American Development Bank's (IDB) role in the Enterprise for the Americas Initiative (EAI) and the Multilateral Investment Fund are key to providing Latin America with tools to advance this process.

In Central and Eastern Europe, the European Bank for Reconstruction and Development (EBRD) is moving to privatize state corporations, promote private investments, rehabilitate existing enterprises, and foster infrastructure that can support a private sector. The Bank also is unique in that it requires its borrowers to be committed to the principles of multi-party democracy and human rights in order to have access to funds.

The MDBs are a cost-effective and flexible mechanism through which we can pursue our various objectives. New commitments by the MDBs now exceed $34 billion each year, while U.S. budgetary appropriations in support of these activities are about $1.7 billion annually. This is a leverage ratio of 20:1.

In this overall policy context, I would like to discuss our approach to procurement issues within the MDBs. Much of what the MDBs seek to accomplish in the areas I have just mentioned, can set the stage for improved U.S. access and better U.S. commercial performance in developing countries. This improves the broader commercial environment in which U.S. firms compete.

Turning to the procurement of goods and services in pursuit of the broad objectives I have sketched, let me just indicate the basic U.S. policy stance. The basic U.S. policy position is that the MDBs must have open and competitive procurement systems in which U.S. firms have a full and fair opportunity to compete for the award of contracts. Neither we nor any other country can dictate the results of the bidding process. But we should insist on and take steps to assure an equitable and fair framework within which U.S. bids will be judged on their merits.

The MDBs are in general seeking to apply the principle of open and competitive procurement. They have put in place procurement standards and systems that are applied across the board. The major elements of these standards are transparency, notification of tenders, fair opportunity to prepare bids, review procedures, and fair resolution of disputes.

Over the past several years, we have worked to maintain and strengthen the application of these principles. In addition, a we have sought to provide greater assistance to U.S. firms that want to compete for MDB procurement. In cooperation with Congress, the Treasury and the Department of Commerce have taken a number of actions toward those ends.

In this regard, a significant step was the initiative of this Committee to require appointment of commercial liaison officers to the Offices of U.S. Executive Directors in all of the MDBs. This has involved assignment of Commerce Department staff within each of the MDBs who devote their efforts to notifying U.S. firms of business opportunities and seeing that procedures are followed that will ensure fair play. Especially important are the activities to make information on MDB procurement opportunities available to U.S. firms and our pursuit of complaints by U.S. bidders who believe they have not gotten their fair shake.

Together with the Commerce procurement liaison officers, and with support from staff at Treasury, the U.S. Executive Directors are working with American businesses and with our major trade associations to assist them in pursuing MDB financed export opportunities. Madam Chair, I understand that Assistant Secretary Schwab will describe in greater detail the scope of our potential activities.

Our overall assessment of U.S. participation in MDB procurement is that U.S. firms have done reasonably well. However, we are by no means satisfied. We think that, through a combination of more energetic pursuit of MDB opportunities by private companies and further promotional efforts by the U.S. Government, the participation of U.S. companies can grow.

The data we have indicate that U.S. procurement is significant. We are the largest single source of goods and services for MDB assisted contracts. No country is a close second and, on balance, where we have been weak, the trends appear to be improving. In the Inter-American Development Bank and the African Development Bank in particular, there have been significant increases in U.S. shares. In the tables that are attached to my statement you can see that the data indicate that in the aggregate U.S. firms receive approximately one-third of all G-7 procurement.

The procurement data we receive from the MDBs are not uniformly detailed and, unfortunately, do not allow the exact measures we would like as to how well we are doing. We hope to improve our monitoring ability by working with the MDBs to put in place procedures that will further refine their data collection and presentation.

In conclusion, in an increasingly competitive world we are determined to improve the level of U.S. procurement performance. We intend to intensify our promotional efforts. We want members of the Committee and U.S. firms to know that we are ready to assist individual companies compete for MDB contracts. Thank you.

MULTILATERAL DEVELOPMENT BANKS
U.S. Share of Procurement/Disbursements

	Total MDB Procurement/ Disbursements ($mills; 1990)	U.S. Share of Total Procurement/Disbursements			
		1991*	1990	1989	1988
IBRD/IDA	$17,790	8.2%	9.5%	9.4%	9.2%
IDB/FSO	2,048	22.4%	17.8%	8.7%	11.9%
ADB/ADF	2,796	10.4%	5.6%	6.7%	12.5%
AFDB/AFDF	1,874	5.1%	4.6%	4.4%	2.2%
MDB Total	*$24,508*	*10.0%*	*9.4%*	*8.7%*	*9.4%*

Notes:

1. Total procurement is disbursement data except for the ADB/ADF, which are contract awards.
2. Total procurement includes both foreign and local disbursements.

*3. 1991 data for the regional banks are preliminary.

G-7 PROCUREMENT/DISBURSEMENTS FROM THE MULTILATERAL DEVELOPMENT BANKS

1990 ($millions)

	United States	Canada	France	Germany	Italy	Japan	U.K.	Total MDB Procurement/ Disbursements
IBRD/IDA	$1,696	$205	$716	$777	$374	$877	$875	$17,790
% of Total	9.5%	1.2%	4.0%	4.4%	2.1%	4.9%	4.9%	
IDB/FSO	$365	$26	$142	$76	$116	$75	$43	$2,048
% of Total	17.8%	1.2%	6.9%	3.7%	5.7%	3.7%	2.1%	
ADB/ADF*	$157	$33	$60	$115	$41	$271	$66	$2,796
% of Total	5.6%	1.1%	2.1%	4.2%	1.5%	9.7%	2.3%	
AFDB/AFDF	$88	--	$124	$109	$93	$39	$108	$1,874
% of Total	4.6%	--	6.6%	5.8%	5.0%	2.1%	5.8%	
Country Total	*$2,306*	*$264*	*$1,042*	*$1,077*	*$624*	*$1,263*	*$1,091*	*$24,508*
% of Total	*9.4%*	*1.1%*	*4.3%*	*4.4%*	*2.5%*	*5.2%*	*4.5%*	

Notes:

* 1. Total procurement is disbursement data except for ADB/ADF (which are contract awards).

2. Total procurement includes both foreign and local disbursements.

TREASURY NEWS

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

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JANUARY 29, 1991

Contact: Scott Dykema
202-566-2041

Remarks of
Secretary of the Treasury
Nicholas F. Brady
on the Fiscal Year 1993 Budget

Good morning. Today the President sent to Congress his Fiscal Year 1993 budget. It includes far-reaching proposals to accelerate economic recovery in the short term and ensure long-term economic growth, increased competitiveness and a higher standard of living for all Americans.

I'll make a few comments on the growth initiatives, then Chairman Boskin will discuss the economic forecast and Director Darman will go over the budget itself. Then we'll be glad to take your questions.

The President's economic growth agenda will stimulate economic recovery and job-creating investment, create opportunities for home ownership and a real estate recovery, and help families build for the future. It accomplishes these goals while maintaining the fiscal restraint of pay-as-you-go. We cannot achieve economic growth if federal spending is not controlled. Interest rates, financial markets and long-term growth depend on adherence to budget discipline.

Our economy has been sluggish. And American families are concerned.

President Bush's plan will spur the recovery by helping American families now, with programs that make sense for tomorrow as well: an increase in the personal exemption for families with children; Flexible IRAs; deductibility for qualifying interest on student loans; and credits for first-time homeowners. These initiatives will provide stimulus in the short and long term. They will make it possible for families to buy homes, save for college, guard against major health expenses, and plan for retirement.

President Bush's plan also recognizes that jobs depend on America remaining competitive. Competitiveness demands that businesses invest in plants and equipment and foster research and experimentation. American ingenuity and drive made our country number one. If enacted by Congress, these initiatives will help ensure that we stay there.

The economic growth agenda set out by the President is about jobs. The plan calls for a new investment tax allowance, permanent adjustments to the Alternative Minimum Tax, and a capital gains tax cut that will help American companies stand toe-to-toe with our foreign competitors whose capital gains are treated much more favorably.

The capital gains tax cut will help everyone. A senior citizen from Vinemont, Alabama, recently wrote the President: "...the so-called 'middle class' needs help too! Lots of this 'class' has a <u>little</u> property and a <u>few</u> stocks and would sell if they didn't have to give half of it away...I've been holding off since 1985 to sell...I can't take [it] with me!"

Lowering the capital gains tax will help young families and older Americans alike. Economic growth benefits all Americans. About half of all Americans report capital gains in their lifetime. Lowering the capital gains tax means entrepreneurs can start their businesses now, families can free up their investments to make downpayments on new houses, and senior citizens can be rewarded -- not penalized -- for planning their retirement when they sell their investments, unlocking new capital.

President Bush's economic growth package also recognizes the importance of a healthy real estate sector in our economy, and the critical need to ensure that business has access to credit.

Real estate and construction represent more than 15 percent of our GNP, and employ almost 10 million people. And more than half of all household wealth is in real estate.

That's why, in addition to our ongoing efforts to keep interest rates down and increase credit availability, the President is calling for a credit for first-time homebuyers, passive loss rules for qualified real estate developers that conform to the way other businesses operate, opportunities for greater pension fund investment in real estate, permanent deductibility of losses on the sale of personal residences, and an extension of mortgage revenue bond authority.

The President wants to ensure that long-term growth is broad-based. He proposes to increase tax incentives for enterprise zones, extend the targeted jobs tax credit and extend the low-income housing tax credit.

President Bush's economic initiatives are bold and fair. Together, they will be the cornerstone of an economic policy that will keep America strong and competitive now and into the next century.

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

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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE January 29, 1992

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of December 1991.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $185.6 billion on December 31, 1991, posting a decrease of $9.3 billion from the level on November 30, 1991. This net change was the result of decreases in holdings of agency debt of $9,148.6 million, in holdings of agency assets of $0.2 million, and in holdings of agency-guaranteed loans of $112.0 million. FFB made 24 disbursements in December.

Attached to this release are tables presenting FFB December loan activity and FFB holdings as of December 31, 1991.

NB-1643

FEDERAL FINANCING BANK

DECEMBER 1991 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
AGENCY DEBT					
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
+Note #585	12/3	$ 33,500,000.00	12/10/91	4.638%	
+Note #586	12/18	5,000,000.00	1/17/92	4.347%	
+Note #587	12/26	242,000.00	3/25/92	4.036%	
+Note #588	12/26	3,000,000.00	3/25/92	4.036%	
GOVERNMENT - GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
Foley Square Courthouse	12/16	1,871,714.54	12/11/95	6.083%	
Foley Square Office Building	12/30	2,450,879.00	12/11/95	5.742%	
U.S. Trust Company of New York					
Advance #23	12/3	1,651,758.90	11/16/92	4.791%	
Advance #24	12/16	281,096.17	11/16/92	4.537%	
Advance #25	12/26	3,177,288.93	11/16/92	4.265%	
Advance #26	12/27	296,746.05	11/16/92	4.284%	
RURAL ELECTRIFICATION ADMINISTRATION					
W. Farmer Electric #196A	12/5	1,850,000.00	12/31/15	7.490%	7.421% qtr.
*Allegheny Electric #255A	12/31	2,184,424.75	1/3/94	4.910%	4.880% qtr.
*Allegheny Electric #255A	12/31	3,514,702.00	1/3/94	4.909%	4.879% qtr.
*Allegheny Electric #255A	12/31	3,893,805.25	1/3/94	4.910%	4.880% qtr.
*Allegheny Electric #255A	12/31	3,560,074.45	1/3/94	4.919%	4.889% qtr.
*Allegheny Electric #255A	12/31	247,945.56	1/3/94	4.920%	4.890% qtr.
*Cooperative Power Assoc. #70A	12/31	11,245,714.26	1/3/94	4.911%	4.881% qtr.
*Cooperative Power Assoc. #156A	12/31	1,503,669.70	1/3/94	4.912%	4.882% qtr.
*Kansas Electric #313	12/31	2,786,769.20	12/31/15	7.092%	7.030% qtr.
*N.C. Central Electric #278	12/31	419,043.88	1/3/94	4.920%	4.890% qtr.
*N.C. Central Electric #278	12/31	598,290.53	1/3/94	4.912%	4.882% qtr.
*Sho-Me Power #324	12/31	850,000.05	12/31/18	7.095%	7.033% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-92-4	12/31	236,777,932.48	2/28/92	4.086%	
Note A-92-5	12/31	431,000,000.00	3/31/92	4.089%	

+rollover
*maturity extension

FEDERAL FINANCING BANK
(in millions)

Program	December 31, 1991	November 30, 1991	Net Change 12/1/91-12/31/91	FY '92 Net Change 10/1/91-12/31/91
Agency Debt:				
Export-Import Bank	$ 9,802.7	$ 11,261.0	$ -1,458.3	$ -1,458.3
Federal Deposit Insurance Corporation	10,620.0	10,620.0	-0-	2,324.0
NCUA-Central Liquidity Fund	8.2	48.6	-40.3	-105.3
Resolution Trust Corporation	57,026.0	64,026.0	-7,000.0	-5,856.4
Tennessee Valley Authority	10,725.0	11,375.0	-650.0	-1,150.0
U.S. Postal Service	8,200.6	8,200.6	-0-	-0-
sub-total*	96,382.5	105,531.1	-9,148.6	-6,246.0
Agency Assets:				
Farmers Home Administration	48,534.0	48,534.0	-0-	-2,160.0
DHHS-Health Maintenance Org.	61.2	61.2	-0-	-0-
DHHS-Medical Facilities	75.8	75.8	-0-	-0-
Rural Electrification Admin.-CBO	4,663.9	4,663.9	-0-	-0-
Small Business Administration	5.7	5.9	-0.2	-0.5
sub-total*	53,340.6	53,340.8	-0.2	-2,160.5
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,541.5	4,576.6	-35.1	-58.5
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	-0-	-30.0
DHUD-Community Dev. Block Grant	199.3	201.6	-2.3	-5.3
DHUD-Public Housing Notes +	1,853.2	1,853.2	-0-	-50.2
General Services Administration +	674.1	670.3	3.8	13.5
DOI-Guam Power Authority	28.4	28.4	-0-	-0-
DOI-Virgin Islands	24.5	24.5	-0-	-0-
NASA-Space Communications Co. +	-0-	-0-	-0-	-32.7
DON-Ship Lease Financing	1,624.4	1,624.4	-0-	-0-
Rural Electrification Administration	18,562.2	18,627.9	-65.6	-34.7
SBA-Small Business Investment Cos.	215.0	233.1	-18.1	-30.1
SBA-State/Local Development Cos.	673.7	679.2	-5.5	-14.6
TVA-Seven States Energy Corp.	2,438.6	2,427.5	11.0	-8.5
DOT-Section 511	20.7	20.9	-0.2	-0.6
DOT-WMATA	177.0	177.0	-0-	-0-
sub-total*	35,852.6	35,964.6	-112.0	-251.5
grand total*	$ 185,575.8	$ 194,836.5	$ -9,260.8	$ -8,658.0

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

TREASURY NEWS

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

EMBARGOED UNTIL 9 PM (EST)
January 28, 1992

President Bush's Plan to
Stimulate Economic Recovery,
Promote Long-term Growth, and Expand Opportunity

Overview

America's economy faces two challenges: we must spur economic recovery and we must invest in long-term growth and global competitiveness. Spurring the recovery requires short-term solutions with long-range impact. And ensuring long-term growth demands long-term thinking, planning and investing in our future.

The Administration's economic agenda stimulates recovery, promotes growth and expands opportunity. It contains bold policy initiatives to address today's challenges and take advantage of tomorrow's opportunities.

The proposal includes:

- **Job-creating growth incentives for now and the future**
- **Reduction of barriers to long-term saving and investment**
- **Incentives to expand opportunity for American employees, entrepreneurs and families**
- **Fiscal restraint that sticks to pay-as-you-go budgeting**
- **Help for home buyers to spark recovery and ensure long-term financial security for families**
- **Forward-looking policies to promote global competitiveness.**

Fact Sheet

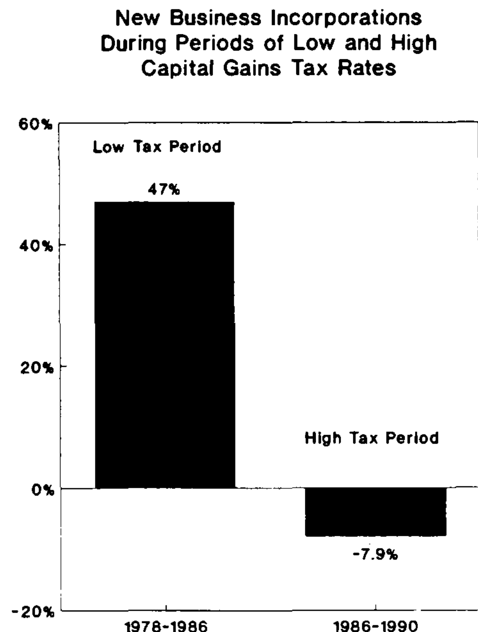
STIMULATING ECONOMIC RECOVERY

The Administration's proposals will have the strong, stimulative effect needed to create investment and jobs, as well as incentives for families to buy their first home, and save for their children's education.

A. Increasing Investment -- Jobs Today; Opportunity Tomorrow

The Administration's proposals would rapidly improve the nation's investment climate.

- Lowering the capital gains tax rates will immediately increase asset values and unlock investments now immobilized by America's punitive capital gains tax rates; it also will attract needed capital investment in America's factories and start-up ventures to help ensure growth in the future.



- Comprehensive measures to revive depressed real estate markets will create opportunities in that sector and for many other industries which depend on its vitality, such as home furnishings and appliances, building materials, construction, and banking.

- Solving the credit crunch will unleash capital for jobs and investment. The Administration's efforts to work with regulators and return balance to bank lending and regulation, combined with its support for lower real interest rates and sensible credit standards for borrowers, will improve credit availability.

- Enacting the Administration's banking reform proposals, which the Congress failed to do last year, will strengthen America's financial system and increase competitiveness. It is the most significant way to improve credit conditions.

B. Incentives for Business Investment and Capital Improvement

The Administration's proposals will provide powerful incentives to encourage businesses to undertake investments now and plant the seeds of growth for tomorrow.

- Accelerated depreciation for machinery and capital equipment will provide immediate incentives for new investment and leave more money in the hands of businesses that are trying to increase productivity.

- Improvements in the corporate alternative minimum tax will spur capital-intensive industries -- such as airlines, chemicals, and motor vehicles -- to buy equipment to modernize, expand capacity and meet the challenge of international competition.

- Removing tax code impediments to pension fund investment in real estate will increase the efficiency of pension fund investments and lower associated transaction costs.

C. Help For Home Buyers

By making it easier for families to purchase their first home, the Administration's proposals will spark a recovery in home building and related sectors, while ensuring long-term financial security for Americans.

- Providing a $5,000 tax credit for first-time home buyers and flexible IRAs will help families who can afford mortgage payments, but still need money for downpayments and closing costs, to take advantage of the lowest mortgage interest rates in nearly 20 years. Having more qualified buyers in the market will help those trying to sell their homes.

- Extending authority to issue mortgage revenue bonds will increase the availability of mortgage funds, making it easier for families of low- and moderate-income to obtain financing.

Fact Sheet

PROMOTING LONG-TERM ECONOMIC GROWTH

While providing short-term economic stimulus, the Administration's proposals maintain the President's commitment to long-term policies of market-driven growth and competitiveness. The Administration's package will reduce barriers to investment and saving, encourage entrepreneurship, foster innovation, and promote saving for education and other long-term goals.

A. Encouraging Investment for Long-term Growth

Investment in capital of all kinds -- equipment, modernized plants, research, and an improved work force -- generates jobs, promotes growth and improves our standard of living over the long term. Administration policies will encourage increased investment in the United States.

- Lowering the capital gains tax rates by excluding 45 percent of the capital gain on assets held three or more years; 30 percent of the gain on assets held two or three years; and 15 percent of the gain on assets held at least one year. A 45 percent exclusion would effectively cut the capital gains tax to 15.4 percent for taxpayers now subject to a 28 percent capital gains rate.

  This will reduce the cost of capital, expand opportunities for new businesses and assure more jobs, productivity improvements, and higher standards of living in the future.

- Making the Research and Experimentation Tax Credit permanent will stimulate private sector R&E investment and the technological innovations upon which America's long-term prosperity and quality of life depend.

- Adjustments to the Corporate Alternative Minimum Tax (AMT) will lessen disincentives to new corporate investment in capital-intensive industries in the U.S.

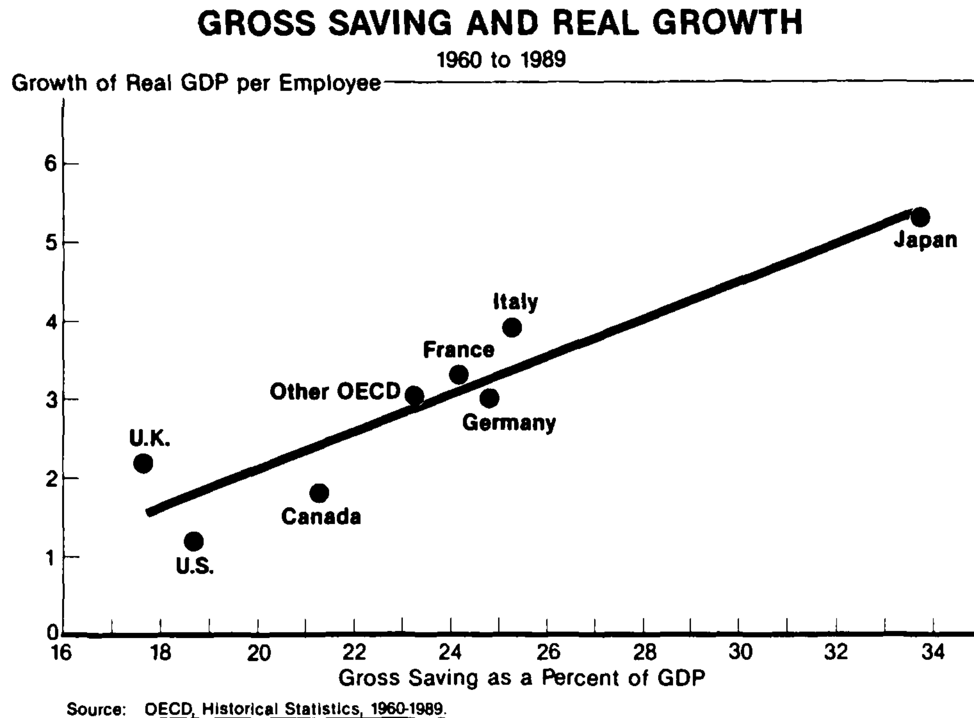
- Federal enterprise zones will introduce a new era of public/private partnerships to create special investment opportunities in America's economically distressed cities and rural areas.

- Deductibility of interest on student loans and flexible IRAs will give financial assistance to those Americans striving to further their education or learn new vocational skills, thus improving America's "human capital."

- o Following the Treasury's corporate tax integration study, the Administration will promote discussion of removing the double taxation of corporate dividends, thereby lowering the cost of capital and increasing American competitiveness.

B. Reducing Barriers to Saving

Statistics demonstrate a positive correlation between saving rates and long-term growth. The United States needs to increase its savings to fund investment and ensure U.S. competitiveness. The Administration proposals will expand the pool of available savings, lowering the cost of capital for American investment.



- o Strict spending discipline and deficit control, provided by the 1990 Budget Agreement, is the single most important way to stop the federal government's unacceptable drain on the national savings pool. The American people live within their means; the government must do the same.

- o Reduction in tax rates applicable to capital gains will increase investment returns and create incentives for saving.

- o Enhancing existing IRAs and creating new, Flexible IRAs will create more attractive saving vehicles for retirement, education, medical expenses and other long-term financial goals.

C. <u>Improving the Business Climate</u>

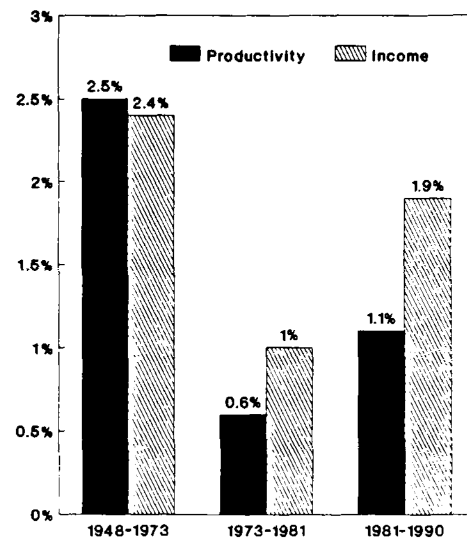
Administration policies will improve the overall climate for job-creating investments by addressing vital issues for entrepreneurs.

- <u>The Administration will extend policy support for continued low interest rates</u>, which are now at the lowest levels in nearly 20 years.

- <u>Cost-effective, market-oriented business regulation, and deregulation</u> will be undertaken when appropriate.

- <u>Open trade and investment regimes</u>, accomplished by successful conclusions of the Uruguay Round of multilateral trade negotiations and the North American Free Trade Agreement, will create economic growth and business opportunities for American firms.

- <u>Continued support for growth-oriented, market-driven economic policies</u> helps increase investment and productivity. Business flourishes most in America when the government's role is limited. And greater productivity leads to increased prosperity and higher wages.



- <u>Investment in America's human capital</u>, through improving the nation's education system and addressing serious problems such as drugs and crime, will increase the competitiveness of America's work force.

- <u>Investment in our nation's physical infrastructure</u>, provided by the Administration's recently-enacted Surface Transportation Act of 1991, is creating jobs now and improving America's efficiency and productivity for tomorrow.

Fact Sheet

PROVIDING OPPORTUNITIES AND INCENTIVES FOR EMPLOYEES, ENTREPRENEURS AND FAMILIES

The President believes that a strong, growing, and dynamic economy increases opportunity for all Americans. The Administration's proposals support economic growth for the nation as a whole, while offering special incentives to address the concerns of employees, entrepreneurs and families.

A. Generating New Businesses and Jobs

Administration policies will support the creation of jobs and increased prosperity for all Americans.

- Investment incentives proposed by the President will increase employment in the short term through expanded investment activity, and in the long term, as a result of the improved physical capital put into place.
- Capital gains tax rate reductions will stimulate entrepreneurial activity, generate jobs, and promote prosperity, by freeing up resources for families to reinvest.
- Making the Research and Experimentations Tax Credit permanent will lead to innovation, increased competitiveness and productivity improvements that raise incomes and improve the quality of our lives.
- Jobs for poor and disadvantaged Americanswill be generated by the Administration's enterprise zone proposals and the Targeted Jobs Tax Credit. And extended unemployment benefits will help individuals and families who need extra time to find a job.
- Employees in the boat-building and aviation industries will be helped by the Administration's proposal to repeal the excise tax imposed on boats and airplanes.

B. Sustaining Good Incomes

Policies to improve productivity and generate long-term economic growth offer the best hope for increasing family incomes and ensuring that America will successfully compete in the next century. In addition, Administration proposals address the special needs of low- and middle-income families.

- Changing the tax withholding rules to more accurately reflect taxpayer liability will leave money in the hands of families and give them greater flexibility in managing their household budgets.

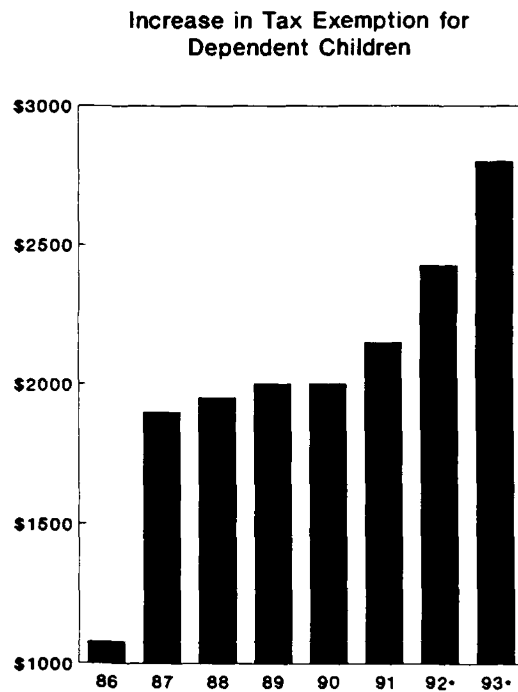
- Permitting deduction of losses on personal homes will reduce the financial burden on many Americans who sell their homes in depressed markets because of a move to a new job or for family reasons.

- The Low Income Housing Tax Credit will help to improve the availability of affordable housing for low-income rental households.

- Families adopting children with special needs will be assisted by the Administration's proposal to extend the adoption tax credit.

- Exclusion from income tax of subsidies to employees who use mass transportation will provide financial assistance to those employees who are most likely to need it, and will promote the use of public transportation.

- Increasing the personal exemption by $500 per child will help increase consumer purchasing power by giving families much-needed tax relief.



C. Building for the Future

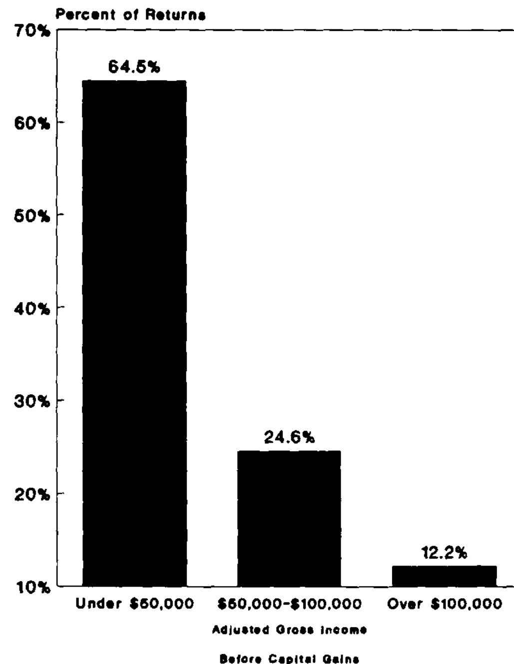
The President is committed to high living standards for today and for our children. The Administration's proposals will ensure that the American dream will become a reality for future generations.

- Continuing the commitment to pay-as-you-go budgeting will bring federal spending under control and help ensure a competitive America for our children.

- Home ownership remains the cornerstone of the American dream and is the primary vehicle for most families to save and build for their future. The Administration's package of incentives for home ownership, combined with the lowest mortgage interest rates in nearly 20 years, will make now a great time for buying a home.

- Capital gains tax rate reduction will open up opportunities for entrepreneurs to build up a family business; it also will increase the benefits of saving for the majority of Americans who either report capital gains during their lifetime or have a pension fund or retirement plan.

Who Reported Capital Gains in 1990



- Other savings incentives, such as enhancing existing IRAs and creating new, Flexible IRAs, will help individuals and families achieve their long-term financial goals.

- Allowing deduction of interest on student loans will improve the prospects for the millions of Americans who seek to expand their minds and opportunities by furthering their education, and it will help ensure that America has an educated work force that can compete with our trading partners.

TREASURY NEWS

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

EMBARGOED UNTIL 9 PM (EST)
January 28, 1992

**President Bush's Plan to
Stimulate Economic Recovery,
Promote Long-Term Growth, and Expand Opportunity**

The President's plan will stimulate economic recovery and job-creating investment; open up opportunity for home ownership and real estate recovery; and help families build for the future. It accomplishes these goals with the following initiatives:

Proposal	page
o Cut Capital Gains Tax Rate	2
o Investment Tax Allowance (ITA)	9
o Simplify and Enhance Alternative Minimum Tax (AMT) Depreciation	10
o Targeted Jobs Tax Credit	11
o Establish Enterprise Zones	12
o Raise Tax-Free Mass Transit Benefits	14
o Repeal Tax on Purchases of Certain Boats and Airplanes	15
o Permanent Research and Experimentation Tax Credit	16
o Passive Loss Rules for Active Real Estate Developers	18
o Facilitate Greater Pension Fund Investment in Real Estate	20
o Help First-time Homebuyers	21
o Permit Deductibility of Losses on Sale of Personal Residences	22
o Mortgage Revenue Bonds	23
o Low-Income Housing Tax Credit	24
o Family Tax Allowance	25
o Flexible Individual Retirement Accounts (FIRA's)	26
o Permit Deduction of Interest on Student Loans	27
o Extend Unemployment Benefits	28
o Deduction for Special-Needs Adoptions	29
o Small Issue Bonds for First-Time Farmers	30

CUT CAPITAL GAINS TAX RATE

The President urges Congress to cut the capital gains tax rate, which will raise American living standards by unleashing job-creating investment, boosting productivity, and raising the value of the assets of American families.

The President proposes excluding 45 percent of the capital gain on an asset held three or more years; 30 percent of the gain on an asset held between two and three years and 15 percent of the capital gain on an asset held at least one year.

A 45 percent exclusion would effectively cut the capital gains tax to 15.4 percent for taxpayers now subject to a 28 percent capital gains rate and 8.25 percent for taxpayers now subject to a 15 percent tax rate.

Lowering the tax on capital gains to create jobs and make America more competitive is a bi-partisan objective. Many pro-growth Democrats have also proposed a cut in this tax to benefit America's future.

Stimulating Economic Growth and Creating Jobs

-- A lower capital gains tax rate lowers the cost of investing in America's future and assures a higher standard of living.

-- Because of high capital gains taxes, many important long-term and high risk enterprises have been unprofitable for American firms to undertake.

Opening Up Opportunities for Small Businesses and Entrepreneurs

-- America's new companies and small firms are the future strength of the United States. They represent the emerging growth industries that will provide high-quality jobs in the 1990s and the productive muscle to stay competitive in the 21st century.

-- Firms with 20 or fewer employees generate over two-thirds of all net new private sector jobs.

-- According to the National Federation of Independent Business, the top priority of the small business community is attracting start-up capital. Small businesses and start-up companies traditionally rely on equity capital -- they cannot float bonds or compete with big corporate rivals for bank loans.

-- Young companies frequently cannot afford to pay high salaries to attract top talent. Instead, they offer a stake in the business, which will pay off if the company succeeds. A high capital gains rate, which decreases the value of this stake, starves small businesses and entrepreneurs of resources and stunts their growth.

-- Lowering the capital gains tax rate will spur entrepreneurs to get their businesses started now, providing jobs for tomorrow.

Raising International Competitiveness

-- By keeping the capital gains rate too high, Congress favors foreign jobs over U.S. jobs.

-- Many of our fiercest trade competitors encourage investment by not taxing capital gains at all. Germany, South Korea, Hong Kong, Belgium, Italy, and the Netherlands have a zero capital gains tax rate.

-- Japan had a zero capital gains rate during most of its post-war economic boom. Even today in Japan an investor in a successful firm pays an effective rate of only 1 to 2 percent.

Spurring Savings and Investment for Economic Growth

-- The U.S. needs savings to fund investment in productive enterprises. Yet the tax code penalizes both savings and investment.

-- Someone who buys stock in a company is effectively taxed two times: First, the company must pay taxes on its profits before it can pay dividends or reinvest profits. Second, the shareholder must pay income taxes on any dividends or, alternatively, must pay capital gains taxes if he sells the stock for a profit -- even if the profit is illusory because of inflation.

Encouraging Firms to Look Toward the Future

-- High capital costs force investors to focus on the short run, rather than the long run. Because of high capital gains taxes, U.S. firms cannot afford to invest in certain long-term projects that their foreign competitors are betting on.

-- Due in part to the U.S. tax code, investors find it more attractive to make short-term investments, rather than to wait until a firm innovates, grows, and penetrates markets.

-- Because of high capital gains taxes, American firms must promise shareholders much higher returns on their investment. Consider the following example:

An American company and a German company each issue stock worth $100. Shareholders in both countries demand an after-tax rate of return of 8 percent a year. The German company will invest in a project that will double the stock to $200 in nine years. The American company will pass up this project. Why? Because capital gains taxes will wipe out up to $28 of the gain, driving

the annual after-tax return far below the required 8 percent return.

Sharing in America's New Wealth

-- All Americans will benefit from the economic growth that a lower capital gains tax rate will bring.

-- About half of all Americans report capital gains during their lifetime. About 60 percent of all people who report capital gains earn less than $50,000. Moreover, over one-quarter earn less than $20,000.

-- Only about 5 percent of tax returns with long-term capital gains have incomes above $200,000.

o **Helping Senior Citizens**

- A capital gains tax cut would help senior citizens more than any other group, because retired people no longer earn wages and frequently must sell assets to pay their expenses.

- Many senior citizens sell a family business or a portfolio of stocks that has accumulated over a lifetime to provide a nest egg for retirement years.

- In any year, more than 40 percent of taxpayers over the age of 60 pay capital gains taxes. Senior citizens receive 70 percent of their income from investments, while younger people receive only 15 percent.

- Capital gains for seniors average four to five times the size of capital gains for younger taxpayers.

o **Helping America's Families with Middle and Lower Incomes**

- People who earn less than $50,000 of non-capital gains income per year realize about 40 percent of the capital gains each year. A lower capital gains tax applies to many types of assets, not just to the investments that wealthy people make. In fact, capital gains taxes are taxes on the American Dream. For example:

  - the family farm or family business;

  - the great idea that the garage inventor dreams about and turns into a profitable venture;

- the modest rental housing units purchased by the small investor with the family's savings; and

- the family home that is sold when the kids have grown and moved away, to pay bills, because of divorce, retirement, or the family gets transferred to an area where houses cost less.

o **Helping America's Farmers**

- Cutting the capital gains tax rate would help America's farmers and foresters become even more productive.

- The Department of Agriculture projects that the President's FY 1992 proposal would have boosted U.S. agriculture output by $2 billion. These gains, which cut across all agriculture sectors, would also benefit the food processing industry and consumers.

o **Channeling the Wealthy Toward Productive Investment**

- Many wealthy Americans have held onto appreciated assets because of high capital gains taxes. Lowering the tax rate would free up funds for new, job-creating investments.

- The capital gains tax cuts of 1978 and 1981 raised revenue from millionaires. Taxpayers who earned more than $1 million paid the federal government $7.2 billion in 1985, nine times as much as they paid prior to the tax cuts in 1978.

Reducing the Bias Toward Debt Financing

-- High capital gains tax rates make stocks less attractive to investors. Rather than issue shares, many firms find it cheaper to go into debt to finance expansion or buy new machinery.

-- Under current law when a firm finances by selling stock, the Federal government taxes the same earnings twice. First, the firm pays an income tax. Second, shareholders pay income taxes on these same earnings when they receive dividends or sell shares for a capital gain. In contrast, when a firm finances by selling bonds, the firm may deduct the interest payments as a cost of doing business and investment income is taxed only once at most.

-- As capital gains rates rose from 27.5 percent in 1969 to 49 percent in 1976, firms offered less new stock. New public stock offerings fell from $2.6 billion to $230 million.

Raising Stock Market Values

-- Almost all Americans benefit directly when the stock market rises. Pension funds that own stock cover about half of all America's families. In addition, over 50 million individual Americans own shares.

-- Taxing assets depresses values. From 1968 to 1977, Congress raised capital gains tax rates 75 percent. The Dow Jones Industrial average fell by 40 percent in constant dollars. From 1978 to 1986, when the capital gains tax was cut from 49 percent to 20 percent, the Dow Jones jumped 65 percent in constant dollars.

Spurring High Technology Companies

-- Emerging technologies require years of research and development. Young high-tech firms cannot afford to pay dividends in their early years. Instead, they rely on "patient capital" from shareholders who expect stock prices to eventually rise. High capital gains taxes drive otherwise patient investors to demand immediate returns.

-- Tax-sensitive individuals outside the professional venture capital industry provide most of the early stage funding to America's small, high-tech companies. For example, in 1985 they provided 59 percent of the $60-70 billion.

-- Most of these entrepreneurial investors, who take chances on risky new projects, are not millionaires. For instance, in 1985 one-third had family incomes under $60,000, and almost two-thirds had family income under $100,000.

-- High capital gains taxes punish these investors, retarding America's technological growth. Since capital gains tax rates rose in 1987, total venture capital spending has plummeted by about 60 percent.

Unlocking Old Investments for New Investment

-- A capital gains tax is a tax on transactions. High rates lead potential sellers to hang onto their assets and buyers to stay on the sidelines. A lower rate will increase sales in all asset markets.

-- From 1969 to 1973, the Congress raised the rate in stages from 29 percent to 49 percent. By 1976, real revenues had fallen to 37 percent below 1969 levels.

-- Capital gains tax cuts in 1978 and 1982 dramatically increased assets sales and capital gains revenue to the Treasury.

- Capital gains realizations soared from $50.5 billion in 1978 to $327.6 billion in 1986, when the power of low tax rates to unlock existing gains was forcefully demonstrated.

- Tax revenue from capital gains skyrocketed from $9.1 billion in 1978 to $49.7 billion in 1986.

- The trend collapsed in 1987, after the capital gains tax rate rose again. Capital gains realizations fell to $144 billion in 1987, while tax revenue fell to $32.9 billion, down 33.8 percent in one year.

-- The Congressional Budget Office substantially overestimated the level of capital gains that would be realized after the tax rate was increased.

Reducing Punitive Taxes on Inflationary Gains

-- Capital gains taxes punish American families and businesses, which must pay taxes on illusory gains. High rates depress housing prices and effectively rob Americans.

-- Suppose you invest $1,000 and the value rises $70 in a year due to a 3 percent ($30) real gain and a 4 percent ($40) inflation increase. If you sell the investment and are in the 28 percent tax bracket, you would pay a capital gains tax equal to 28 percent of the total $70 increase. That's $19.66 -- a tax of 66 percent of the real gain.

-- Suppose you invested $1,000 in the stock market in 1970 and sold your stocks in 1988. During those eighteen years the Standard and Poors Index rose 219 percent. But inflation was 205 percent. The net gain after inflation would be only $140. Yet you would pay on the entire 219 percent capital gain. If you were in the 28 percent tax bracket, your effective tax rate on the gain would equal 438 percent.

QUOTATIONS

"The tax on capital gains directly affects...the ease or difficulty experienced by new ventures in obtaining capital, and thereby the strength and potential for growth of the economy."

President John F. Kennedy

"The capital gains differential is a weapon-- a powerful weapon in the battle to be competitive." "That bill [which lowered capital gains tax rates in 1978] did more for the economy of my state than anything I did as a Congressman."

Former Senator Paul Tsongas

"...a reduction in the capital gains tax would be quite helpful. It is especially important considering our current difficulties with weak real estate property values."

Federal Reserve Chairman Alan Greenspan

"A capital gains tax reduction could stimulate growth over the intermediate to long-term, enhancing capital formation and possibly potential output, perhaps helping to permit some extra tax receipts by unlocking unrealized tax gains."

Allen Sinai, Chief Economist, Boston Co. Economic Advisors

"People like me keep harping about eliminating or reducing the capital gains tax and it really could make a difference. It really does influence the cost of capital, and a higher cost of capital really does make us less competitive."

T.J. Rodgers, CEO, Cypress Semiconductor

"I regret that capital gains has been couched as a party issue. John F. Kennedy and Lyndon Johnson advocated a lower capital gains rate, and I find it hard to believe that this has suddenly become a partisan issue...A capital gains tax cut will help lower the cost of capital and help business attract investors and create new jobs."

Congressman J. J. Pickle

INVESTMENT TAX ALLOWANCE (ITA)

The proposal would provide firms an additional first year depreciation equal to 15 percent of the purchase price of newly acquired equipment. This additional depreciation would be allowed for both regular and alternative minimum tax purposes. The property must be acquired on or after February 1, 1992 and before January 1, 1993, and placed in service before July 1, 1993.

Provide Immediate Stimulus for Job-Creating Investment

-- The proposal would provide investment incentives by increasing cash flow and by lowering the net cost of capital invested in 1992 for businesses purchasing newly acquired equipment. This would provide a short-term boost to the sluggish recovery, while at the same time raising long-run productivity.

-- To create jobs, businesses need to make investments in productive equipment, such as computer-aided design equipment, advanced machine tools, and telecommunications equipment.

Advantages of the ITA Over a Return to the Investment Tax Credit (ITC)

-- The President selected the ITA because it benefits all taxpaying businesses, including firms that pay taxes under the Alternative Minimum Tax (AMT) . The ITC disadvantages taxpayers subject to the AMT, because its use is limited to 25 percent of AMT liability.

-- The ITA reduces effective tax rates by the same percentage for all eligible investment. A five percent ITC favors short-lived assets and has a much higher revenue loss to the Treasury.

-- Unlike many ITC proposals, the ITA does not "target" certain forms of equipment and pick winners -- instead, it creates a level playing field for investments.

Improve Corporate Competitiveness

-- Companies in the U.S. invest relatively less than their competitors in Germany and Japan. U.S. gross domestic investment as a percent of GNP is the lowest of the six major industrialized countries (Canada, France, Germany, Japan, the U.K., and the U. S.).

-- The ITA, along with the reduction in capital gains tax rates and the changes in the Alternative Minimum Tax, will reduce the cost of capital faced by American companies, thereby making them more competitive.

SIMPLIFY AND ENHANCE ALTERNATIVE MINIMUM TAX (AMT) DEPRECIATION

Firms that pay taxes under the AMT currently receive less tax benefit from depreciation than other firms. The President proposes to repeal the "adjusted current earnings" (ACE) depreciation adjustment for firms placing new equipment in service on or after February 1, 1992.

Encourages New Investment Now

-- The proposal would target investments in new depreciable property without providing a windfall for prior investments.

Reduces AMT Companies' Cost of Capital

-- More than one-third of large U. S. corporations pay income taxes according to the Alternative Minimum Tax rules.

-- The current depreciation adjustment used to compute "adjusted current earnings" penalizes capital-intensive companies, such as airlines, chemicals, paper, motor vehicles and steel when they buy equipment to modernize, expand capacity or meet the challenge of international competition.

-- This change, along with the reduction in the capital gains tax rate and the Temporary Investment Tax Allowance, would reduce the cost of capital for investing in productive machinery and equipment.

-- Capital-intensive industries need reasonable cost recovery policies to stimulate purchases of new equipment and machinery which generate jobs and long-term economic growth.

Benefits Corporate Environmental Improvements

-- The proposal also reduces the cost of congressionally mandated pollution control equipment and investments. Previously, tax benefits for pollution control equipment investments were diminished under AMT -- even though the investments produce no income and were mandated by Congress.

Simplifies Current AMT Rules

-- The proposal simplifies the AMT by requiring only one computation of depreciation for AMT purposes.

TARGETED JOBS TAX CREDIT

The President proposes to extend the targeted jobs tax credit (TJTC) for one year, through 1993. The TJTC is available on an elective basis for hiring individuals from nine targeted groups, including, among others, economically disadvantaged youths, and Vietnam-era veterans. The credit generally is equal to 40 percent of the first $6,000 of qualified first-year wages, a maximum credit of $2,400 per individual.

The TJTC is targeted to benefit economically disadvantaged groups.

-- The TJTC is intended to encourage employers willing to hire workers who otherwise may be unable to find employment.

-- Workers who may be disadvantaged, such as inner-city youth and Vietnam-era veterans, are among those singled out to benefit from this incentive.

Job creation incentives are required in the current economic climate.

-- The incentive is intended to encourage employers to hire workers who otherwise might be unable to find jobs.

-- By taking workers off welfare rolls and into private sector jobs, both the individual and society benefit.

ESTABLISH ENTERPRISE ZONES

The President's proposed enterprise zone initiative would supplement existing inducements to invest in economically-distressed areas with additional Federal tax incentives. These incentives -- a limited refundable tax credit for qualified employee wages, elimination of taxation on capital gains attributable to eligible zone property, and limited expensing by individuals for certain capital investments in enterprise zone businesses -- would be offered in conjunction with Federal, State, and local regulatory relief. Up to 50 zones will be selected over a four-year period. The willingness of States and localities to "match" Federal incentives would be considered in selecting the special enterprise zones, and at least one-third of the designated zones would be rural.

The proposal would help economically distressed areas share in the benefits of economic growth.

-- Jobs are the best single remedy for the ills of poverty and its related social pathologies.

-- Enterprise zones would encourage private industry to invest and create jobs in economically distressed areas through selected tax incentives that reduce the risks and costs of operating or expanding businesses in such areas.

The proposal would introduce a new era of public/private partnerships to help distressed cities and rural areas help themselves.

-- The proposal to designate Federal enterprise zones would not replace other long-standing Federal anti-poverty programs. Rather, it would deploy the resources and skills of the private sector toward the Federal anti-poverty effort.

The proposal's focus is on creating new small businesses.

-- The reason is simple: firms with 20 or fewer employees generate over two-thirds of all net new private sector jobs. Development of a strong, local business community is an important ingredient in successful revitalization of depressed neighborhoods.

-- According to the National Federation of Independent Business, the top priority of the small business community is attracting start-up capital.

Federal tax incentives will enhance the positive results already experienced by State and local enterprise zones.

-- Three-fourths of the States are experimenting with enterprise zones, ranging in number from only one to more than 100 zones per state. While these enterprise zones have not had the additional benefit of Federal tax incentives, there is considerable evidence that even the modest tax incentives offered by States and localities had positive results.

-- The Department of Housing and Urban Development estimates that state enterprise zones have saved or created a total of 180,000 jobs and spurred about $9 billion in private investment in poor areas.

-- State and local enterprise zones have not yet received Federal tax incentives, which tend to be more valuable to the taxpayer than those that can be offered by State and local governments. The President's enterprise zone proposal will significantly enhance these impressive results.

The tax provisions of the proposal are designed to yield maximum benefits for the cost to the taxpayer.

-- The refundable tax credit for qualified employees is designed to encourage low-income inner-city and rural residents to obtain employment, become self-supporting, and leave welfare.

-- Expensing of investor purchases of newly-issued corporate stock gives an immediate tax saving to individuals who invest in enterprise zones. It is also designed to provide inner-city entrepreneurs with the seed capital they need to start small businesses.

-- A zero capital gains rate for gains on investment in tangible property in the zones is another strong incentive for potential entrepreneurs and outside investors to bring capital into the zone.

-- Restricting the incentives to investments in tangible assets, rather than including intangible assets as well, improves the likelihood that benefits would actually accrue to the enterprise zone and not to some other location.

RAISE TAX-FREE MASS TRANSIT BENEFITS THAT EMPLOYERS MAY PROVIDE

The President proposes to increase the amount of tax-free mass transit benefits that employers may provide to employees from $21 per month to $60 per month. This proposal underlines the President's commitment to his National Energy Strategy, which presented a comprehensive and balanced approach to meeting this Nation's long-term energy needs.

Increasing Tax-Free Benefits for Mass Transit Addresses Important Energy and Environmental Concerns.

-- By encouraging mass transit, this proposal will help reduce traffic congestion, and conserve energy resources.

-- Higher mass transit benefits for employees will also discourage commuting by single occupancy vehicles, leading to reductions in urban emissions.

REPEAL EXCISE TAX ON BOATS AND AIRPLANES

The President proposes to repeal the excise tax imposed on boats and aircraft. The revenue loss would be offset by extending the excise tax on diesel fuel sold for use in motorboats.

Repeal of the excise tax for boats and aircraft would reinvigorate industries that employ middle and lower income working Americans.

-- This tax penalized the small business owners and workers who sell and service boats and small aircraft. These hard hit industries employ many electricians, carpenters, painters, and other craftsmen.

Offsetting the repeal with an extension of the diesel fuel tax on pleasure boats would not cost jobs in the motorboat industry.

-- The burden of extension would be borne primarily by persons who own pleasure boats costing more than $100,000.

PERMANENT RESEARCH AND EXPERIMENTATION TAX CREDIT

The President proposes to make permanent the 20 percent tax credit for a certain portion of a taxpayer's "qualified research expenses," a credit which would otherwise expire December 31, 1992. In general, qualified expenditures consist of (1) "in-house" expenditures for wages and supplies used in research; (2) 65 percent of amounts paid by the taxpayer for contract research conducted on the taxpayer's behalf; and (3) certain time-sharing costs for computers used in research. Current law also provides a separate 20 percent tax credit ("the university basic research credit") for corporate funding of basic research through grants to universities and other qualified organizations.

<u>The proposal would help to generate new jobs.</u>

-- Private investment in R&D leads to technological innovations that create new companies that hire more Americans.

-- Personal computers, compact discs, biological engineering, and holography are each examples of technologies that in recent years have spawned enormous industries and directly generated tens of thousands of jobs.

<u>The proposal would enhance America's international competitiveness.</u>

-- America's long-term position internationally depends upon a strong R&D base.

-- Total real industrial R&D expenditures increased significantly from the early 1960s to the mid-1980s, but the rate of growth has levelled off in recent years. The growth of industrial R&D spending dropped from a 7 percent average rate between 1980-1985 to 2 percent between 1985-1990.

-- A permanent R&E tax credit would increase corporate R&D spending in the 1990s by about 4 percent, according to studies by Bailey and Lawrence. Making the credit permanent would help reverse the recent trend toward leveling off of corporate R&D spending and enhance the nation's ability to compete in the international environment.

The proposal would encourage productivity gains and higher incomes.

-- Extensive research has demonstrated that private sector R&D investments provide a strong stimulus for private productivity.

-- As firms become more productive, the real income of workers rises. The R&E tax credit supports the productivity improvements needed to maintain real incomes of American workers at the highest levels in the world.

The proposal would promote improvements in the quality of life for all Americans.

-- Private investment in R&D is essential to technological innovation. The quality of life for each of us has been improved immeasurably by the technologies, such as new medicines and machines, that emerge from these investments.

-- The R&E tax credit is meant to ensure that the steady flow of new American technologies does not dry up.

The proposal is consistent with the Administration's emphasis on private sector initiative.

-- While recognizing the value of direct government funding of research and experimentation, the Administration seeks to encourage private research efforts whenever possible. Private industry is the largest supporter of R&D in the nation, providing about 50 percent of the total national R&D investment.

For maximum effectiveness, the R&E tax credit must be made permanent.

-- Stable tax laws that encourage research allow firms to undertake research with greater assurance of the future tax consequences.

PASSIVE LOSS RULES FOR ACTIVE REAL ESTATE DEVELOPERS

The passive loss rules would be amended so that a person's active real estate development operations are treated the same as other businesses', that is, gains and losses can be netted for tax purposes. The proposed amendment would be effective for taxable years ending on or after December 31, 1992.

Passive Loss Loopholes Were Closed in the 1986 Tax Reform

-- The 1986 Tax Reform Act intended to close a tax loophole whereby real estate syndicators were forming limited partnerships of money-losing rental properties. These properties were syndicated to non-real estate investors, so-called "passive" investors, for the tax write off.

-- However, the reform, as enacted, denied reasonable netting of gains and losses for income tax purposes by full time professional, or "active" developers of real properties.

Help Stop the Slide in Real Estate Values

-- With the increase in the tax rate on capital gains, also contained in the 1986 Act, returns on investment of all kinds were lowered, but especially for real estate.

-- Lower net returns on investment meant that values of apartments, shopping centers and office buildings began to fall.

-- A prudent change in the passive loss rules only for active investors, along with the President's proposal to lower the tax rate on capital gains, will help stabilize real estate prices.

Conform Treatment to Other Businesses

-- Because this measure is limited to "active" developers, it will not lead to tax loopholes or encouragement of non-economic construction of unneeded offices or apartments.

-- Instead, this proposal will conform the passive loss rules for active real estate investors to the way other businesses operate under the tax rules. For example, corporations net the income and losses from their various subsidiary operations when filing their consolidated income taxes.

Accelerate Real Estate Sales from the RTC

-- Along with the reduction in the capital gains tax, this change will help expedite sales of properties from the Resolution Trust Corporation (RTC), increasing the repayment of taxpayer funds in the savings and loan cleanup.

-- Likewise, it will help the FDIC and banks market properties that are held in their portfolios. This will reduce the pressure on the FDIC deposit insurance fund.

Improve Bank and Savings & Loan Balance Sheets

-- By boosting asset values of their real estate holdings, banks, savings and loans, and insurance companies will benefit through higher values for the properties they own.

-- Higher asset values and enhanced sales of assets will boost capital levels of financial institutions.

-- Higher capital levels will facilitate greater lending and will help banker and borrower confidence in fighting the "credit crunch."

FACILITATE GREATER PENSION FUND INVESTMENT IN REAL ESTATE

The President proposes four principal changes to tax rules governing the extent to which tax exempt organizations, such as pension funds, are subject to the Unrelated Business Income Tax (UBIT) including: (1) modifying the prohibition on seller-financing to include sales that are made on terms that are commercially reasonable; (2) modifying the sale-leaseback prohibition to permit certain leasebacks to the seller of debt-financed property; (3) permitting investments in certain qualifying partnerships, including repealing the rule which automatically subjects investments in partnerships to UBIT; and, (4) relaxing the prohibition on participating loans in the case of sales of property foreclosed on by financial institutions.

Pension Funds are Traditional Holders of Real Estate Investments

-- Along with banks and insurance companies, pension funds are among the largest providers of capital to real estate.

-- With nearly $2 trillion in assets, America's corporate pension funds are a continuing source of long-term investment capital.

-- Most of the larger corporate funds have investment allocations in real estate ranging from 5 to 10%, with some funds at higher levels.

Removing Tax Code Impediments to Pension Fund Investing

-- The proposals remove impediments to more efficient investing by pension funds in commercial properties.

-- These changes lower the transaction costs associated with structuring an investment in the acquisition of a office building, hotel complex, or other long-term investments.

Fights the "Credit Crunch"

-- These changes will enhance liquidity in the financial system by facilitating more purchases of properties held by the RTC or other financial institutions, such as banks and insurance companies.

-- Greater participation in real estate markets by highly liquid, long-term investors like pension funds will improve prospects for sales and ultimately property values.

HELP FIRST-TIME HOMEBUYERS

Buyers of their first home will be entitled to receive an income tax credit of 10 percent of the purchase price, up to a maximum of $5,000 spread evenly over tax years 1992 and 1993, on any purchase on or after February 1, 1992 and before January 1, 1993. A "first-time homebuyer" would include any individual not owning a home during the previous three years.

First-time home buyers may also make a penalty free withdrawal from their Individual Retirement Account (IRA) up to a maximum of $10,000.

Homebuilding in Sluggish Rebound

-- Housing starts for single family homes rose very modestly in December, with starts of multi-family units falling 6.1 percent, bringing the annual rate of all starts to 1.090 million units.

-- In December, building permits, often an indicator of future housing activity, rose 5.8 percent.

-- Responding to the lowest mortgage rates since 1973, sales of existing homes rose 0.9 percent in December.

-- Mortgage rates are attracting refinancings, but still not enough new buyers.

-- Despite these key indicators showing about a 25% improvement since January 1991, the housing market has been sluggish.

Home Buying Stimulates the Economy

-- Combined with the lowest mortgage interest rates since 1973, the President's proposals make now a great time for investing in a home.

-- Home construction stimulates jobs -- for builders, carpenters, plumbers, landscapers, architects. The National Association of Homebuilders estimates that a first time home buyer credit of this sort could create over 700,000 jobs, approximately 400,000 added starts, and over 1.0 million additional purchases.

-- Home sales spur economic activity through consumer purchases of washers, dryers, refrigerators, and all the services related to buying and moving.

Boost Home Values

-- Regions of the country hit hard by weak economic performance, also have had home values fall. 43.7 percent of all Americans' net worth is in their homes.

-- These measures, when combined with the President's proposal to reduce capital gains taxes, allow penalty free IRA withdrawal for a first home, and permit deductions for losses on home sales, will boost home equity values and purchases and allow more Americans to own their own home.

PERMIT DEDUCTIBILITY OF LOSSES ON SALE OF PERSONAL RESIDENCES

Capital losses taken by homeowners on the sale of their personal residence would be treated the same as a casualty loss for tax purposes, thus allowing a partial deduction. Losses taken by homeowners on the sale of their personal residence could be carried over in a new home purchased within the two-year rollover period.

Assist Families Forced to Sell in a Bad Market

-- These tax changes will help offset any loss resulting from a temporarily bad real estate market. These losses are damaging to those families who have to move and sell their principal residence due to employment or family reasons.

MORTGAGE REVENUE BONDS

The authorization for Mortgage Revenue Bonds is extended for one and one-half years, through December 31, 1993.

Increases Affordable Home Mortgages

-- Under this program, the proceeds of certain tax exempt bonds may be used by state and local governments to make loans to low- and moderate-income individuals and families.

-- Encourages greater sales of single family homes in the federal government's inventory by facilitating sales linked to state and local government mortgage revenue bonds.

LOW-INCOME HOUSING TAX CREDIT

The President proposes to extend for 18 months State authority to allocate the low-income housing tax credit. The proposal establishes each State's credit allocation authority for 1993 at a level equal to the product of $1.25 and the State's population. Eligible expenditures include the depreciable costs of new construction and substantial rehabilitations. They also include the cost of acquiring certain existing buildings that have been substantially rehabilitated.

In addition to tenant-based housing vouchers and certificates, the credit is an important mechanism for providing Federal assistance to low-income rental households.

-- The low-income housing credit encourages the private sector to construct and rehabilitate the nation's rental housing stock and to make it available to the working poor and other low-income families.

The credit is consistent with the Administration's policy that the Government should encourage private provision of housing rather than own and operate housing for low-income citizens itself.

-- The private sector can manage privately-owned housing more efficiently than does the Government.

-- It is more desirable to foster the private sector to construct low-income housing than to rely on Federal construction and ownership.

FAMILY TAX ALLOWANCE

The President proposes to reduce taxes on working families by increasing the personal exemption for dependent children by $500 per child, from the current $2,300. This increase would be indexed for inflation and would be effective as of October 1, 1992. Increasing this exemption will help short-term and long-term economic growth by improving consumer confidence and the ability of families to pay for education, child care, as well as other vital expenses.

Helping the American Family

-- Families are the foundation of American society and of the U.S. economy, providing the purchasing power to buy goods, as well as the manpower to produce them. Families buy the homes, automobiles, and appliances that drive American industry forward.

-- Tax relief for the family will build consumer and business confidence and permit taxpayers to plan for long-term savings and for major purchases, which will help spark economic recovery.

-- Reducing taxes on the family will ease the erosion in the value of the personal exemption for children. In 1948, for example, the exemption was $600, equal to roughly 20 percent of the median income for two-parent families.

Helping Parents Help Children

-- Parents today face enormous financial and social responsibilities. Increasing the personal exemption for children will permit parents to save more for education and to help pay for medical and child care expenses.

-- By investing in the family, we foster stability in our neighborhoods. Your future depends not just on your children, but on your neighbors' children, who will be tomorrow's doctors, engineers, and teachers.

FLEXIBLE INDIVIDUAL RETIREMENT ACCOUNTS (FIRAs)

The President proposes to improve current IRAs by establishing a Flexible IRA plan. FIRAs differ from the current-law IRAs in two respects: The contributions are not deductible, but if the contributions are retained in the account for at least seven years, neither the contributions nor the investment earnings are taxed when withdrawn.

Under the proposal, individuals could annually contribute up to $2,500 to a FIRA, subject to certain income limits, ranging from $60,000 for single filers to $120,000 for taxpayers filing joint returns. In addition, individuals may transfer their existing IRA savings to a FIRA before December 31, 1992.

Increases Badly Needed Savings in America

-- The United States must save in order to fund necessary investment. Job creating investment is required to raise productivity, which leads to higher standards of living for Americans.

-- Savings provide the funds for existing companies that want to expand or for entrepreneurs who have a new idea to develop and market.

-- The United States needs to save more both by increasing personal saving rates and by reducing the federal budget deficit, which is a form of dissaving. Flexible IRAs address the first goal, while prudent fiscal restraint addresses the second.

-- Current tax laws penalize savings. This proposal along with the balance of the President's program enhances incentives to save and invest.

-- The U. S. personal rate of savings in 1991 was 4.3 percent versus 14.5 percent in Japan and 12.8 percent in Germany -- and was below our post-World War II average of 6.8 percent.

Provides Families Greater Flexibility in Savings

-- FIRAs serve the additional goal of expanding savings for purposes other than retirement, while not eroding incentives for retirement savings.

-- This proposal recognizes that individuals and families save for many reasons including: downpayments on homes, educational expenses, large medical expenses, and as a hedge against uncertain income in the future.

PERMIT DEDUCTION OF INTEREST ON STUDENT LOANS

Interest paid on student loans would be deductible from income taxes.

Helps Families Invest in the Future

-- To remain competitive in the international economy, the nation must have a well-educated and well-trained workforce. A deduction for interest costs incurred in financing higher education and training would help to alleviate this problem.

-- This deduction assists former, current, and prospective students and their families to cover the cost of undergraduate, graduate or vocational education.

-- Many students could not become the doctors or professionals of the next generation without the help of student loans.

-- Workers wishing to enter new training courses for a new career would benefit from this change.

EXTEND UNEMPLOYMENT BENEFITS

The President is concerned about Americans who have lost their jobs in the recession and seeks to work with the Congress without delay to ensure that all unemployed Americans receive extended unemployment benefits.

The President proposes legislation to make changes to extend the emergency unemployment compensation program enacted in November, 1991. Simultaneously, the President is working with the bipartisan leadership of congress to pass an unemployment benefits bill as quickly as possible.

Helping the Unemployed Meet Their Needs

Extending unemployment benefits allows individuals and families to continue meeting their basic needs while seeking new jobs.

DEDUCTION FOR SPECIAL-NEEDS ADOPTIONS

The President proposes to permit families to deduct from their income the expenses they face when adopting special-needs children, up to a maximum of $3,000 per child.

<u>Facilitates Care for Special-Needs Kids</u>

-- The proposal enables families with modest financial means to adopt special-needs children.

-- The proposal, when combined with the current federal Adoption Assistance Program, would assure that reasonable expenses associated with adopting a special-needs child do not cause financial hardship for the adopting parents.

-- This Christmas, an estimated 30,000 children available for adoption spent their holidays waiting for a permanent home. Most of these kids, about 60 percent, are special-needs children.

SMALL ISSUE BONDS FOR FIRST-TIME FARMERS

Under current law, State and local governments are authorized to loan first-time farmers the proceeds of qualified small issue bonds in amounts of up to $250,000 per farmer, provided that the proceeds are used to acquire qualifying farmland and certain farm-related depreciable property. This authority is scheduled to expire June 30, 1992. The President proposes an extension of the authority, through December 31, 1993.

The proposal encourages innovation in American agriculture.

-- Often, first-time farmers are those with the latest ideas and methods acquired in recent training. Assisting their entry into farming will increase innovation in American agriculture in general.

Supports small-scale farmers and helps to preserve an American way of life.

-- Farming is a capital-intensive business. Because of the instability of returns, small-scale farmers often have difficulty securing financing, especially those entering the business for the first time. The proposal would help to ease some of these financial barriers to entry.

-- Without sufficient financing, new entrants to farming would be less able to acquire the farms of retiring small-scale farmers, who might otherwise have no choice but to sell their properties to large agri-businesses.

// TREASURY NEWS

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

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January 28, 1992

These seven examples are hypothetical illustrations of how President Bush's package could affect individuals and families.

Example A:	Additional Tax Allowance for Children and $5,000 First-Time Homebuyers Tax Credit
Example B:	Additional Tax Allowance for Children, $5,000 First-Time Homebuyers Tax Credit, Penalty-Free IRA Withdrawals for First-Time Homebuyers, and Deduction of Interest on Student Loans
Example C:	Additional Tax Allowance for Children
Example D:	$5,000 First-Time Homebuyers Tax Credit
Example E:	Capital Gains
Example F:	Deduction of Interest on Student Loans and Penalty-Free IRA Withdrawals for Educational Expenses
Example G:	Buying a Home for a Growing Family

Example A: **Additional Tax Allowance for Children and $5,000 First-Time Homebuyers Tax Credit**

Family A consists of a husband and wife and two young children. The family's income consists of combined earnings of $44,000 and interest income of $500. At the end of 1992, the family buys a condominium for $60,000; it is their first home purchase. The family does not itemize deductions and, under current law, pays Federal income taxes of $4,395. Under the President's proposals, the family would benefit from a $500 increase in the personal exemption for each child which begins on October 1, 1992, and from the tax credit for first-time home buyers. The larger personal exemption would decrease their tax by $37.50, and the home-buyer credit would reduce their tax by $2,500 in 1992 and by an additional $2,500 in 1993. Including these benefits, Family A's 1992 Federal income taxes would be $1,857.50, which is 58 percent less than under current law.

In 1993, Family B has its taxes reduced by $2,500 by the second half of the credit for first time home buyers and by $150 from the full year effect of the $500 increase in the personal exemption for each child. Thus, in 1993, the proposal would reduce Family B's Federal income taxes by $2,650.

Office of Tax Analysis
January 28, 1992

Example B: Additional Tax Allowance for Children, $5,000 First-Time Homebuyers Tax Credit, Penalty-Free IRA Withdrawals for First-Time Homebuyers, and Deduction of Interest on Student Loans

Family B consists of a husband and wife and two young children. The family's income consists of combined earnings of $44,000 and interest income of $500. During 1992, the family buys a condominium for $60,000; it is their first home purchase. Family B obtains the funds for the downpayment on the new house by withdrawing $5,000 from an IRA account. During the second half of the year, they pay interest of $1,000 on loans which they incurred to pay their college tuition. Under current law, Family B has itemized deductions of $7,000 and pays Federal income taxes of $5,495, including a $500 penalty (10 percent of the amount taken out) for making an early withdrawal from an IRA. Under the President's proposals, the family would benefit from: the $500 increase in the personal exemption for each child which begins on October 1, 1992; the elimination of the IRA penalty for IRA withdrawals used to purchase a home; the tax credit for first-time home buyers; and the deductibility of interest on education loans. The larger personal exemption would decrease their tax by $37.50; eliminating the IRA penalty would reduce their taxes by $500; the home-buyer credit would reduce their tax by $2,500 in 1992 and by an additional $2,500 in 1993; and the deductibility of interest on education loans would lower their taxes by $150. Including these benefits, Family A's 1992 Federal income taxes would be $2,307.50, which is 58 percent less than under current law.

In 1993, Family B has its taxes reduced by $2,500 by the second half of the credit for first time home buyers, by $150 from the full year effect of the $500 increase in the personal exemption for each child, and by $150 by the deductibility of interest on its education loans. Thus, in 1993, the proposal would reduce Family B's Federal income taxes by $2,800.

Office of Tax Analysis
January 28, 1992

Example C: Additional Tax Allowance for Children

Family C consists of a husband and wife and three children, all under age 18. The family's only income is from wages of $40,000. The family does not itemize deductions and, under current law, pays Federal income taxes of $3,720. The larger personal exemption for children which begins on October 1, 1992 would reduce the family's tax by $56.25, or 1 percent, to $3,663.75. In 1993, with the larger personal exemption for children being in effect for the full year, the tax reduction would be $225.

Office of Tax Analysis
January 28, 1992

Example D: $5,000 First-Time Homebuyers Tax Credit

Newly-married couple D has combined earnings of $48,000 and interest income of $2,000. At the end of 1992, they purchase a house for $120,000. It is the first home purchase for either spouse. The family does not itemize deductions and, under current law, pays Federal income taxes of $6,368. Under the President's proposals, the family would benefit from the tax credit for first-time home buyers. Their Federal taxes would be reduced by $2,500 in 1992 and by an additional $2,500 in 1993. Including the credit, their 1992 tax would be $3,868, or 39 percent less than under current law.

Office of Tax Analysis
January 28, 1992

Example E: Capital Gains

Taxpayer E has been self-employed, and in 1992 he sells his business and retires. Taxpayer E and his wife file a joint income tax return and do not have any dependent children. They have $60,000 of income from operating their business, $10,000 of interest and dividend income, and a long-term capital gain of $100,000 from the sale of the business. They have itemized deductions of $10,400. Under current law, their 1992 Federal income tax would be $41,546. Under the President's proposed reduction in capital gains taxes, their Federal income tax would be $32,400, a reduction of 22 percent.

Office of Tax Analysis
January 28, 1992

Example F: Deduction of Interest on Student Loans and Penalty-Free IRA Withdrawals for Educational Expenses

Family F has two children, both over age 18 and both attending college. Both children are claimed as dependents on their parent's Federal income tax return. Both parents work, earning combined salaries of $60,000. In addition, in order to pay college tuition, during 1992 Family F withdraws $5,000 from the father's IRA account. The family has taken loans to pay college tuition, and during the second half of 1992, the interest paid on those loans is $2,000. Family F does not own its home, but it has itemized deductions of $6,400, apart from the interest on the loans for college expenses.

Under current law, Family F's 1992 Federal income tax is $9,566, including a $500 penalty because of the early withdrawal from the IRA account. Under the President's proposals, the early IRA withdrawal to pay college expenses would no longer be subject to a penalty. In addition, the interest on the loans for college expenses would be deductible. As a result, Family F's Federal income taxes would be $8,506, a reduction of $1,066, or 11 percent.

Office of Tax Analysis
January 28, 1992

Example G: "Buying a home for a growing family"

"Susan and Ward", 28 and 30, have lived in rented apartments since they were married six years ago. Their combined income of $44,500 has allowed them to live comfortably in their Colorado community, but they have not managed to accumulate savings sufficient for the down payment they need to purchase a $60,000 3-bedroom townhouse condominium in their neighborhood. With one small child and another on its way, they know that they will soon need more space.

The President's tax proposals would make it possible for Sue and Ward to buy their own home. Under the President's plan, the couple would be entitled to a $5000 tax credit for first-time home buyers. Permitted to withdraw accumulated savings from their IRA accounts without penalty, they could raise enough money for the down payment. Furthermore, with the additional $1000 tax exemption for their two children, the deductibility of interest on Susan's outstanding student loans permitted under the President's program, and the lowest mortgage interest rates in years, servicing their mortgage would be much less of a burden on their incomes than it otherwise would be.

Tax Benefits for "Sue and Ward" in 1992

1992 Federal taxes under current law:	$5,495	(includes $500 penalty for early IRA withdrawal)
1992 Federal taxes with President's proposals:	$2,307.50	

		1992 Savings:	
First-time homebuyer's credit	=	$2,500	($2,500 in 1993 as well)
IRA withdrawals for home purchases	=	$ 500	(assumes $5,000 withdrawal)
Additional tax allowance for children	=	$37.50	(1/4 benefit for 1992; for 1993)
Deduction of interest on student loans	=	$ 150	(assumes $1,000 interest)
		$3,187.50	

TREASURY NEWS

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

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Adjustment of Wage Withholding Tables

Fact Sheet

Description

The tables published by the Internal Revenue Service for withholding federal income tax from wages are being adjusted for 1992 and subsequent years to reduce overwithholding on low- and middle-income wage earners. The adjusted tables for 1992 will be effective March 1. For most workers who are withheld at the married rates and whose wages subject to withholding are less than $78,700, the adjustment will reduce withholding by $345 over the next 12 months on each job ($287.50 during the remainder of 1992). For most workers who are withheld at the single rates and whose wages subject to withholding are less than $47,450, the adjustment will reduce withholding by $172.50 over the next 12 months on each job ($143.75 during the remainder of 1992). Smaller reductions apply in the phase out ranges, which are between $78,700 and $90,200 for those using the married rates and between $47,450 and $53,200 for other workers. At higher wage levels, there is no withholding reduction. Wages subject to withholding are total annual wages reduced by $2,300 for each withholding allowance claimed. Similar reductions apply to retirees who have federal income taxes withheld from periodic payments from pensions, individual retirement accounts, or annuities.

Reduces Overwithholding on Low- and Middle-Income Workers

- In 1991 nearly 80 million tax returns were filed by low-and middle-income wage earners who reported total overwithholding of over $70 billion, an average of $900.
- Adjustment of the wage withholding tables will reduce overwithholding for most of these workers.

Increases Take-Home Pay

- The reduction in withholding will increase take-home pay for low- and middle-income wage earners by about $25 billion over the next 12 months.
- This increase in take-home pay is automatic. No paperwork is required of eligible workers.
- Workers who do not want their withholding decreased can opt out of the withholding reduction merely by notifying their employers to withhold an additional amount.

(continues)

Helps Now

- This adjustment to the wage withholding tables will give working Americans over $2 billion a month of increased take-home pay almost immediately.
- Increased take-home pay is needed now, both to help American families and to help the overall economy.
- No new legislation is needed to implement this change. It is being done under existing Treasury Department authority.

Adjustment of Wage Withholding Tables

Examples

The following examples illustrate how the adjustment to the IRS wage withholding tables, effective March 1, 1992, will affect typical taxpayers.

Example 1

A married couple has two children. Only one spouse works, earning $700 per week ($36,400 per year). The couple does not itemize deductions and has no income other than the wage earnings. The working spouse is paid weekly and claims two withholding allowances on Form W-4. Using the current wage withholding tables, federal income tax is being withheld at the rate of $81.06 per week. Using the adjusted tables beginning in March, withholding will be reduced to $74.42 a week. Although the family's overwithholding will be reduced by $288 between March and December, it will still be eligible for a refund of $747. The couple's withholding, income tax, and refund for 1992 using the current withholding tables and using the adjusted tables beginning in March are as follows:

	Current Withholding Tables	Adjusted Withholding Tables*	Change
Total annual withholding	$ 4,215	$3,927	$ -288
Federal income tax liability	3,180	3,180	0
Refund due taxpayer	1,035	747	-288

* Shows effect of using the adjusted withholding tables beginning in March. Current withholding tables are used in January and February.

Example 2

A single worker with no dependents earns $2,000 per month, or $24,000 per year. In addition, the worker has $1,000 of interest income per year. The worker does not itemize deductions. The worker claims no withholding allowances on Form W-4. Using the current wage withholding tables, federal income tax is being withheld at the rate of $297.29 per month. Using the adjusted tables beginning in March, the worker's federal income tax withholding will be reduced to $282.92 per month. Despite a withholding reduction of $144 between March and December, the worker still receives a tax refund of $588. The worker's withholding, income tax, and refund for 1992 using the current withholding tables and using the adjusted tables are as follows:

	Current Withholding Tables	Adjusted Withholding Tables*	Change
Total annual withholding	$ 3,567	$ 3,423	$ -144
Federal income tax liability	2,865	2,865	0
Refund due taxpayer	702	558	-144

* Shows effect of using the adjusted withholding tables beginning in March. Current withholding tables are used in January and February.

Example 3

The facts are the same as in Example 1, except that the worker claims five withholding allowances on Form W-4 (for the worker, spouse, two children, and an extra allowance -- called the Special Withholding Allowance -- because the spouse does not work and the worker has only one job). Using the current wage withholding tables, federal income tax is being withheld at the rate of $61.15 per week, and when the family files its 1992 Federal income tax return it would have neither a balance due nor receive a refund. Thus, with no adjustment to withholding, this family would be withheld correctly. Using the adjusted tables beginning in March, federal income tax withholding will be reduced to $54.52 per week between March and December, and when the family files its 1992 income tax return it would owe $288. Because the adjusted withholding tables would lead this family to have a balance due, the worker would probably "opt out" of the withholding reduction by notifying his or her employer. With such notification, withholding for this worker would be at the same level as under the current tables, and the family would again have neither a balance due nor a refund. The couple's withholding, income tax, and refund or balance due for 1992 using the current withholding tables, using the adjusted tables, and using the adjusted tables but "opting out" are as follows:

If the worker does not opt out:

	Current Withholding Tables	Adjusted Withholding Tables*	Change
Total annual withholding	$ 3,180	$ 2,892	$ -288
Federal income tax liability	3,180	3,180	0
Balance due (-)	0	-288	-288

If the worker does opt out:

	Current Withholding Tables	Adjusted Withholding Tables*	Change
Total annual withholding	3,180	3,180	0
Federal income tax liability	3,180	3,180	0
Balance due (-)	0	0	0

* Shows effect of using the adjusted withholding tables beginning in March. Current withholding tables are used in January and February.

Example 4

A married couple has one child. Only one spouse works, earning $2,000 per week ($104,000 per year). The couple does not itemize deductions and has no income other than the wage earnings. The working spouse is paid weekly and claims three withholding allowances even though the Form W-4 worksheet indicates that the worker is entitled to claim four withholding allowances (for the worker, spouse, child, and an extra allowance -- called the Special Withholding Allowance -- because the spouse does not work and the worker has only one job). Using the current wage withholding tables, federal income tax is being withheld at the rate of $417.40 per week. Using the adjusted tables between March and December, federal income tax withholding will be unchanged except for rounding in certain tables. Under both the current and adjusted withholding tables, the family would be entitled to about the same tax refund of $713 when it files its federal income tax return for 1992. In this situation, because of the level of the worker's wages, federal income tax withholding will be essentially unchanged as a result of the proposal. At this level of wages, there is no need for the worker to "opt out" of the withholding change in order to maintain the current level of withholding.

Example 5

A married couple has two children. One spouse earns $500 per week ($26,000 per year); the other spouse earns $200 per week ($10,400 per year). The couple does not itemize deductions and has no income other than the wage earnings. Both workers are paid weekly. The spouse earning $500 a week claims one withholding allowance on Form W-4; the other spouse claims zero withholding allowances. Using the current wage withholding tables, federal income tax is being withheld at the combined rate of $77.02 per week. Using the adjusted tables beginning in March, withholding will be reduced to $63.75 a week. Although the family's overwithholding will be reduced by $575 between March and December, it will still be eligible for a refund of $250. The couple's withholding, income tax, and refund for 1992 using the current withholding tables and using the adjusted tables beginning in March are as follows:

	Current Withholding Tables	Adjusted Withholding Tables*	Change
Total annual withholding	$ 4,005	$3,430	$ -575
Federal income tax liability	3,180	3,180	0
Refund due taxpayer	825	250	-575

* Shows effect of using the adjusted withholding tables beginning in March. Current withholding tables are used in January and February.

News Release

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NEW TAX WITHHOLDING RATES BOOST TAKE HOME PAY

Washington -- The majority of American workers will get an advance payment on next year's federal income tax refund with new tax withholding tables the Internal Revenue Service is sending to their employers.

The new withholding tables compensate for the fact that currently millions of Americans are overwithheld and end up giving the government an interest-free loan each year.

This permanent change in withholding will benefit low and middle income wage earners, increasing their take home pay by about $25 billion over the next twelve months. The increase will be up to $345 per job for workers withheld at the married rate and up to $172 per job for those withheld at the single rate. In addition to workers, taxpayers who are retired and have tax withheld from their pensions will benefit from the changes.

The IRS estimates that taxpayers who file about 89 million returns fall into the low and middle income category and will benefit from the withholding table changes. At present about 72 million of those returns result in refunds.

The average income tax refund has grown substantially over the years. For tax year 1990, the average refund was over $900 up from $680 just ten years ago. Workers have too much tax withheld because they do not claim all the withholding allowances to which they are entitled. Eventually they receive the money in the form of a refund check when they file their returns -- but they have lost the use of the money during the year.

Since these low and middle income taxpayers will see their 1993 refunds moved into their 1992 paychecks, they will see smaller refunds next year. But about 88 percent of those who get refunds now will still get refunds. Others may find that they owe part of their tax liability when they file their 1992 tax returns. Similarly those who owe in 1992 may find they owe more in 1993. The IRS said that it plans to review all 1991 returns filed and will notify those taxpayers who may owe because of these changes, suggesting they review their withholding for 1992.

(MORE)

The IRS will waive penalties for any underpayment of estimated taxes in 1992 to the extent that the underpayment is caused by these adjustments to the withholding tables.

High income wage earners will not see a change in their withholding. There will be no change for workers withheld at the single rate if their wages subject to withholding are above $53,200. Withholding is computed on the amount of total wages less $2,300 for each withholding allowance claimed. For those withheld at the married rate, there is no change if wages subject to withholding exceed $90,200.

The changes in withholding will be automatic for those taxpayers who will benefit from the change. However, some employees may want to keep their withholding at the current rate. To do this, they should give their employer a new Form W-4 claiming the same number of withholding allowances. But they should ask for extra tax to be withheld each payday. For those withheld at the married rate this amount would be $345 divided by the number of pay periods in the year. Those at the single rate should use $172.

The IRS said that the new tax withholding tables are ready now and will be mailed to about five million employers by the middle of February. The revised Circular E, "Employer's Tax Guide" contains the new tables effective for wages paid after February 1992.

But some workers may see the boost in their pay checks sooner because the IRS is encouraging employers to use the new tables as soon as possible. Since many employers use commercial service bureaus to compute income tax withholding for their employees, the IRS is sending the new tables to the major commercial payroll services for them to use immediately.

Attached are examples of how the withholding changes will apply in some typical situations.

X X X

Adjustment of Wage Withholding Tables

Examples

A single worker with no dependents earns $2,000 a month and has $1,000 of interest income to report. The worker does not itemize deductions and claims no withholding allowances on Form W-4. Currently, $297.29 is withheld from this worker's pay each month. Beginning in March, this will drop to $282.92 a month. Even with a reduction in withholding of $144 between March and the end of the year, this taxpayer will still receive a refund of $588 when she files.

A married couple with two children files jointly. Only the husband works making $700 a week. They do not itemize when they file and their only income is from the husband's job. Each week $81.06 in federal tax is withheld from his pay based on the two withholding allowances he claims. Starting in March, he will see his withholding drop to $74.42 a week. During the rest of the year, he will see $288 more in his pay check and he and his wife will still get a refund of $747 next year when they file.

In the example above, let's assume the husband claims five withholding allowances (for the worker, his wife, two children and an extra allowance -- called the Special Withholding Allowance -- because the spouse does not work and the worker has only one job). His weekly withholding would be $61.15 and the couple would neither owe money or get a refund when they filed. With the reduced withholding in March, their withholding would drop to $54.52 and they would owed $288 when they filed. The husband can avoid this by asking his employer to withhold enough extra tax each week to maintain his current level of withholding.

Another married couple with one child also files jointly. Only the wife works earning $2,000 per week. They don't itemize their deductions and have no other income to report on their return. The wife is paid weekly and claims three withholding allowances on her Form W-4. Under the current tables, her employer withholds income tax from her pay at the rate of $417.40 a week. Under the adjusted withholding tables, there will be no change. Under both the current and the new tables, the couple would receive a federal tax refund of $713 when they file. Unlike the example above, at this level of wages, there is no need for the wage earner to complete a new Form W-4 to maintain her current level of withholding.

Another married couple also with two children files jointly. Both the husband and the wife work. One spouse earns $500 per week and the other earns $200 per week. The couple does not itemize and has no other taxable income. The spouse earning $500 a week claims one withholding allowance and the other claims none. Currently the couple has a total of $77.02 withheld each week. Starting in March, this will change to $63.75. Although the family's overwithholding will be reduced by $575 between March and December, it will still be eligible for a refund of $250.

General Explanations
of the
President's Budget Proposals Affecting Receipts

Department of the Treasury
January 1992

SUMMARY OF PROPOSALS

The President's Budget contains tax proposals designed to create jobs, promote economic growth, assist families, and promote health, education, savings and home ownership. The tax proposals are divided into four categories: (1) Jobs and Investments; (2) Families, Health, Education and Savings; (3) Homebuyers; and (4) Other Proposals Affecting Receipts. These proposals are summarized below:

Jobs and Investments

- Enhance long-term investment by providing for the exclusion from income of up to 45 percent of long-term capital gains.

- Provide passive loss relief for real estate developers who materially participate in real estate development activity.

- Allow additional first-year depreciation of 15 percent of the cost of equipment acquired on or after February 15, 1992 and before January 1, 1993, and placed in service before July 1, 1993.

- Eliminate the depreciation component of the adjusted current earnings (ACE) adjustment for property placed in service on or after February 1, 1992.

- Make permanent the 20 percent credit for certain incremental research and experimentation (R&E) expenditures.

- Extend for an additional 18 months the rules for allocating research and experimental (R&E) expenditures between domestic and foreign source income.

- Extend the low-income housing tax credit for an additional 18 months.

- Extend the targeted jobs tax credit for an additional 18 months.

- Extend the business energy tax credits for an additional 18 months.

- Extend for an additional 18 months the authority of State and local governments to issue first-time farmer bonds.

- Establish enterprise zones.

- Modify the debt-financed income rules to facilitate investment in real estate by pension funds and qualified educational institutions.

- Repeal the luxury tax on aircraft and boats and, to offset the revenue loss, repeal the exemption from the existing excise tax on diesel fuel sold for use in motor boats.

Families, Health, Education and Savings

- Allow the deduction of interest on student loans for higher education or post-secondary vocational education.

- Establish flexible Individual Retirement Accounts (FIRAs) to which middle income taxpayers may make nondeductible contributions of up to $2,500 per year, and from which contributions and earnings may be withdrawn without tax after 7 years.

- Promote retirement saving through a series of measures designed to encourage employers to sponsor retirement plans and simplify the taxation of pension distributions.

- Waive the 10 percent penalty on early withdrawals from IRAs if the money is used for medical or educational expenses of the owner or the owner's spouse or children.

- Extend for 18 months the deduction provided to self-employed individuals for 25 percent of the cost of health insurance coverage.

- Extend Medicare hospital insurance coverage to State and local governmental employees hired prior to April 1, 1986 who are not presently assured of Medicare coverage.

- Restore and double to $3,000 the special needs adoption deduction.

- Increase to $60, from its present $21 level, the amount of employer-provided public transit pass expense that may be excluded from an employee's income.

- Increase the personal exemption for dependent children age 18 and under by $500, effective October 1, 1992.

Homebuyers

- Provide first-time homebuyers a tax credit of up to $5,000 (to be divided over 2 years) for purchases of first homes on or after February 1, 1992 and before January 1, 1993.

- Allow homeowners who sell their principal residences at a loss to claim a casualty loss deduction and, to the extent the casualty loss deduction is not allowed, roll the loss basis over into the basis of a new principal residence.

- Waive the 10 percent penalty on early withdrawals from IRAs for first-time home purchases.

- Extend for 18 months the authority for State and local governments to issue mortgage revenue bonds and mortgage credit certificates.

Other Proposals Affecting Receipts

- Continue support for revenue neutral tax Code simplification, including simplification of tax rules applying to individual taxpayers, relating to amortization of intangible assets, and governing payroll tax deposits for small- and medium-sized businesses.

- Revise the rules for charitable contributions by (1) making permanent the temporary alternative minimum tax exclusion for gifts of appreciated property and expanding it to all types of property; (2) treating all deductible charitable contributions as sourced to domestic income for foreign tax credit purposes; and (3) to offset the revenue loss from these changes, requiring charities to file annual information returns reporting contributions in excess of $500.

- Conform book and tax accounting for securities dealers by requiring marketable securities to be included in inventory at their market value.

- Extend to all tax returns (including amended returns) the current provision that permits IRS not to pay interest on refunds claimed on original income tax returns if payment is made within 45 days.

- Disallow interest deductions of corporations for interest paid on loans secured by the cash value of life insurance policies covering their employees.

- Prohibit double dipping by thrift institutions by disallowing loss deductions that are reimbursed by excludable Federal financial assistance.

- Equalize the tax treatment of large credit unions and thrifts by repealing the tax exemption for credit unions with assets of $50 million in any taxable year.

- Conform the treatment of annuities without substantial life contingencies to that of comparable investments by taxing income on the annuity investment as it is earned.

- Expand the communications excise tax to include communications via digital transmissions and coin-operated telephones.

- Make the orphan drug tax credit permanent.

- Adopt other receipts proposals.

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JOBS AND INVESTMENTS

ENHANCE LONG-TERM INVESTMENT: CAPITAL GAINS

The Budget again includes a reduction of the capital gains tax rate for individuals on long-term investments. The Budget provides for a 15, 30, or 45 percent exclusion for long-term capital gains on assets held by individual taxpayers for 1, 2, or 3 years, respectively. The 3-year holding period requirement will be phased in over 3 years.

A reduction in capital gains taxes will benefit all Americans by providing incentives for saving and investment that result in higher national output and more jobs.

Current Law

Under current law, the full amount of capital gains income is generally taxable but the rate on such gains is capped at 28 percent. Capital gains are generally subject to 15 percent or 28 percent statutory tax rates. However, the actual tax cost of an asset sale can be significantly higher when capital gains taxes interact with other tax provisions (for example, the floors on itemized deductions for medical and miscellaneous expenses and on itemized deductions generally, and the phase-outs for IRA deductions, passive activity loss limitations, and personal exemptions).

While the Tax Reform Act of 1986 eliminated the capital gains exclusion of prior law, it did not eliminate the legal distinction between capital gains and ordinary income, or between short-term and long-term capital gains. These distinctions currently serve to identify those transactions eligible for the 28 percent maximum rate and subject to the limitations on deduction of capital losses. Depreciation recapture rules recharacterize a portion of capital gains on depreciable property as ordinary income. These rules vary for different types of depreciable property.

Reasons for Change

Current high capital gains rates discourage savings, entrepreneurial activity, and high-risk investment in new products, processes, and industries. In the absence of a rate differential for long-term gains, investors are encouraged to focus on short-term earnings rather than on investments with longer-term growth potential. Our future competitiveness requires a sustained flow of capital to innovative, technologically-advanced activities that may generate minimal short-term earnings but promise strong future profitability. A preferential tax rate for longer-term commitments of capital encourages business investment patterns that favor innovation and growth over short-term profitability. The resulting increase in national output benefits all Americans by providing jobs and raising living standards. In addition to improving productivity and economic growth, lower rates on long-term capital gains improve the fairness of the individual income tax by providing a rough adjustment for taxing of inflationary gains that do not represent any increase in real income.

Incentives for Longer-Range Investment. A capital gains preference has long been recognized as an important incentive for capital investment. The first tax rate differential for capital gains was introduced by the Revenue Act of 1921. For the next 65 years, the tax laws provided a tax rate differential for long-term capital gains. This preferential treatment for capital gains has taken various forms, including an exclusion of a fixed portion of nominal gains, an exclusion that depended on the length of time a taxpayer held an asset, and a special maximum tax rate for capital gains. But at no time between 1921 and 1987 were long-term capital gains taxed at the same rates as ordinary income.

In 1990, Congress set the maximum statutory rate on capital gains at 28 percent, or 3 percentage points below the maximum statutory rate on ordinary income. Nevertheless, as shown in Figure 1, the average effective tax rate on realized capital gains is currently substantially higher than it has been in the past.

The 1986 Act increased the incentives for short-term trading of capital assets. This occurred because the Act increased the tax rate on long-term capital gains while reducing the tax rate on short-term capital gains. The Budget proposal would increase the incentive for longer term investment, by providing a sliding scale exclusion that, when fully phased in, provides full benefits only for investments held at least 3 years.

The Cost of Capital and International Competitiveness. The capital gains tax is an important component of the cost of capital, which measures the pre-tax rate of return required to induce business to undertake new investment. Evidence suggests that the cost of capital in the United States is higher than in many other industrial nations. While not solely responsible for the higher cost of capital, high capital gains tax rates hurt the ability of U.S. firms to obtain the capital needed to remain competitive. By reducing the cost of capital, a reduction in the capital gains tax rate would stimulate productive investment and create new jobs and growth.

Our major trading partners already recognize the economic importance of low tax rates on capital gains. Virtually all other major industrial nations provide much lower tax rates on capital gains or do not tax capital gains at all. Canada, France, Germany, Japan, the Netherlands, and the United Kingdom, among others, all treat capital gains preferentially.

The Lock-In Effect. Under our tax system, capital gains are not taxed until realized by the taxpayer. Thus, a substantial tax on capital gains tends to "lock" taxpayers into their existing investments. Many taxpayers who would prefer to sell their assets to acquire new and better investments may continue to hold the assets rather than pay the current high capital gains tax on their accrued gains.

This lock-in effect of capital gains taxation has three adverse effects. First, it produces a misallocation of the nation's capital stock and entrepreneurial talent because it distorts the investment decisions that would be made in the absence of the capital gains tax. For example, the lock-in effect reduces the ability of entrepreneurs and investors to withdraw funds from an existing enterprise and use them to start new ventures. Productivity in the economy suffers because entrepreneurs are less likely to move capital to where it can be most productive, and because capital may be used less productively than if it were transferred to other, more efficient enterprises. These effects can be especially critical for smaller firms that are owner-operated and do not have good access to capital markets. Second, the lock-in effect produces distortions in the investment portfolios of individual taxpayers. For example, some individual investors may be induced to hold a different mix of assets than they desire because they are reluctant to sell appreciated investments to diversify their portfolios. Third, the lock-in effect reduces government receipts. To the extent that taxpayers defer sales of existing investments, or hold investments until death, taxes that might otherwise have been paid are deferred or avoided altogether.

Figure 1
Average Effective Tax Rate on Capital Gains, 1964-1989

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Individual investors, the government, and other taxpayers lose from the lock-in effect. The investor is discouraged from pursuing more attractive investments and the government loses revenue, to the detriment of all taxpayers.

Substantial evidence from many respected studies demonstrates that high capital gains tax rates in previous years have produced significant lock-in effects. The importance of the lock-in effect may also be demonstrated by the fact that realized capital gains were 16 percent lower under the high tax rates in 1987 than under the lower rates in 1985, even though stock prices rose by approximately 50 percent over this period. The high tax rates on capital gains under current law imply that the lock-in effect is greater than at any prior time in our history.

Penalty on High-Risk Investments. Full taxation of capital gains, in combination with limited deductibility of capital losses, discourages risk taking. It therefore impedes investment in emerging high-technology and other high-risk firms. While many investors are willing to take risks in anticipation of an adequate return, fewer are willing to contribute "venture capital" if a significant fraction of the increased reward will be used merely to satisfy higher tax liabilities. A tax system that imposes high tax rates on gains from investments reduces the attractiveness of high-risk investments, and may result in many worthwhile projects not being undertaken.

In particular, it is inherently more risky to start new firms and invest in new products and processes than to make incremental investments in existing firms and products. It is therefore the most dynamic and innovative firms and entrepreneurs that are the most disadvantaged by high capital gain tax rates that penalize risk taking. Such firms have traditionally been contributors to America's edge in international competition and have provided an important source of new jobs.

There is evidence of a sharp decline between 1986 and the present in the amount of capital available to independent private venture capital funds, which have been one of the most valuable sources of capital for innovative but risky new firms. This decline correlates with the high capital gain tax rates introduced in 1986.

Double Tax on Corporate Stock Investment. Under the U.S. income tax system, income earned on investments in corporate stock is generally subjected to two layers of tax. Income on corporate investments is taxed first at the corporate level at a rate of 34 percent. Corporate income is taxed a second time at the individual level in the form of taxes on capital gains and dividends, at rates ranging from 15 to 31 percent. The combination of corporate and individual income taxes can thus produce effective tax rates that are substantially higher than individual income tax rates alone. To the extent an investor's return is obtained through appreciation in the value of stock (rather than through dividend income), a reduction in capital gains tax rates provides a form of relief from this double taxation of corporate income. While a lower capital gains tax rate reduces the cost of capital for both corporate and noncorporate business, the greater liquidity of shares in publicly-traded companies suggests that the overall effect would be to reduce the bias towards noncorporate business that results from our dual-level tax system.

Proposal

General Rule. The capital gains tax rate would be reduced by means of a sliding-scale exclusion. Individuals would be allowed to exclude a percentage of the capital gain realized upon the disposition of qualified capital assets, and would apply their current statutory rate on capital gains (either 15 or 28 percent) to the reduced amount of taxable gain. The amount of the exclusion would depend on the holding period of the assets. Assets held more than 3 years would qualify for an exclusion of 45 percent. Assets held more than 2 years but not more than 3 years would qualify for a 30 percent exclusion. Assets held more than 1 year but not more than 2 years would qualify for a 15 percent exclusion. For example, individuals subject to a 28 percent tax on capital gains would pay rates of 23.8, 19.6, and 15.4 percent for assets held 1, 2, or 3 years, respectively. The corresponding figures for individuals subject to a 15 percent rate would be 12.8, 10.5, and 8.3 percent.

Qualified assets would generally be defined as any assets qualifying as capital assets under current law and satisfying the holding period requirements, except for collectibles. Collectibles are assets such as works of art, antiques, precious metals, gems, alcoholic beverages, and stamps and coins. Assets eligible for the exclusion would include, for example, corporate stock, manufacturing and farm equipment, and real estate, such as homes, apartment buildings, timber, and family farms.

Phase-in Rules and Effective Dates. The proposal would be effective generally for dispositions of qualified assets after the date of enactment. For the balance of 1992, the full 45 percent exclusion would apply to assets held more than 1 year. For dispositions of assets in 1993, assets would be required to have been held for more than 2 years to be eligible for the 45 percent exclusion, and more than 1 year to be eligible for the 30 percent exclusion. For dispositions of assets in 1994 and thereafter, assets would be required to have been held more than 3 years to be eligible for the 45 percent exclusion, more than 2 years to be eligible for the 30 percent exclusion, and more than 1 year for the 15 percent exclusion.

Additional Provisions. In order to prevent taxpayers from benefitting from the exclusion provision for depreciation deductions that have already been claimed in prior years, the existing depreciation recapture rules would be expanded to recapture all prior depreciation deductions. All taxpayers would be able to benefit from the proposed exclusion only to the extent that a depreciable asset has increased in value above its unadjusted basis. Absent such a provision, a taxpayer could claim depreciation deductions against income taxable at, for example, a 31 percent marginal rate, yet pay tax on the restoration of those deductions when the asset is sold at 15.4 percent even though there was no increase in the value of the asset over its initial purchase price. The excluded portion of capital gains would be added back when calculating income under the alternative minimum tax. Installment sale payments received after the effective date will be eligible for the exclusion without regard to the date the sale actually took place. For purposes of the investment interest limitation, only the net capital gain after subtracting the excluded amount would be included in investment income. The 28 percent limitation on capital gains not eligible for the exclusion would be retained.

Effects of Proposal

Example A. Taxpayer A is a single individual earning $16,000 whose mutual fund investments have a reported long-term capital gain of $500 in late 1992.

Under current law, her tax on the $500 capital gain would be 15 percent of the full $500 gain, or $75.

Under the proposal, her tax would be reduced to $41.25, which is 15 percent of $275 ($500 less the 45 percent exclusion).

Example B. Couple B is a two-earner couple with combined taxable income other than capital gains of $50,000. In 1994, they sell corporate stock realizing a $1,500 capital gain on stock held 15 months and a $2,500 capital gain on stock held 5 years.

Under current law both gains would be taxed at a rate of 28 percent. Tax on the $1,500 gain would be $420, and tax on the $2,500 gain would be $700, for a combined tax of $1,120.

Under the proposal, the gain on the stock held 15 months would be eligible for a 15 percent exclusion and the gain on the stock held 5 years would be eligible for a 45 percent exclusion. The tax on the stock held 15 months would be $357 and the tax on the stock held 5 years would be $385, for a combined tax of $742, which would be 34 percent lower than Couple B's liability under current law.

Example C. Taxpayer C is the founder of a 5-year old computer software company and would like to sell the company in order to start a new company making a new product. Taxpayer C has a salary of $380,000 and $20,000 in dividend and interest income. Taxpayer C sells the stock in the computer software company for $2 million, resulting in a capital gain of $1.8 million after deduction of his $200,000 cost basis.

Under current law, taxpayer C would pay a capital gains tax of about $520,740 (depending on the level and composition of his itemized deductions), leaving him with net proceeds of $1,479,260 from the sale of the company.

Under the proposal, the capital gains tax, including the alternative minimum tax, would be about $436,455 (again, depending on the level and composition of his itemized deductions). The net proceeds from selling the company would be about $1,563,545. Thus, Taxpayer C would have about $84,285 of additional funds that could be invested in the new business.

Distributional Effects of Proposal. A capital gains tax reduction is likely to benefit taxpayers at all income levels. High-income taxpayers will be better off because of the lower capital gains tax rates, even though some of them will actually pay more in taxes because of additional realizations induced by the exclusion. Lower and middle-income taxpayers will also be better off because of lower taxes on the capital gains they realize. All taxpayers will benefit from the enhanced economic productivity and growth which results from a reduction in capital gains tax rates. The benefit to the U.S. economy is the most important issue with respect to a capital gains tax reduction, and this benefit is shared by all.

Revenue Estimate

Capital gains realizations are highly responsive to changes in stock prices and general economic conditions as well as to capital gains tax rates. Furthermore, taxpayers may adjust their purchases and sales of capital assets and their income sources and deductions in response to new tax rules. Since 1978, Treasury revenue estimates of capital gains have taken into account expected changes in taxpayer behavior.

These behavioral effects are the subject of continued empirical research. Treasury's Office of Tax Analysis (OTA) incorporates unlocking effects and all other behavioral effects believed to be important and presents its best estimate of the expected effects. In accordance with revenue estimating convention, the estimates do not take into account additional revenues anticipated by reason of increases in the gross domestic product. The proposal is expected to increase Treasury receipts as compared to current law receipts due to increased realizations. The revenue estimates noted below assume a February 1, 1992 effective date. The increase in revenues is expected to be greatest in fiscal year 1993, due to the unlocking of existing capital gains, and smaller thereafter. The expected changes in revenues are modest in comparison to the magnitude of the expected total amount of revenues from the capital gains tax (in excess of $30 billion per year).

Details of Revenue Estimate. The details of the revenue estimate are shown in Table I. Line 1 of Table 1 shows the revenue loss that results from a flat 45 percent exclusion of the amount of capital gains that would be realized at current law tax rates; i.e., "baseline" realizations that would have occurred without a change in tax rates. This loss is what a "static" revenue estimate for a 45 percent exclusion would show. This "static" revenue loss is estimated to be $16.3 billion in fiscal year 1993, gradually increasing to about $22 billion by 1997.

Line II of Table 1 shows the estimated revenue from additional realizations that would be induced by a flat 45 percent exclusion. These induced gains arise from several sources. They represent realizations accelerated from future years, realizations due to portfolio shifting, or realizations that would otherwise have been tax-exempt because they would have been held until death, donated to charity, or not reported. As indicated by a comparison of line I and II, revenues from induced realizations are estimated to be sufficient to offset the static revenue loss on current gains for several years, but not in the long run. This conclusion is based on Treasury's analysis of the findings of numerous statistical studies of the responsiveness of capital gains to lower tax rates, and is consistent with the revenue experience of previous capital gains tax rate changes.

Line III shows the revenue effects of limiting the exclusion to 30 percent for assets held 2 years and 15 percent for assets held 1 year, and the phase-in of these holding period limitations. The estimates reflect the net effect of the reduction in static revenue losses, and the deferral of realizations of assets not yet qualifying for the full 45 percent exclusion. These provisions, which are aimed at promoting a longer-term investment horizon, produce a net revenue gain over the budget period.

Table 1
Revenue Effects of the President's Capital Gains Proposal

	Item	Fiscal Years ($ Billions)						
		1992	1993	1994	1995	1996	1997	1992-97
I.	Static effect of 45 percent exclusion	-2.4	-16.3	-17.9	-19.5	-21.0	-22.5	-99.5
II.	Effect of 45 percent exclusion on taxpayer behavior	2.9	19.2	18.3	17.0	16.6	17.2	91.1
III.	Effect of reducing exclusion to 15 percent and 30 percent for assets held one and two years[1]	0.0	-0.1	-0.7	-0.5	1.1	1.2	1.0
IV.	Effect of treating excluded gains as a preference item for AMT purposes	0.1	0.7	1.4	2.0	2.2	2.5	8.9
V.	Effect of depreciation recapture	0.0	0.3	1.0	1.2	1.3	1.4	5.4
VI.	Total revenue effect of proposal	0.6	3.8	2.1	0.3	0.3	-0.2	6.9

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Note: Details may not add to total due to rounding.

[1] Assets held 1 to 2 years receive an exclusion of 30 percent in 1993. Beginning in 1994, an exclusion of 15 percent is accorded assets held 1 to 2 years and 30 percent for assets held 2 to 3 years. Note that the estimates, along with those in lines IV and V, reflect both static and behavioral effects.

Lines IV and V show the revenue effects of treating excluded capital gains as a preference item for purposes of the alternative minimum tax and expanded depreciation recapture. Over the budget period, these two provisions raise $14.3 billion in revenue. The full depreciation recapture proposal means that if a depreciable asset is sold, the exclusion will apply only to the amount by which the current selling price is higher than the original cost. Treating excluded gains as a preference item for purposes of the alternative minimum tax primarily affects high-income individuals and raises $8.9 billion over the budget period. The total revenue effect of the proposal is shown in line VI. The proposal is expected to raise revenue in every year except 1997, and $6.9 billion over the budget period.

These estimates do not include the effects of potential increases in long-run economic growth expected to result from a lower capital gains tax rate. This conforms to the standard budget and revenue estimating practice of assuming that the macroeconomic effects of revenue and spending proposals are already included in the economic forecast.

PROVIDE PASSIVE LOSS RELIEF FOR REAL ESTATE

Current Law

The passive loss limitation rules provide generally that if a taxpayer's losses from passive activities exceed his income from passive activities for a taxable year, the excess losses are disallowed and carried forward to the next taxable year. The purpose of the passive loss rules is to discourage tax-motivated investments in tax shelters that, prior to the 1986 Act, permitted taxpayers to offset their active business and other income by incurring tax losses on investments in which they took no active part.

To determine whether a taxpayer has passive losses for a taxable year under current law, a taxpayer's operations must be organized into activities that are either trade or business activities or rental activities. If a taxpayer conducts more than one trade or business operation in the same line of business, those operations may be treated as one activity. Income and losses from all operations included in a single activity are taken into account in determining the income or loss from the activity for any taxable year. In general, rental operations may not be treated as part of a trade or business activity.[1] Thus, an individual engaged in a real estate development business that derives 60 percent of his gross income from the construction of property and 40 percent of his gross income from the rental of property would be engaged in two activities (one trade or business and one rental) rather than one, notwithstanding the fact that the operations may be conducted as part of an integrated business.

Income or loss from a trade or business activity is passive unless the taxpayer materially participates in the activity. Regulations provide that, in general, the material participation standard is satisfied if a taxpayer participates for more than 500 hours in the activity for the taxable year. A taxpayer's participation in an activity is determined by taking the sum of the number of hours the taxpayer participates in each of the operations that are included with the activity.

In the case of rental activities, income and losses are passive, regardless of the level of the taxpayer's participation. Thus, in general, losses from rental activities may offset only rental income or other passive income. Under a limited exception to the rental rule, a taxpayer with modified adjusted gross income not greater than $100,000 may treat up to $25,000 of real estate rental losses as nonpassive if the taxpayer actively participates in the rental activities for the taxable year. Active participation is a lesser standard of involvement than material participation and generally requires that the taxpayer participate in making management decisions or arrange for others to provide services such as repairs in a significant and bona fide sense. A taxpayer is generally deemed not to satisfy the active participation standard with respect to property he holds through a limited partnership interest. The $25,000 amount begins to phase out for taxpayers with modified adjusted gross income over $100,000 and is completely phased out when a taxpayer's modified adjusted gross income reaches $150,000. This exception applies only to the losses from the rental of real property in which the taxpayer holds at least a 10 percent interest.

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[1]An exception to this rule is made when one of the operations (either rental or trade or business) generates more than 80 percent of the total gross income of the combined operations.

The passive loss limitation rules apply to individuals, estates, trusts and personal service corporations. Closely-held corporations may offset passive losses against active income but may not offset passive losses against portfolio income, such as interest and dividends.

Reasons for Change

A taxpayer whose principal business consists of real estate development may materially participate in a variety of endeavors, including the management, renovation, construction, ownership and rental of real estate. Nevertheless, losses arising from the rental of real property the taxpayer has developed may not be used to offset income from the taxpayer's nonrental real estate operations that are part of the same real estate development business except to the extent of the limited exception described above. As a result, taxpayers who develop real property for rental are required to treat what is a single integrated business as two separate activities, one active and one passive. The separation of these activities may result in income distortions.

Proposal

The passive loss rules would be amended to permit taxpayers to treat their real estate development operations as a single trade or business activity. Real estate development activity would include real estate development operations (as defined below) in which the taxpayer actively participates. Income and loss from this activity would be nonpassive if the taxpayer materially participates in the activity. Real estate development operations would be defined as (1) the construction, substantial renovation and management of real property, regardless of whether the taxpayer holds an interest in the property; (2) the lease-up and sale of real property in which the taxpayer has at least a 10-percent ownership interest; and (3) the rental of property that was developed by the taxpayer. Property would be treated as having been developed by the taxpayer only if the taxpayer materially participated in the construction or substantial renovation of the property. No operations would be included in the real estate development activity unless the taxpayer meets the active participation standard with respect to the operations. The proposed amendment would be effective for taxable years ending on or after December 31, 1992.

Effects of Proposal

The proposal would permit taxpayers who actively participate in the rental of the properties they develop to offset their rental losses against income from other real estate development operations in which they actively participate, as well as income not related to real estate development operations. This relaxation of the passive loss rules will ease the income distortions affecting taxpayers who develop real property for rental. At the same time, this modification will not undermine the important purpose of the passive loss rules, i.e., to curb tax shelters. The provision is limited to rental losses from properties the taxpayer has developed and is therefore targeted to those taxpayers in the best position to make investments based on economic rather than tax considerations.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Provide passive loss relief for real estate:	-0.1	-0.4	-0.4	-0.4	-0.5	-0.6	-2.5

ADOPT INVESTMENT TAX ALLOWANCE (ITA)

Current Law

Current law generally permits purchasers of tangible property that is used in a trade or business or held for the production of income to recover the cost of the property by taking annual tax deductions during the property's useful life. Certain types of property (for example, inventories) are not depreciable.

In the case of property placed in service after 1986, the Modified Accelerated Cost Recovery System (MACRS) applies in determining the amount of depreciation allowable in any particular taxable year. MACRS specifies the period over which the cost of property can be recovered, the method to be used to determine the amount of depreciation allowable, and the conventions (or placed-in-service-date assumptions) to be used in determining depreciation.

Equipment that is depreciable under MACRS generally has a recovery period of 3, 5, 7, or 10 years. The cost of property in these classes is generally recovered using the 200 percent declining-balance method over the established MACRS recovery periods. Owners of property in these classes may, however, elect to recover costs using a 150 percent declining-balance method over class lives that are somewhat longer than the regular recovery periods. Alternatively, owners of property in these classes may elect to use straight-line depreciation over either the regular recovery periods or the longer class lives. Current law provides tables for calculating depreciation deductions under each of these methods.

In addition, averaging conventions are used to determine placed-in-service dates for depreciation calculations. For example, under the half-year convention, which generally applies to property placed in service in any particular taxable year, the property is treated as placed in service in the middle of the purchaser's taxable year. Accordingly, only half of a year's depreciation is allowable in that year, and half of a year's depreciation is allowable in the taxable year in which the recovery period ends.

There are certain alternative minimum tax adjustments with respect to depreciation. In determining alternative minimum taxable income, taxpayers must generally calculate depreciation using the 150 percent declining-balance method over the property's class life. During the earlier years of a property's recovery period, this results in a deduction for alternative minimum tax purposes smaller than that allowed for regular tax purposes using the 200 percent declining-balance method over the property's regular recovery period. In addition, corporate taxpayers must compute adjusted current earnings for alternative minimum tax purposes using the straight-line method over the property's class life. Corporate taxpayers generally must increase alternative minimum taxable income to reflect an adjustment based on adjusted current earnings.

Current law also provides for recognition of ordinary gain on disposition of certain depreciable property. This provision is contained in section 1245 of the Internal Revenue Code, and the property to which the provision applies is defined as "section 1245 property." Section 1245 property generally includes depreciable or amortizable tangible personal property used in a trade or business or held for investment, and other depreciable or amortizable tangible property used in manufacturing or production operations, in research facilities, or in producing energy or furnishing services such as communications

or transportation services. Section 1245 property generally does not include real property, such as buildings or their structural components.

Reasons for Change

A temporary acceleration of depreciation deductions would accelerate purchases of new equipment, thus promoting capital investment, modernization, and a more rapid economic recovery.

Proposal

Under the proposal, an investment tax allowance (ITA) would be available for new equipment acquired on or after February 1, 1992, and before January 1, 1993, if the equipment is placed in service before July 1, 1993. The ITA would equal 15 percent of the purchase price of the equipment. The ITA would be taken in the taxable year the equipment is placed in service, and would reduce the tax basis of the equipment for purposes of calculating depreciation in the year the equipment is placed in service and in subsequent years and for purposes of determining gain or loss on disposition.

For example, assume that on March 15, 1992, a calendar-year corporate taxpayer purchased $1,000,000 of equipment with a 5-year recovery period and a 6-year class life, and the equipment was eligible for the 15 percent ITA under the proposal. The taxpayer would be allowed an ITA of $150,000 for 1992, would adjust its basis in the equipment to $850,000, and would calculate the otherwise allowable deduction for 1992 using the $850,000 adjusted basis (and the half-year convention). If the taxpayer used the 200 percent declining-balance method over the 5-year MACRS recovery period, the 1992 depreciation deductions would total $320,000 ($150,000 plus $170,000); if the taxpayer used the 150 percent declining-balance method over the 6-year class life, the 1992 depreciation deductions would total $256,250 ($150,000 plus $106,250); and if the taxpayer elected the straight-line method over the regular recovery period, the 1992 depreciation deductions would total $235,000 ($150,000 plus $85,000).

The alternative minimum tax adjustments for depreciation would not apply to the 15 percent ITA provided under the proposal. Thus, in the above example, the taxpayer would be allowed a $320,000 deduction for regular tax purposes and a $256,250 deduction for alternative minimum tax purposes.

The 15-percent ITA would also be permitted in calculating adjusted current earnings. Under the Administration's proposal to eliminate the adjustment for depreciation in computing adjusted current earnings with respect to property placed in service on or after February 1, 1992, the depreciation deduction allowable in computing adjusted current earnings would equal the $256,250 deduction allowable for alternative minimum tax purposes.

All section 1245 property would benefit from the ITA. Thus, equipment would include any depreciable or amortizable tangible personal property used in a trade or business or held for investment, such as machinery, a computer, a lathe, or a printing press. Equipment would also include depreciable or amortizable tangible property that is not personal property but is section 1245 property, such as a broadcast tower, a livestock fence, or a wind tunnel in a research facility. Equipment would not include intangibles such as patents or computer software, and generally would not include buildings or structural components of buildings.

In general, equipment would be considered acquired on the date the taxpayer obtains, or enters into a binding contract to obtain, the equipment. Equipment constructed or manufactured by the taxpayer for the taxpayer's own use would be eligible for the ITA if the construction or manufacture began on or after February 1, 1992, and before January 1, 1993, and if the equipment was placed in service before July 1, 1993. The date on which equipment is placed in service would be determined under the generally applicable depreciation rules.

The proposal is intended to accelerate investment in new equipment. Thus, if a binding contract to acquire equipment was in effect before February 1, 1992, the equipment would not be eligible for the ITA.

The gain recognition rules of section 1245 would apply on disposition of equipment on which the ITA has been allowed.

Effects of Proposal

The proposal would reduce the cost of capital and increase business cash flow, thus providing a temporary incentive to increase investment. Because the additional depreciation would be available only for equipment acquired during the remainder of 1992, the stimulus to investment during 1992 would be maximized.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Adopt investment tax allowance:	-6.1	-1.6	3.5	0.9	0.8	0.6	-1.7

SIMPLIFY AND ENHANCE ALTERNATIVE MINIMUM TAX DEPRECIATION

Current Law

Under current law, a corporation is subject to an alternative minimum tax (AMT) which is payable to the extent that the corporation's tentative minimum tax exceeds its regular income tax liability. The tentative minimum tax generally equals 20 percent of the corporation's alternative minimum taxable income. Alternative minimum taxable income is the corporation's taxable income increased by its tax preferences and adjusted by redetermining its tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items.

One of the adjustments made to taxable income to arrive at alternative minimum taxable income is a depreciation adjustment. In computing alternative minimum taxable income, depreciation on personal property to which the Modified Accelerated Cost Recovery System (MACRS) applies is generally calculated using the 150 percent declining-balance method over the class life of the property. By comparison, a 200 percent declining-balance method over recovery periods shorter than class lives is permitted under MACRS in arriving at taxable income. If a corporation elects, or is required, to depreciate personal property pursuant to a straight-line depreciation method in computing taxable income, this method (and the recovery periods used in computing taxable income) must also be used to compute alternative minimum taxable income.

Another adjustment in arriving at alternative minimum taxable income is based on adjusted current earnings (ACE). In general, the ACE adjustment increases taxable income by an amount equal to 75 percent of the excess of ACE over alternative minimum taxable income (determined without regard to the ACE adjustment). In computing ACE, depreciation is generally computed using the straight-line method over the class life of the property.

To the extent that a corporation's regular income tax liability exceeds its tentative minimum tax in a particular taxable year, the corporation is entitled to reduce its regular income tax liability by a credit (the minimum tax credit) which is based on AMT paid in preceding years. The minimum tax credit is generally intended to permit the reversal of the effects of the AMT when the treatment of items in arriving at taxable income becomes less favorable than the treatment permitted in arriving at alternative minimum taxable income. For AMT paid in a taxable year beginning on or after January 1, 1990, a corporation is entitled to a minimum tax credit equaling its entire AMT liability.

Reasons for Change

There is general concern that the depreciation component of the ACE adjustment causes a disincentive to capital investment for U.S. corporations. As a result of the depreciation adjustment required in computing ACE, many capital-intensive corporations are subject to the AMT. The effects of the adjustment are magnified for capital-intensive corporations that are growing or showing depressed earnings. Because many such corporations may find themselves continually subject to the AMT, the minimum tax credit is of little value in mitigating the long-term effects of the ACE depreciation adjustment.

The ACE depreciation adjustment is also the source of substantial complexity. As a result of the adjustment, corporations must make three separate depreciation computations to determine taxable income and alternative minimum taxable income.

Proposal

Effective for property placed in service on or after February 1, 1992, the depreciation component of the ACE adjustment would not apply. The general requirement that a corporation use the 150 percent declining-balance depreciation method over the class life of the property would continue to apply, however, for purposes of computing alternative minimum taxable income. In computing ACE, the corporation would compute depreciation for this property using the same methods and recovery periods that it uses in computing alternative minimum taxable income.

Effects of Proposal

The proposal would (1) target the reduction in the AMT on new investments in depreciable property, without providing a windfall for prior investments, (2) simplify the AMT by requiring only one computation of depreciation for AMT purposes, and (3) generally provide a more appropriate ACE depreciation method than straight-line.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Simplify and enhance AMT depreciation:	-0.2	-0.4	-0.4	-0.3	-0.2	-0.1	-1.5

EXTEND RESEARCH AND EXPERIMENTATION (R&E) TAX CREDIT

Current Law

Current law allows a 20 percent tax credit for a certain portion of a taxpayer's "qualified research expenses." The portion of qualified research expenses that is eligible for the credit is the increase in the current year's qualified research expenses over its base amount for that year. The base amount for the current year is computed by multiplying the taxpayer's "fixed-base percentage" by the average amount of the taxpayer's gross receipts for the 4 preceding years. A taxpayer's fixed-base percentage generally is the ratio of its total qualified research expenses for the 1984-88 period to its total gross receipts for this period. Special rules for start-up companies provide a fixed-base percentage of 3 percent. In no event will a taxpayer's fixed-base percentage exceed 16 percent. A taxpayer's base amount may not be less than 50 percent of its qualified research expenditures for the current year.

In general, qualified expenditures consist of (1) "in-house" expenditures for wages and supplies used in research; (2) 65 percent of amounts paid by the taxpayer for contract research conducted on the taxpayer's behalf; and (3) certain time-sharing costs for computers used in research. Restrictions further limit the credit to expenditures for research that is technological in nature and that will be useful in developing a new or improved business component. In addition, certain research is specifically excluded from the credit, including research performed outside the United States, research relating to style, taste, cosmetic, or seasonal design factors, research conducted after the beginning of commercial production, research in the social sciences, arts, or humanities, and research funded by persons other than the taxpayer.

The credit is available only for research expenditures paid or incurred in carrying on a trade or business of the taxpayer. A taxpayer is treated as meeting the trade or business requirement with respect to in-house research expenses if, at the time such in-house research expenses are incurred, the principal purpose of the taxpayer in making such expenditures is to use the results of the research in the active conduct of a future trade or business of the taxpayer or certain related taxpayers.

Current law also provides a separate 20 percent tax credit ("the university basic research credit") for corporate funding of basic research through grants to universities and other qualified organizations performing basic research. The university basic research credit is measured by the increase in spending from certain prior years. This basic research credit applies to the excess of (1) 100 percent of corporate cash expenditures (including grants or contributions) paid for university basic research over (2) the sum of a fixed research floor plus an amount reflecting any decrease in nonresearch giving to universities by the corporation as compared to such giving during a fixed based period (adjusted for inflation). A grant is tested first to see if it constitutes a basic research payment; if not, it may be tested as a qualified research expenditure under the general R&E credit.

The R&E credit is aggregated with certain other business credits and made subject to a limitation based on tax liability. The sum of these credits may reduce the first $25,000 of regular tax liability without limitation, but may offset only 75 percent of any additional tax liability. Taxpayers may carry credits not usable in the current year back 3 years and forward 15 years.

The amount of any deduction for research expenses is reduced by the amount of the tax credit taken for that year.

The R&E credit in the form described above is in effect for taxable years beginning after December 31, 1989. However, the credit will not apply to amounts paid or incurred after June 30, 1992.

Reasons for Change

The current law tax credit for research provides an incentive for technological innovation. Although the benefit to the country from such innovation is unquestioned, the market rewards to those who take the risk of research and experimentation may not be sufficient to support the level of research activity that is socially desirable. The credit is intended to reward those engaged in research and experimentation of unproven technologies.

The credit cannot induce additional R&E expenditures unless its future availability is known at the time businesses are planning R&E projects and projecting costs. R&E activity, by its nature, is long-term, and taxpayers should be able to plan their research activity knowing that the credit will be available when the research is actually undertaken. Thus, if the R&E credit is to have the intended incentive effect, it should be made permanent.

Proposal

The R&E credit would be made permanent.

Effects of Proposal

Stable tax laws that encourage research allow taxpayers to undertake research with greater assurance of the future tax consequences. A permanent R&E credit (including the university basic research credit) permits taxpayers to establish and expand research activities without fear that the tax incentive would not be available when the research is carried out.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend R&E credit:	-0.2	-0.8	-1.4	-1.6	-1.8	-2.1	-7.8

EXTEND RESEARCH AND EXPERIMENTAL (R&E) ALLOCATION RULES

Current Law

The tax credit allowed for payments of foreign tax is limited to the amount of U.S. tax otherwise payable on the taxpayer's income from foreign sources. The purpose of this limitation is to prevent the foreign tax credit from offsetting U.S. tax imposed on income from U.S. sources. Accordingly, a taxpayer claiming a foreign tax credit is required to determine whether income arises from U.S. or foreign sources and to allocate expenses between such U.S. and foreign source income.

Under the above limitation rules, an increase in the portion of a taxpayer's income determined to be from foreign sources will increase the allowable foreign tax credit. Therefore, taxpayers generally receive greater foreign tax credit benefits to the extent that their expenses are applied against U.S. source income rather than foreign source income.

Treasury regulations issued in 1977 described methods for allocating expenses between U.S. and foreign source income. Those regulations contained specific rules for the allocation of research and experimental (R&E) expenditures, which generally required a certain portion of R&E expense to be allocated to foreign source income. Absent such rules, a full allocation of R&E expense to U.S. source income would overstate foreign source income, thus allowing the foreign tax credit to apply against U.S. tax imposed on U.S. source income and thwarting the limitation on the foreign tax credit.

Since 1981 these R&E allocation regulations have been subject to seven different suspensions and temporary modifications by Congress. The Technical and Miscellaneous Revenue Act of 1988 (TAMRA) adopted allocation rules which were in effect for only 4 months. For 20 months following the period when the TAMRA rules were in effect, R&E allocation was controlled by the 1977 Treasury regulations. The Budget Reconciliation Act of 1989 subsequently reintroduced the TAMRA rules, once again on a temporary basis. These rules were extended to taxable years beginning on or before August 1, 1991 by the Omnibus Budget Reconciliation Act of 1990, and were further extended to the first 6 months of the first taxable year beginning on or after August 1, 1991 by the Tax Extension Act of 1991.

Under the R&E allocation rules enacted by TAMRA (and temporarily extended in 1989, 1990 and 1991), a taxpayer must allocate 64 percent of R&E expenses for research conducted in the United States to U.S. source income and 64 percent of foreign-performed R&E expenses to foreign source income. The remaining portion can be allocated on the basis of the taxpayer's gross sales or gross income. However, the amount allocated to foreign source income on the basis of gross income must be at least 30 percent of the amount allocated to foreign source income on the basis of gross sales.

Reasons for Change

The Administration believes providing tax incentives to increase the performance of U.S.-based research activities. The allocation rules in this proposal provide such an incentive. Although the proposal benefits only multinational corporations that are subject to the foreign tax credit limitation, it will provide an incentive with respect to such entities. By enhancing the return on R&E expenditures, the proposal encourages the growth of overall R&E activity as well as the location of such research within the United States.

Proposal

The proposal would provide an 18-month extension of the R&E allocation rules.

Effects of Proposal

The automatic allocation of 64 percent of U.S.-performed R&E to U.S. source income under the proposal generally permits a greater amount of income to be classified as foreign source than under the 1977 regulations. As discussed above, this will increase the benefits of the foreign tax credit for certain taxpayers.

The operation of these rules is best illustrated through an example. Assume that an unaffiliated U.S. taxpayer has $100 of expense from research performed in the United States, that 50 percent of relevant gross sales produces foreign source income, and that 30 percent of the taxpayer's gross income is from foreign sources. Subject to certain limitations not applicable to these facts, the 1977 regulations would have required the taxpayer to allocate at least $30 of R&E expense to foreign source income ($100 x 30% gross income from foreign sources).

Under the proposal $64 is automatically allocated to U.S. source income based on the place of performance ($100 x 64%). The remaining $36 may be allocated either on the basis of gross sales or on the basis of gross income (subject to the limitation described below). A gross sales apportionment of the remainder would result in $18 ($36 x 50%) being allocated to foreign source income, while a gross income apportionment would result in $10.80 ($36 x 30%) being allocated to foreign source income.

The amount allocated to foreign source income using the gross income method must be at least 30 percent of the amount so allocated using the gross sales method. That limitation will not affect the result here since the $10.80 apportioned to foreign source income under the gross income method is greater than $5.40 ($18 apportioned under gross sales x 30% limitation).

As a result of the allocation rules in the proposal, the taxpayer in this example would allocate $10.80 of U.S.-performed R&E expense to foreign source income, compared to the $30 required to be so allocated under the 1977 regulations.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend R&E allocations rules:	-0.2	-0.5	-0.3	0.0	0.0	0.0	-0.9

EXTEND LOW-INCOME HOUSING TAX CREDIT

Current Law

A tax credit is allowed for certain expenditures with respect to low-income residential rental housing. Generally, owners of qualified low-income buildings may claim the low-income housing tax credit in equal annual installments over a 10-year credit period as long as the buildings continue to provide low-income housing over a 15-year compliance period.

The discounted present value of the installments of the credit is generally 70 percent of the depreciable costs of new construction and substantial rehabilitations, and 30 percent of the cost of acquiring existing buildings which have been substantially rehabilitated (so long as they have not been placed in service within the previous 10 years and are not already subject to a 15-year compliance period). The basis of property is not reduced by the amount of the credit for purposes of calculating depreciation and capital gain.

The annual credit available for a building cannot exceed the amount allocated to the building by the designated State or local housing agency. A State credit allocation is not required, however, for certain projects financed with tax-exempt bonds subject to the State's private activity bond volume limitation.

The low-income housing tax credit was enacted as part of the Tax Reform Act of 1986. Originally, it provided States with the authority to allocate credits for 1987 to 1989 in annual amounts equal to $1.25 per State resident. The Omnibus Budget Reconciliation Act of 1989 extended each State's allocation authority through 1990, but at a reduced annual level of $0.9375 per State resident. The Omnibus Budget Reconciliation Act of 1990, however, increased the allocation authority for 1990 to $1.25 per State resident and extended allocation authority through 1991 at the same annual level. The Tax Extension Act of 1991 extended each State's allocation authority until June 30, 1992, at the level of $1.25 per State resident.

Reasons for Change

The low-income housing credit encourages the private sector to construct and rehabilitate the nation's rental housing stock and to make it available to the working poor and other low-income families. In addition to tenant-based housing vouchers and certificates, the credit is an important mechanism for providing Federal assistance to rental households. A study for the Department of Housing and Urban Development that was completed in February 1991 concluded that roughly 128,000 tax credit units were completed during 1987 and 1988, the first 2 years of the program, and that the families occupying these units typically had an income well below the allowable program maximum (60 percent of area median family income).

Proposal

The proposal would extend the authority of States to allocate the credit through December 31, 1993, at the level of $1.25 per State resident.

Effects of Proposal

Extending the low-income housing tax credit would encourage the private sector to continue to construct and rehabilitate housing and to make it available to low-income families.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend low-income housing tax credit:	-*	-0.2	-0.3	-0.4	-0.4	-0.4	-1.7

* Less than $50 million.

EXTEND TARGETED JOBS TAX CREDIT

Current Law

The targeted jobs tax credit is available on an elective basis for hiring individuals from nine targeted groups. The targeted groups are: (1) vocational rehabilitation referrals; (2) economically disadvantaged youths aged 18 through 22; (3) economically disadvantaged Vietnam-era veterans; (4) Supplemental Security Income (SSI) recipients; (5) general assistance recipients; (6) economically disadvantaged cooperative education students aged 16 through 19; (7) economically disadvantaged former convicts; (8) eligible work incentive employees; and (9) economically disadvantaged summer youth employees aged 16 or 17. Certification of targeted group membership is required as a condition of claiming the credit.

The credit generally is equal to 40 percent of the first $6,000 of qualified first-year wages paid to a member of a targeted group. Thus, the maximum credit generally is $2,400 per individual. With respect to economically disadvantaged summer youth employees, however, the credit is equal to 40 percent of up to $3,000 of wages, for a maximum credit of $1,200.

The credit is not available for wages paid to a targeted group member unless the individual either (1) is employed by the employer for at least 90 days (14 days in the case of economically disadvantaged summer youth employees), or (2) has completed at least 120 hours of work performed for the employer (20 hours in the case of economically disadvantaged summer youth employees). The employer's deduction for wages must be reduced by the amount of the credit claimed. The credit was scheduled to expire December 31, 1991, but was extended by the Tax Extension Act of 1991 through June 30, 1992. Accordingly, the credit is available with respect to targeted-group individuals who begin work for the employer on or before June 30, 1992.

Reasons for Change

The targeted jobs tax credit is intended to encourage employers to hire workers who otherwise may be unable to find employment. Job creation incentives are required in the current economic climate.

Proposal

The targeted jobs tax credit would be extended for 18 months. The credit would be available with respect to targeted-group individuals who begin work for the employer on or before December 31, 1993.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend targeted jobs tax credit:	-0.1	-0.2	-0.2	-0.1	-*	-*	-0.5

* Less than $50 million.

EXTEND BUSINESS ENERGY TAX CREDIT

Current Law

A tax credit is allowed for investment in solar or geothermal energy property. The amount of the credit is 10 percent of the investment. Solar property is equipment that uses solar energy to generate electricity or steam or to provide heating, cooling, or hot water in a structure. Geothermal property consists of equipment, such as a turbine or generator, that converts the internal heat of the earth into electrical energy or another form of useful energy. The credits for solar and geothermal property have been scheduled for expiration a number of times in recent years, but have been extended each time, most recently by the Tax Extension Act of 1991, which extended the credits through June 30, 1992.

Reasons for Change

The geothermal and solar credits are intended to encourage investment in renewable energy technologies. Increased use of solar and geothermal energy would reduce our nation's reliance on imported oil and other fossil fuels and would improve our long-term energy security. Use of geothermal and solar energy resources also reduces air pollution.

Proposal

The solar and geothermal credits would be extended for 18 months to December 31, 1993.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend business energy tax credits:	-*	-*	-*	-*	*	*	-0.1

* Less than $50 million.

EXTEND FIRST-TIME FARMER BONDS

Current Law

State and local governments may use the proceeds of tax-exempt bonds to make loans to private individuals or entities for the purpose of acquiring or constructing manufacturing facilities or to make loans to certain first-time farmers for the purpose of acquiring farmland and equipment. Tax-exempt bonds used for these purposes are authorized under the Internal Revenue Code as qualified small issue bonds.

Only individuals or entities with relatively small capital investments (i.e., less than $1 million in some cases and less than $10 million in other cases) in the jurisdiction of the issuer of the bonds are eligible to use qualified small issue bonds for manufacturing facilities. Proceeds of qualified small issue bonds loaned to first-time farmers may not exceed $250,000 per farmer and may be used only to acquire qualifying farmland and certain farm-related depreciable property.

Qualified small issue bonds are subject to the tax-exempt bond volume cap and must compete with other private activity bonds for a share of a State's volume cap. The authority to issue qualified small issue bonds was scheduled to expire December 31, 1991. This authority was extended through June 30, 1992 by the Tax Extension Act of 1991.

Reasons for Change

The provision of a modest amount of low-interest rate financing to first-time farmers through qualified small issue bonds is intended to encourage new individuals to become farmers. There has been a steady reduction in the number of smaller "family farms" in operation and fewer new individuals are entering into the smaller-scale farming business.

Proposal

Those portions of section 144 of the Code which provide the authority to issue qualified small issue bonds for first-time farmers would be extended 18 months, to December 31, 1993.

Effects of Proposal

The availability of low-interest rate financing should encourage new individuals to engage in the business of small-scale farming. Lower costs of borrowing to these individuals should help make them become more competitive and improve profitability of small farming operations.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend first-time farmer bonds:	-*	-*	-*	-*	-*	-*	-*

* Less than $50 million.

ESTABLISH ENTERPRISE ZONES

Current Law

Existing Federal tax incentives generally are not targeted to benefit specific geographic areas. Although the Federal tax law contains incentives that may encourage economic development in economically distressed areas, the availability of the incentives is not conditioned on activity in or development of such areas.

Among the existing general Federal tax incentives that aid economically distressed areas is the targeted jobs tax credit. This credit provides an incentive for employers to hire economically disadvantaged workers and often is available to firms located in economically distressed areas. A Federal tax credit also is allowed for certain investment in low-income housing or the rehabilitation of certain structures that may be located in economically distressed areas. Another Federal tax incentive permits the deferral of capital gains taxation upon certain transfers of low-income housing. In addition, tax-exempt State and local government bonds may be used to finance certain activities conducted in economically distressed areas.

Reasons for Change

To help economically distressed areas share in the benefits of economic growth, the Administration proposes to designate Federal enterprise zones which will benefit from targeted tax incentives and regulatory relief. The tax incentives and regulatory relief provided by this proposal will stimulate government and private sector revitalization of the areas.

Proposal

The proposed enterprise zone initiative would include selected Federal income tax employment and investment incentives. These incentives would be offered beginning in 1993 in conjunction with Federal, State, and local regulatory relief. Up to 50 zones would be selected over a 4-year period.

The incentives are: (1) a 5 percent refundable tax credit for qualified employees with respect to their first $10,500 of wages earned in an enterprise zone (up to $525 per worker, with the credit phasing out when the worker earns between $20,000 and $25,000 of total annual wages); (2) elimination of capital gains taxes for tangible property located within an enterprise zone and used in an enterprise zone business for at least 2 years; and (3) expensing by individuals of contributions to the capital of corporations engaged in the conduct of enterprise zone businesses (provided the corporation does not have more than $5 million of total assets and uses the contributions to acquire tangible assets located within an enterprise zone, and with the expensing limited to $50,000 annually per investor with a $250,000 lifetime limit per investor).

The willingness of States and localities to "match" Federal incentives would be considered in selecting the enterprise zones to receive these additional Federal incentives.

Effects of Proposal

Enterprise zones would encourage private sector investment and job creation in economically distressed areas by removing regulatory and other barriers inhibiting growth. They would also promote growth through selected tax incentives to reduce the risks and costs of operating or expanding businesses in severely depressed areas. A new era of public/private partnerships is needed to help distressed cities and rural areas help themselves.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Establish enterprise zones:	-	-*	-0.2	-0.3	-0.5	-0.8	-1.8

*Less than $50 million.

FACILITATE REAL ESTATE INVESTMENTS BY PENSION FUNDS AND OTHERS

Current Law

Tax-exempt organizations are generally subject to the unrelated business income tax (UBIT) on income earned from debt-financed investments. The debt-financed income rules do not apply, however, to certain investments in real estate by qualified pension or profit sharing trusts ("qualified trusts") and certain educational organizations that provide instruction to enrolled students ("educational institutions").

The following requirements must be satisfied in order for a direct investment in real property by a qualified trust or educational institution to be excepted from the debt-financed income rules: (1) the price of the real property must be a fixed amount determined as of the date the investment is acquired; (2) the amount of (or any amount payable with respect to) any indebtedness, or the time for making payment of any such amount, must not be dependent, in whole or in part, upon any revenue, income, or profits derived from the real property; (3) the real property must not, at any time after the acquisition, be leased to the person who sold the property to the qualified trust or educational institution, or to a person related to such person; (4) in the case of a qualified trust, the real property must not be acquired from a person related to any plan with respect to which the trust was formed; and (5) the seller of the real property (or a person related to the plan with respect to which a qualified trust was formed) must not provide the qualified trust or educational institution with financing in connection with the acquisition of the property. (These are collectively referred to as the sale-leaseback rules.)

The requirements described above were intended to prevent abusive transactions in which a business was sold to a tax-exempt entity on the installment basis (i.e., with seller financing) and then leased back to the seller, often with both the purchase price and the rents contingent on profits from the business. The seller deducted the profits from the business as they were paid to the exempt organization in the form of rent and then reported them as capital gain when the exempt organization paid them back in the form of installment payments on the purchase of the business.

Under a separate statute, all tax-exempt organizations are subject to UBIT on income they earn (whether or not debt-financed or unrelated) through publicly traded partnerships that are not otherwise treated as corporations for tax purposes. These types of publicly traded partnerships include those engaged in real estate investment activities.

Reasons for Change

If any of the elements described above are present, a debt-financed investment in real estate will not qualify for exception from taxation as debt-financed income under the sale-leaseback rules even where the transaction is not abusive. Modifications to the debt-financed income rules are necessary to permit qualified trusts and educational institutions to make debt-financed investments in real property on commercially reasonable terms in circumstances where there is no potential for abuse. In addition, there is no compelling reason to subject a non-leveraged investment in a publicly traded partnership to UBIT where a direct investment (or an investment in a non-publicly traded partnership) engaged in the same activity could be conducted free of tax.

Proposal

1. General exceptions.

De minimis exception to sale-leaseback prohibition. The sale-leaseback prohibition would be modified to permit a de minimis leaseback to the seller (or a party related to the seller) of debt-financed real property. The de minimis exception would apply only if (1) no more than 10 percent of the leasable floor space in a building is leased back to the seller (or related party) and (2) the lease is on commercially reasonable terms.

Seller financing exception. The prohibition on seller-financing would be modified to permit seller-financing on terms that are commercially reasonable. Standards would be provided for determining a commercially reasonable interest rate for this purpose. Because of the separate prohibition on debt-financed income measured by revenue, income, or profits, a participating loan (including an equity kicker) would not under this proposal be considered a commercially reasonable term. The seller-financing exception would not be available if the seller is related to the qualified trust (or to any plan with respect to which the trust was formed) or to the educational institution (including as a substantial contributor).

2. Special Rules for Investments in Partnerships.

The sale-leaseback rules would not apply to an investment made by a qualified trust or educational institution in a large partnership (that is, a partnership having at least 250 partners) if (1) investment units in the partnership are marketed primarily to taxable individuals; (2) a significant percentage (at least 50 percent) of each class of interests is owned by taxable individuals; (3) the partners that are qualified trusts or educational institutions participate on substantially the same terms as taxable individuals owning interests of the same class; and (4) a principal purpose of the partnership allocations is not tax avoidance. In the case of any partnership other than a large partnership in which taxable partners own a significant (at least 25 percent) interest, the sale-leaseback rules would not apply to an investment made by a qualified trust or educational institution if the partnership satisfies the allocation rules presently applicable to debt-financed investments in real estate through partnerships. In addition, the rule that automatically subjects investments in publicly traded partnerships to UBIT would be repealed for all tax-exempt investors. Thus, such investments would be subject to UBIT only if the activity conducted by the partnership is unrelated to the exempt purpose of the partner or is taxable under the debt-financed rules (as modified by this proposal).

3. Special Exception for Property Foreclosed on by Financial Institutions. In the case of certain sales of property foreclosed on by financial institutions, the prohibition on participating loans would be relaxed as part of a further modification to the proposal described above relating to seller-financing. This special rule would apply only in a case where (1) the qualified trust or educational institution acquires the property from a financial institution (including an institution in receivership) that acquired the property by foreclosure; (2) the financial institution treats the property as an ordinary income asset and the amount of the seller financing does not exceed the amount of the financial institution's outstanding indebtedness (determined without regard to accrued but unpaid interest) with respect to the property at the time of foreclosure; (3) the terms and interest rate are commercially reasonable; and (4) the value of any equity participation feature (including an equity kicker) does not exceed 25 percent of the principal amount of the seller-provided loan and must be paid no later than the earlier of satisfaction of the loan or disposition of the property. Standards would be provided for determining a commercially reasonable interest rate for this purpose.

4. Effective Date. The proposal would generally be effective for debt-financed acquisitions of real estate on or after February 1, 1992, and for partnership interests acquired on or after February 1, 1992.

Effects of Proposal

Pension funds and educational institutions are a major source of investment capital for real estate. The debt-financing rules, which were designed to prevent abuses in transactions between taxable and tax-exempt persons, are overbroad, and impose needless transaction costs which impede the efficient flow of capital. The proposal would eliminate these problems while continuing rules that prevent abusive transactions.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Facilitate real estate investments by pension funds and others:	-*	-*	-*	-*	-*	-*	-*

* Less than $50 million.

REPEAL LUXURY TAX ON AIRCRAFT AND BOATS AND REPEAL DIESEL FUEL EXEMPTION FOR PLEASURE BOATS

Current Law

An excise tax is imposed on the first retail sale of boats and aircraft. The tax is equal to 10 percent of the excess of the sales price over $100,000 for boats and $250,000 for aircraft. The tax is also imposed on parts and accessories that are installed on new boats or aircraft within 6 months of purchase, and on the use of boats and aircraft before there has been a retail sale. The tax is not imposed on boats or aircraft that will be used in the active conduct of a trade or business. Most diesel-powered pleasure boats are subject to the tax. In addition, aircraft sold for more than $250,000 are subject to the tax unless the purchaser keeps records for 2 years showing that the business-use requirement has been satisfied. The tax applies to sales or uses between January 1, 1991 and December 31, 1999.

An excise tax of 20.1 cents per gallon is generally imposed on the sale of diesel fuel that is sold for use (or used) in a diesel-powered highway vehicle. The tax does not apply to diesel fuel sold for use in a boat. The revenues from the tax are split between three funds: 2.5 cents per gallon is retained in the general fund, 17.5 cents per gallon goes to the Highway Trust Fund, and .1 cent per gallon goes to the Leaking Underground Storage Tank Trust Fund.

Reasons for Change

The excise tax on boats and aircraft raises very little revenue and causes inappropriate economic dislocations.

Proposal

The Administration proposes to repeal the excise tax imposed on boats and aircraft. The repeal would be effective for sales on or after February 1, 1992.

The revenue loss resulting from the repeal would be offset by extending the excise tax on diesel fuel to diesel fuel sold for use (or used) in pleasure boats.[2] The change in the tax on diesel fuel would generally not affect business users. The change would be effective July 1, 1992 and revenues attributable to the change would be retained in the general fund.

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[2]The Administration has not proposed an offset for the repeal of the airplane luxury tax because collection experience indicates that the revenue to be raised by the tax over the next 5 years is less than $5 million. However, the cost of repeal could be offset by increasing the tax rate on noncommercial jet fuel by $0.001 per gallon.

Effects of Proposal

The extension of the diesel fuel tax would provide the revenue needed to offset the repeal of the luxury tax on boats and aircraft without significant dislocational effects. The burden of the new diesel fuel tax would be borne primarily by persons who own motor boats costing more than $100,000.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Repeal luxury tax on aircraft and boats and repeal diesel fuel exemption for pleasure boats:	-*	*	*	*	*	*	*

* Less than $50 million.

FAMILIES, HEALTH, EDUCATION AND SAVINGS

PERMIT DEDUCTION OF INTEREST ON STUDENT LOANS

Current Law

Under current law, interest on educational loans is considered personal interest and is not deductible. Nondeductible personal interest also includes interest on consumer loans, such as car loans or credit card debt incurred to buy consumer goods.

Current law allows a deduction for qualified mortgage interest, which can include interest on a home equity loan. A taxpayer can deduct interest on a home equity loan that is secured by a qualified residence, except that interest on a home equity loan generally cannot be deducted to the extent the loan exceeds the lesser of $100,000 or the amount of the taxpayer's equity in the residence. How the taxpayer uses the proceeds of a home equity loan does not affect the deductibility of the interest. Thus, a taxpayer can deduct interest on a home equity loan that is used to pay for educational expenses.

Reasons for Change

To remain competitive in the international economy, the nation must have a well-educated, well-trained workforce. A deduction for interest costs incurred in financing higher education and training would encourage individuals to pursue and complete courses of study requiring higher education and vocational training.

Proposal

In general, the proposal would allow a deduction for certain interest expenses incurred to pay for education above the high school level, including vocational education and job-related courses. The deduction would be allowed for interest paid on or after July 1, 1992, and would be taken as an itemized deduction. The deduction would be available for interest on existing loans as well as loans incurred after enactment.

Under the proposal, a taxpayer could deduct interest paid during the year on qualifying educational loans. For a loan to qualify, a number of conditions would have to be met. The loan would have to be made pursuant to a Federal or State guarantee or insurance program, by a tax-exempt nonprofit organization, by a financial institution under a type of program requiring payment to an educational institution, or by an accredited educational or vocational institution. In addition, the loan would have to be a conventional student loan, with conventional repayment terms, and would have to be incurred to pay for certain types of educational expenses. These expenses would have to be paid or incurred at a time that is reasonably contemporaneous with the time the loan proceeds are received.

Eligible educational expenses would include tuition and related expenses of the taxpayer, or the taxpayer's spouse or child, for attendance as a student at an educational institution. The student would have to be either a high school graduate or over age 18, and would have to be pursuing a course of study that either led to a degree or certificate or was related to present or future full-time employment. Eligible educational expenses related to tuition would include fees, the cost of books, supplies, and equipment, and reasonable living expenses of the student if the student lived away from home while attending the educational institution. Tuition or related expenses would not be eligible if a third party reimbursed the taxpayer or the taxpayer's spouse or child for the expenses.

The proposal would coordinate the deduction for qualified educational interest with the deduction for interest on home equity indebtedness. If a taxpayer with qualified educational indebtedness also had home equity indebtedness, the amount the taxpayer could treat as home equity indebtedness for any period would be reduced by any amount treated by the taxpayer as qualified educational indebtedness for that period. For example, if a taxpayer had an existing home equity loan of $150,000 in 1993 and incurred qualified educational indebtedness of $20,000 in that year, the taxpayer could only treat $80,000 of the home equity loan as home equity indebtedness in 1993 (applying first the $100,000 limitation and then the reduction for qualified educational indebtedness). If in 1994 the taxpayer incurred an additional $15,000 of qualified educational indebtedness, the taxpayer could only treat $65,000 of the home equity loan as home equity indebtedness in 1994. To avoid reduction of the interest deduction on the home equity loan as a result of a lower interest rate (or no current payments) on the educational indebtedness, a taxpayer would be permitted to elect, for any taxable year, to forego the educational indebtedness interest deduction and deduct the interest on up to $100,000 of home equity indebtedness.

Under the proposal, lenders receiving interest on qualified educational indebtedness would be required to file annual information returns with the IRS.

Effects of Proposal

By encouraging individuals to pursue and complete courses of study requiring higher education or vocational training, the proposal would increase the nation's pool of well-educated workers.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Permit deduction of interest on student loans:	-0.1	-0.4	-0.7	-0.7	-0.8	-0.9	-3.6

ESTABLISH FLEXIBLE INDIVIDUAL RETIREMENT ACCOUNTS (FIRAS)

Current Law

Taxation of Investment Income and Saving. Investment income earned by an individual taxpayer is generally subject to tax. The funds saved out of each year's income, which are used to make additional deposits to savings or other investment accounts, additional purchases of stocks or bonds, or to acquire other investments, are generally not deductible in calculating taxable income, and the income from such investments is generally subject to tax. The major exception is the tax treatment of retirement savings under certain tax-favored retirement savings arrangements, contributions to which are generally deductible and investment earnings of which are generally excludable from gross income. These investments are generally taxed when the amounts contributed and earned are later distributed, but the income earned from these investments is in effect never taxed.

Individual Retirement Accounts. The current law for Individual Retirement Accounts (IRAs) generally grants married taxpayers who do not participate in a qualified retirement plan or who have adjusted gross incomes (AGIs) below $50,000 the right to make deductible contributions to an IRA. There is a lower income threshold of $35,000 if the taxpayer is unmarried. The deductibility of contributions for taxpayers participating in a qualified retirement plan is phased out as their AGI increases from $10,000 below the income threshold up to the threshold. Taxpayers who do participate in a qualified retirement plan and who have AGIs above these thresholds may make only nondeductible contributions to an IRA. Both deductible and nondeductible IRA contributions are limited to the lesser of $2,000 or the individual's compensation for the year.

Married individuals who both work and otherwise qualify may each contribute to an IRA, so that each may contribute up to $2,000 if each spouse has compensation of $2,000 or more. Each $2,000 limit on deductible contributions is then proportionately reduced for AGIs in the applicable phase-out ranges. If only one spouse works, qualifying married individuals also have the opportunity to contribute an additional $250 to an IRA for the nonworking spouse. The combined $2,250 limit on deductible contributions is also then proportionately reduced for AGIs in the applicable phase-out ranges.

Withdrawals from an IRA prior to age 59½ are generally subject to a 10 percent additional tax unless arrangements are made to withdraw substantially equal amounts over the taxpayer's expected remaining life. Except for distributions of amounts that were not deductible when contributed, IRA withdrawals are subject in full to the regular income tax. Withdrawals must begin by age 70½, and are subject to minimum withdrawal requirements thereafter.

In economic terms, deductible IRAs effectively exempt investment income from taxation. (The income tax imposed on withdrawals merely recaptures the tax saved from deducting the contribution, plus interest on that tax savings; the investment income itself is effectively exempt from tax.) This favorable tax treatment provides an incentive to save: IRAs are designed to provide this incentive specifically for retirement savings. The tax exemption of investment income is also a feature of section 401(k) and other tax-qualified retirement arrangements. Nondeductible IRAs allow only a deferral of taxes on investment income, not an exemption.

Reasons for Change

There is general concern that the rate of national saving and investment is too low relative to that needed to sustain future growth and to maintain our economic position relative to that of other industrial nations. Addressing this problem requires that both public dissaving (the budget deficit) be reduced, and that private saving be increased in such a way as to increase net national savings. Incentives provided by the proposed FIRAs will provide an important incentive to encourage private saving.

The availability of savings accounts in the form of IRAs was sharply curtailed by the Tax Reform Act of 1986, which resulted in a large decline in IRA participation. Prior to the Act, any individual under the age of 70½ could make deductible contributions, up to the current dollar limits, to an IRA. One of the goals of the current proposal is to expand the availability and attractiveness of tax-exempt saving to a large segment of the population.

An additional goal of the current proposal is to expand savings incentives to income that is saved for other than retirement purposes, while not eroding incentives for retirement savings. The proposal recognizes that individuals save for many reasons: for down payments on homes, for educational expenses, for large medical expenses, and as a hedge against uncertain income in the future.

Proposal

The FIRA differs from a deductible current-law IRA in two respects: the contributions are not deductible, but, if the contributions are retained in the account for at least 7 years, neither the contributions nor the investment earnings are taxed when withdrawn. As in the case of IRAs, the economic effect of a FIRA is to exempt investment income from taxation. The proposal would allow individuals (other than dependents) to make nondeductible contributions to a FIRA up to the lesser of $2,500 ($500 more than the $2,000 maximum currently allowed for IRAs) or the individual's compensation for the year. For purposes of determining the contribution limits, married taxpayers filing a joint return would each be treated as earning half the compensation reported on the return. Contributions would be allowed for single filers with AGIs of no more than $60,000, for heads of households with AGIs of no more than $100,000, and for married taxpayers filing joint returns with AGIs of no more than $120,000. Contributions to FIRAs would be allowed in addition to contributions to current-law qualified pension plans, IRAs, section 401(k) plans, and other tax-favored forms of saving.

Earnings on contributions retained in the FIRA for at least 7 years would be eligible for full tax exemption upon withdrawal. However, withdrawals of earnings allocable to contributions retained in the FIRA for less than 3 years would be subject to both a 10 percent additional tax and the regular income tax. Withdrawals of earnings allocable to contributions retained in the FIRA for 3 to 7 years would be subject only to the regular income tax. The proposal would be effective for years ending on or after December 31, 1992.

An individual otherwise eligible to contribute to a FIRA would be allowed to transfer amounts from existing IRAs (other than an IRA formed from amounts rolled over from a qualified plan) to a FIRA (without regard to the $2,500 limitation) from February 1 through December 31, 1992. Such amounts (including initial contributions and accumulated interest) would be subject to the regular income tax, but would not be subject to the additional 10 percent tax for premature withdrawals. In addition, the regular income tax due on such transfers would not be due immediately, but would be spread over

a period of 4 years. The 3- and 7-year holding periods would begin to run on the date of the rollover contribution.

Effects of Proposal

The proposal would increase the total amount of individual saving that can earn tax-free investment income. Generally, individuals would be able to contribute to FIRAs, IRAs, section 401(k) plans, and similar tax-favored plans, and would receive tax exemption on the investment income from each source.

The ability to contribute to a FIRA would significantly raise the total amount of allowable contributions to tax-favored savings accounts. The contribution limit is generally $5,000 for a married couple filing a joint return, even if only one spouse has compensation income. In contrast, the $4,000 IRA limit for a married couple is available only if each spouse has compensation income of at least $2,000. These higher total contribution limits for FIRAs will provide additional marginal incentives for personal saving. The higher eligibility limits on FIRAs also extend the incentives to more taxpayers.

Despite the difference in structure, the value of the tax benefits (in present value terms) of a FIRA per dollar of contribution is equivalent to the value of the tax benefits of a current-law deductible IRA, assuming that tax rates are constant over time. Both FIRAs and deductible IRAs effectively exempt all investment income from tax. The contributions to FIRAs are not deductible, but the income tax imposed on withdrawals from an IRA effectively offsets the tax savings from the deduction of the contribution (plus interest on the tax savings). Individuals who expect, at the time the funds are withdrawn, to be subject to tax at rates as high or higher than their current rates would generally prefer the tax treatment offered in a FIRA to that in an IRA. Conversely, individuals who expect to be taxed at lower rates at the time the funds are withdrawn would generally prefer an IRA as a vehicle for retirement savings.

However, the FIRA offers more flexibility, because full tax benefits are available 7 years after contribution, and the account need not be held until retirement. This gives individuals an added degree of liquidity. In addition, because individuals are allowed to roll amounts over from an existing IRA to a FIRA, this additional liquidity is also available to individuals whose savings are currently placed in an IRA.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Establish flexible IRA accounts:	0.1	0.5	0.1	-0.4	-1.0	-2.1	-2.8

PROMOTE RETIREMENT SAVING AND SIMPLIFY TAXATION OF PENSION DISTRIBUTIONS

1. Small Business Model Retirement Plan

Current Law

Simplified Employee Pension. Under a Simplified Employee Pension (SEP) contributions are made to an Individual Retirement Account (IRA) established on behalf of each participant. Because a SEP is an alternative form of an employer-sponsored pension plan, the contribution limits that apply to each employee in the SEP are the limits that apply to employer-sponsored pension plans in general, as opposed to the $2,000 maximum on contributions that normally applies to IRA contributions. In general, the employer is required to make a contribution for each employee who has attained age 21, has performed service for the employer during at least 3 out of the last 5 years and receives at least $374 (indexed) in compensation in the year. An employer contribution to a SEP is not taxable income to the employee at the time the contribution is made.

Salary Reduction Arrangement Within a Simplified Employee Pension. If an employer has less than 25 employees who meet the eligibility requirements for receiving a contribution under a SEP, the employer may include a salary reduction arrangement in the SEP. Under the salary reduction arrangement, an employee may elect to have the employer contribute a portion of his or her compensation to the SEP, in lieu of the employer paying the same amount directly to the employee as cash. These contributions are known as elective deferrals. There are nondiscrimination rules, similar to the nondiscrimination rules applicable to section 401(k) plans, that govern the amount that each individual highly compensated employee can defer under such a salary reduction arrangement.

Reasons for Change

Pension plan coverage for employees of small business is low. Small businesses need an affordable, easy to administer pension program for their employees. According to the Department of Labor, while 66 percent of employees in firms with 100 or more employees are covered by pension plans, only 23 percent of employees in firms with less than 100 employees have pension coverage. Under the proposal, the Small Business Model Retirement Plan would be available to nearly 95 percent of America's businesses. The proposal would also encourage expansion of coverage by providing employers with a simplified salary reduction plan that does not require nondiscrimination testing provided the required base contributions are made on behalf of all eligible employees and the employer agrees to make matching contributions at a specified level.

Proposal

A small business (defined as a business that normally employs less than 100 employees throughout the year) that has no other pension plan can provide a Small Business Model Retirement Plan for its employees. An employer that sponsors a Small Business Model Retirement Plan will be required to contribute 1 percent of pay into an account for the benefit of each employee who meets the eligibility requirements to receive a contribution under a SEP. Employees will be eligible to make elective deferrals into their accounts up to a maximum contribution of $3,000, subject to the section 415 limitation on contributions. To encourage employees to elect deferrals, the employer must make

matching contributions equal to the first 3 percent of compensation that an employee elects to defer plus 50 percent of the employee's elective deferrals that represent between 3 percent and 5 percent of the employee's compensation. The Small Business Model Retirement Plan would generally replace the Salary Reduction SEP under existing law.

2. Cash or Deferred Arrangements and Matching Plans

Current Law

An employer may sponsor a section 401(k) plan that provides employees the ability to defer some of the compensation that they would otherwise receive in cash into a qualified retirement plan. The amount that highly compensated employees may defer into the plan is limited by the degree that nonhighly compensated employees make deferrals under the special average deferral percentage (ADP) test under section 401(k)(3). Plans may also provide for employer matching contributions and employee after-tax contributions.

Actual Deferral Percentage Test. To satisfy the ADP test, the average of the deferral rates (expressed as a percentage of compensation) for each highly compensated employee eligible to participate in the plan generally cannot exceed the greater of (1) 125 percent of the average of the deferral rates for the current year of all nonhighly compensated employees eligible to participate in the plan or (2) the lesser of (a) 200 percent of such average, and (b) such average plus 2 percentage points. Among the permitted remedies for failure of the ADP test is the recharacterization of the deferrals as after-tax employee contributions.

Contribution Percentage Test. If a plan permits after-tax employee contributions, or provides for employer contributions that are contingent on a participant's elective deferrals or after-tax employee contributions ("matching contributions"), the amount of such contributions generally must satisfy a special average contribution percentage (ACP) test under section 401(m)(2). The ACP test generally is the same as the ADP test described above, except that it applies to matching and after-tax employee contributions rather than to elective deferrals.

Where contributions to a plan are subject to both the ADP test and the ACP test described above, special rules apply to preclude the full amount of the alternative limit (i.e., the 200/2 percentage points limit) to be used in both tests.

Reasons for Change

Because the present law ADP test is based on current year deferrals and because the test is based on averaging of the deferral rates for eligible employees, the maximum deferral permitted for the highly compensated employees is not known until year end. As a result, excess deferrals can occur, and the correction methods are cumbersome. If employers could base the ADP test on prior year deferrals by the nonhighly compensated group, one of the variables that determines the extent that an individual highly compensated employee is permitted to defer is known at the beginning of the year. For employers who wish to remove all the uncertainty as to whether the deferrals of highly compensated employees will satisfy the ADP test, an option could be provided to apply the ADP on the basis of each individual highly compensated employee's deferral rate (rather than the average of such rates). This

would minimize, if not eliminate, excess deferrals and the necessity for correction. Similar considerations apply with respect to the present law ACP test.

The multiple use test adds unnecessary complexity to the ADP and ACP tests. The ability to recharacterize excess deferrals as after-tax contributions also adds unnecessary complexity where modifications to the ADP and ACP tests will minimize, if not eliminate, excess deferrals.

Proposal

The ADP test would be modified such that the determination of the amount that highly compensated employees can defer is based on the average of the deferral rates for the eligible nonhighly compensated employees for the preceding plan year. In the case of an employer that has not previously maintained a 401(k) plan, the ADP test for the first plan year would be calculated as if the nonhighly compensated employee deferral rate was 3 percent.

The ADP test would be further modified by providing employers with an election to apply the current law ADP test (as modified as described in the preceding paragraph) or to apply a simplified ADP test. Corresponding modifications would be made to the ACP test.

Under the simplified ADP test, each eligible highly compensated employee individually would not be permitted to defer more than a prescribed amount based on the average of the deferral rates for the eligible nonhighly compensated employees. If the nonhighly compensated employee deferral rate was between zero and 3 percent, each highly compensated employee could defer an amount up to 2 times that rate. If the nonhighly compensated employee deferral rate was greater than 3 percent, each highly compensated employee could defer an amount up to that rate plus 3 percentage points. Under this simplified ADP test, the multiple use test would not apply and the employer would not be permitted to recharacterize excess deferrals as after-tax employee contributions.

3. Definition of Highly Compensated Employees and Family Aggregation Rules

Current Law

Various qualified pension plan requirements (principally those relating to nondiscrimination requirements) require a determination of the employer's highly compensated employees. The term "highly compensated employee" is defined to include any employee who during the current or preceding year (1) was a 5-percent owner, (2) earned over $75,000 (indexed), (3) earned over $50,000 (indexed) and was in the top 20-percent of the employer's workforce by compensation, or (4) was an officer earning compensation over $45,000 (indexed) or was the highest paid officer, if no officer earned more than the stated amount. Certain family aggregation rules apply in the case of 5-percent owners and other highly compensated employees who are among the top 10 employees by compensation. These family aggregation rules apply for purposes of identifying highly compensated employees and for purposes of applying the compensation limit under qualified plans.

Reasons for Change

Eliminating the rules regarding officers and the top 20 percent of employees by compensation would simplify the current rules. In addition, by generally basing the determination of highly

compensated employees on the prior year compensation, an employer would be able to determine its highly compensated employees at the beginning of a year. Among other things, this will facilitate determining compliance with the various qualified plan nondiscrimination rules (including those applicable to 401(k) plans).

The family aggregation rules are a source of great complexity and create inequities for two wage earner families where both spouses work for the same employer.

Proposal

The term "highly compensated employee" would be redefined to include only 5-percent owners and employees who earn over $50,000 (indexed). If an employer had no highly compensated employees under this definition, then the one employee with the highest compensation would be treated as highly compensated. In addition, compensation generally would be determined based on the prior year's compensation. Finally, the family aggregation rules would be repealed.

4. Cash or Deferred Arrangements for Employees of Tax-Exempt Employers

Current Law

Tax-exempt employers cannot adopt qualified cash or deferred arrangements (section 401(k) plans) for their employees. Certain existing plans adopted before July 2, 1986 were grandfathered. Similar rules apply to State and local governmental employers.

Reasons for Change

Certain tax-exempt employers (e.g., section 501(c)(6) trade associations or section 501(c)(18) credit unions) are not permitted currently to offer any type of broad-based salary reduction program to their employees. In addition, section 401(k) plans offer certain advantages over alternative vehicles available to other tax-exempt employers. For example, amounts deferred under a section 401(k) plan must generally be held in trust, while amounts deferred under section 457 plans (unfunded deferred compensation plans of tax-exempt employers) must remain subject to the general creditors of the employer. As a matter of equity, employees of tax-exempt employers should have the same retirement vehicles available to them as private employers.

Proposal

Tax-exempt employers would be permitted to adopt section 401(k) plans for their employees. Current law would continue to apply to State and local governmental employers.

5. Promote Retirement Saving and Simplify Taxation of Pension Distributions

Current Law

Distributions from qualified plans and other tax-preferred retirement programs are generally subject to income tax upon receipt. Premature distributions, generally those made before age 59½, may also be subject to a 10-percent additional tax under section 72(t). In addition, excess distributions (generally those in excess of $150,000) are subject to a 15-percent excise tax. A number of special rules may alter the general rule, if applicable.

Lump Sum Distributions. Certain lump sum distributions from qualified plans are eligible to be taxed under special rules with respect to both the income tax and excise tax provisions. A participant may be able to elect to use the 5-year forward averaging rules in determining the income tax on a lump sum distribution if the distribution is received after attainment of age 59½ and other requirements are met.

Participants who attained age 50 before January 1, 1986, have several additional options which may reduce the rate of tax on a lump sum distribution. First, they may elect to use the 5-year forward averaging rules even if they are younger than the currently prescribed age requirements if all other the requirements for using those rules are met. In addition, they may elect to use the 10-year forward averaging rules that were available before the Tax Reform Act of 1986. Finally, they may elect to have the entire portion of a lump sum distribution attributable to pre-1974 participation taxed at a 20 percent rate.

If a lump sum distribution includes securities of the employer corporation, the "net unrealized appreciation" (NUA) generally is not subject to tax until the securities are sold, unless the recipient elects to have the normal distribution rules apply. When the securities are sold, the NUA is treated as long-term capital gain. If a distribution is not a lump sum distribution, only the NUA attributable to the employee's own contributions may be excluded from income under these special rules.

Rollovers. Current income tax and, if applicable, the additional tax on a premature distribution can be avoided if the taxable portion of an eligible distribution is "rolled over" within 60 days to an individual retirement account (IRA) or to another qualified plan. Only "qualified total distributions" or "partial distributions" are eligible for rollover treatment. Neither after-tax employee contributions nor minimum required distributions may be rolled over.

Reasons for Change

The tax treatment of qualified plan distributions is unnecessarily complex. The burden of this complexity falls primarily on plan participants and beneficiaries, who may not know the rules governing rollovers or the tax consequences of failing to take timely action. Given the 1986 changes in the basic structure of the individual tax rates and brackets, the highly complex rules for forward averaging, NUA, and capital gains treatment are no longer needed. The liberalized rollover proposal facilitates the retention of pension benefits in retirement savings vehicles, such as IRAs which give the participant control over the timing of distributions.

The single largest source of lost pension benefits is preretirement cashouts of pension savings in lump sum distributions. The proposal would facilitate the preservation of such benefits for retirement purposes by permitting employees to direct the transfer of their benefits to an IRA.

Proposal

Lump Sum Distributions. The 5-year forward averaging for lump sum distributions and the special tax treatment for NUA would be repealed. The special rules making 10-year forward averaging and capital gains treatment available to individuals who attained age 50 before January 1, 1986 would be phased out over a number of years. As under current law, one lump sum distribution of up to $750,000 would be exempt from the excise tax on excess distributions.

Rollovers. In general, most of the restrictions on the types of distributions eligible for rollover treatment would be eliminated. The only distributions not eligible for rollover treatment would be periodic distributions made in the form of an annuity payable for the life of the participant (or the joint lives of the participant and his or her designated beneficiary) or distributions payable in installments over a period of 10 years or longer. The current law restrictions on the rollover of after-tax employee contributions and of minimum required distributions would be retained.

In addition, a qualified plan making a distribution that is eligible for rollover treatment would be required to give the employee the option of having the distribution transferred directly to an IRA or another qualified plan.

6. Taxable Portion of Pension Payments

Current Law

Distributions from a qualified retirement plan are generally subject to income tax when paid, except to the extent that the distribution constitutes a return of the employee's investment (primarily composed of after-tax contributions made by the employee). The portion of the payment that is excludable from tax is equal to the employee's investment divided by the "expected return". The expected return is the total annual annuity payment multiplied by the distributee's remaining life expectancy at retirement. In addition, up to $5,000 in death benefits paid by an employer may be excluded from gross income. If the death benefit is paid in the form of an annuity, the benefit is included in the employee's investment amount. Payors of pensions are required to report total pensions distributions and annuity payments and other partial payments from pension plans.

Reasons for Change

The rules for determining the tax consequences of a pension distribution are complicated and burdensome. The proposal would simplify current law by adopting a single, simpler method for determining the amount of tax.

Proposal

The death benefit exclusion would be repealed. The general rule for calculating the taxable portion of a distribution would be replaced with the alternative method currently provided in IRS Notice 88-118.

7. IRS Master and Prototype Program

Current Law

The IRS currently administers a master and prototype program under which trade and professional associations, banks, insurance companies, brokerage houses, and other financial institutions can obtain IRS approval of model retirement plans and make the pre-approved plans available for adoption by their customers, investors or association members. Under similar administrative programs, law firms and other organizations are able to get advance approval of model plans.

Reasons for Change

As the laws relating to retirement plans have become increasingly complex, employers have experienced an increase in the frequency and cost of amending plans and in the burdens of administering the plans. Master and prototype plans, and other model plans, reduce these costs and burdens, particularly for small to medium sized employers. They also improve IRS administration of the retirement plan rules. Today, the majority of employer-maintained tax-qualified retirement plans, including 401(k) plans and SEPs, are approved master and prototype plans. While the IRS believes that the further expansion of the master and prototype and other model plan programs is desirable, it is appropriate to provide the IRS with the statutory authority to specifically define the duties of model plan sponsors as the program becomes more widely utilized.

In addition, ERISA and the Code generally prohibit plan amendments which have the effect of eliminating certain subsidies or optional forms of benefit under tax-qualified plans. Under the proposal, the Secretary of the Treasury would be authorized to issue regulations which would permit the relaxation of these "anti-cut back" rules when an employer replaces an individually designed plan with an IRS approved model plan, provided that the rights of participants under the individually designed plan were not significantly impaired. This would facilitate the shift by employers from individually designed plans to IRS model plans.

Proposal

Under the proposal, the IRS would be required to define the duties of sponsors of master and prototype and other model plans, consistent with the objective of protecting adopting employers from a sponsor's failure to timely amend the plan and with the objective of insuring adequate administrative services are provided with respect to the plan. Model plan sponsors that did not comply with the duties imposed by the IRS could be precluded from continuing to sponsor model plans.

8. Multiemployer Plan Vesting Requirements

Current Law

Multiemployer plans (i.e., plans sponsored by more than one employer, maintained pursuant to collective bargaining) are permitted to use a 10-year cliff vesting schedule. By contrast, the Tax Reform Act of 1986 subjected single-employer plans to shorter minimum vesting standards (e.g., 5-year cliff vesting or 7-year graded vesting).

Reasons for Change

Reducing vesting schedules for multiemployer pension plans would have a significant effect in enhancing pension benefits and portability for workers covered by these plans. As a matter of equity, the multiemployer plan vesting rules should parallel the single employer plan rules.

Proposal

Multiemployer plans would be subject to the same minimum vesting standards as single-employer plans.

9. PBGC Changes. The minimum funding rules for defined benefit plans would be changed. Details are provided in a separate document describing this and other PBGC reforms.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Promote retirement saving and simplify taxation of pension distributions (Items 1-8):	0.1	*	*	0.3	0.4	0.4	1.1

*Less than $50 million.

WAIVE PENALTY FOR WITHDRAWALS FROM IRAS FOR MEDICAL AND EDUCATIONAL EXPENSES

Current Law

Married taxpayers who do not participate in a qualified retirement plan or who have adjusted gross income below $50,000 generally may make deductible contributions to an Individual Retirement Account (IRA). There is a lower threshold of $35,000 for unmarried taxpayers. The deductibility of contributions for taxpayers participating in a qualified retirement plan is phased out over the last $10,000 below the income threshold for each income tax filing status. Taxpayers who do participate in a qualified retirement plan and who have adjusted gross incomes above these thresholds may make only nondeductible contributions to an IRA. Both deductible and nondeductible IRA contributions are limited to the lesser of $2,000 or the individual's compensation for the year. Married individuals generally may contribute an additional $250 to an IRA for a nonworking spouse.

Withdrawals for IRAs must begin by age 70½. IRA withdrawals, except those from nondeductible contributions, are subject to income tax. Withdrawals from an IRA prior to age 59½ are generally subject to a 10 percent additional tax unless arrangements are made to withdraw substantially equal amounts over the taxpayer's expected remaining life. There is an exception from the 10 percent additional tax under current law for distributions from qualified plans that do not exceed the amount allowable as a deduction for medical care during the year, but this exception does not apply to IRAs.

Reasons for Change

The Tax Reform Act of 1986 sharply curtailed the attractiveness and availability of IRAs for many taxpayers. This resulted in a large decline in IRA participation. Prior to the 1986 Act, any individual under the age of 70½ could make deductible contributions, up to the current limits, to an IRA. The current proposal is designed to enhance the attractiveness of IRAs by making them more flexible. It would also provide an incentive for more taxpayers to save for educational and medical expenses and would provide additional sources of funds to pay these expenses, which can often be significant.

Proposal

The proposal would provide an exception from the 10 percent tax on early withdrawals for distributions from an IRA that do not exceed the amount of qualifying educational expenses of the taxpayer or his or her spouse or child. Qualifying educational expenses are expenses for higher education and post-secondary vocational education. The proposal would also extend the current law exception for distributions from qualified plans for certain medical expenses to distributions from an IRA. The proposal would be effective for withdrawals on or after February 1, 1992.

Effects of Proposal

This proposal would enhance the attractiveness of IRAs. It would also provide an incentive for more taxpayers to save for educational and medical expenses and would provide additional sources of funds to pay these expenses.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Waive penalty for withdrawals from IRAs for medical and educational expenses:	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6

* Less than $50 million.

EXTEND HEALTH INSURANCE DEDUCTION FOR SELF-EMPLOYED

Current Law

Current law generally allows a self-employed individual to deduct as a business expense up to 25 percent of the amount paid during a taxable year for health insurance coverage for himself, his spouse, and his dependents. The deduction is not allowed if the self-employed individual or his or her spouse is eligible for employer-paid health benefits. Originally, this deduction was only available if the insurance was provided under a plan that satisfied the non-discrimination requirements of section 89 of the Code. Section 89 has since been repealed retroactively, however, and no non-discrimination requirements currently apply to such insurance. The value of any coverage provided for such individuals and their families by the business is not deductible for self-employment tax purposes. The availability of the deduction was extended by the Tax Extension Act of 1991 and is currently scheduled to expire June 30, 1992.

Reasons for Change

The 25 percent deduction for health insurance costs of self-employed individuals was added by the Tax Reform Act of 1986 because of a disparity between the tax treatment of owners of incorporated and unincorporated businesses (e.g., partnerships and sole proprietorships). Under prior law, incorporated businesses could generally deduct, as an employee compensation expense, the full cost of any health insurance coverage provided for their employees (including owners serving as employees) and their employees' spouses and dependents. By contrast, self-employed individuals operating through an unincorporated business could only deduct the cost of health insurance coverage for themselves and their spouses and dependents to the extent that it, together with other allowable medical expenses, exceeded 5 percent of their adjusted gross income. (Coverage provided to employees of the self-employed however, was and remains a deductible business expense for the self-employed.) The special 25 percent deduction was designed to mitigate this disparity in treatment. Further, the Tax Reform Act of 1986 raised the floor for deductible medical expenses (including health insurance) to 7.5 percent of adjusted gross income.

Proposal

The proposal would extend the 25 percent deduction through December 31, 1993.

Effects of Proposal

The proposal will continue to reduce the disparity in tax treatment between self-employed individuals and owners of incorporated businesses, compared to prior law.

Revenue Estimate

	Fiscal Year						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of dollars)						
Extend health insurance deduction for self-employed:	-0.1	-0.2	-0.3	-	-	-	-0.6

EXTEND MEDICARE HOSPITAL INSURANCE (HI) COVERAGE TO ALL STATE AND LOCAL EMPLOYEES

Current Law

State and local government employees hired on or after April 1, 1986, and employees who are not members of their employer's retirement system, are covered by Medicare Hospital Insurance, and their wages are subject to the Medicare tax (1.45 percent on both employers and employees). Unless a State or local government has a voluntary agreement with the Secretary of Health and Human Services, employees hired prior to April 1, 1986, who are members of their employer's retirement system are not covered by Medicare Hospital Insurance, nor are their wages subject to the tax.

Reasons for Change

State and local government employees are the only major group of employees not assured Medicare coverage. One out of six State and local government employees are not covered by voluntary agreements or by law. However, an estimated 85 percent of these employees receive full Medicare benefits through their spouse or because of prior work in covered employment. Over their working lives, they contribute on average only half as much tax as is paid by workers in the private sector. Extending coverage would assure that the remaining 15 percent have access to Medicare and would eliminate the inequity and the drain on the Medicare Trust Fund caused by those who receive Medicare without contributing fully.

Proposal

As of July 1, 1992, all State and local government employees would be covered by Medicare Hospital Insurance.

Effects of Proposal

An additional two million State and local government employees would contribute to Medicare. Of these, roughly 300,000 employees would become newly eligible to receive Medicare benefits subject to satisfying the minimum 40 quarters of covered employment.

Revenue Estimate[3]

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend HI coverage to State and local employees:	0.3	1.6	1.5	1.5	1.5	1.5	8.1

[3]Net of income tax offset.

DOUBLE AND RESTORE ADOPTION DEDUCTION

Current Law

Expenses associated with the adoption of children are not deductible under current law. However, expenses associated with the adoption of special needs children are reimbursable under the Federal-State Adoption Assistance Program (Title IV-E of the Social Security Act). Special needs children are those who by virtue of special conditions such as age, physical or mental handicap, or combination of circumstances, are difficult to place for adoption. The Adoption Assistance Program includes several components. One of these components requires States to reimburse families for costs associated with the process of adopting special needs children. The Federal Government shares 50 percent of these costs up to a maximum Federal share of $1,000 per child. Reimbursable expenses include those associated directly with the adoption process such as legal costs, social service review, and transportation costs. Some children are also eligible for continuing Federal-State assistance under Title IV-E of the Social Security Act. This assistance includes Medicaid. Other children may be eligible for continuing assistance under State-only programs.

Reasons for Change

The Tax Reform Act of 1986 (1986 Act) repealed the deduction for adoption expenses associated with special needs children. Under prior law, a deduction of up to $1,500 of expenses associated with the adoption of special needs children was allowed. The 1986 Act provided for a new outlay program under the existing Adoption Assistance Program to reimburse expenses associated with the adoption process of these children. The group of children covered under the outlay program is somewhat broader than the group covered by the prior deduction. The prior law deduction was available only for special needs children assisted under Federal welfare programs, Aid to Families with Dependent Children, Title IV-E Foster Care, or Supplemental Security Income. The current adoption assistance outlay program provides assistance for adoption expenses for these special needs children, as well as special needs children in private and State-only programs.

Repeal of the special needs adoption deduction may have appeared to some as a lessening of the Federal concern for the adoption of special needs children.

An important purpose of the Adoption Assistance Program is to enable families in modest circumstances to adopt special needs children. In a number of cases the children are in foster care with the prospective adoptive parents. The prospective parents would like to adopt the child formally, but find that to do so would impose a financial hardship on the entire family.

While the majority of eligible expenses are expected to be reimbursed under the continuing expenditure program, the Administration is concerned that in some cases the limits may be set below actual cost in high-cost areas or in special circumstances. Moreover, inclusion in the tax code of a deduction for special needs children may alert families who are hoping to adopt a child to the many forms of assistance provided to families adopting a child with special needs.

Proposal

The proposal would permit the deduction from income of unreimbursed expenses that are associated with the adoption of special needs children, up to a maximum of $3,000 per child. Eligible expenses would be limited to those directly associated with the adoption process that are eligible for reimbursement under the Adoption Assistance Program. These include court costs, legal expenses, social service review, and transportation costs. Expenses that are deducted and then reimbursed in a later tax year would be included in income in the year the reimbursement occurs. Only expenses for adopting children defined as eligible under the rules of the Adoption Assistance Program would be allowed. The proposal would be effective for adoptions on or after February 1, 1992.

Effects of Proposal

The proposal when combined with the current outlay program would assure that reasonable expenses associated with the process of adopting a special needs child do not cause financial hardship for the adoptive parents. The proposed deduction would supplement the current Federal outlay program. In addition, the proposal highlights the Administration's concern that adoption of these children be specially encouraged and may call to the attention of families interested in adoption the various programs that help families adopting children with special needs.

While the costs of adoption of a special needs child are only a small part of the total costs associated with adoption of these children, the Administration believes that it is important to remove this small one-time cost barrier that might leave any of these children without a permanent family.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Double and restore adoption deduction:	-*	-*	-*	-*	-*	-*	-*

* Less than $50 million.

EXPAND PUBLIC TRANSIT EXCLUSION TO $60 PER MONTH

Current Law

Certain employer-provided fringe benefits are excluded from gross income under current law. Among the fringe benefits excluded from gross income are so-called "*de minimis* fringes," which are generally defined as any employer-provided property or service the value of which is so small as to make accounting for it unreasonable or administratively impractical. The 1984 legislation creating the exclusion instructed the Treasury to treat as a *de minimis* fringe up to $15 per month of employer-provided passes, tokens, fare cards and reimbursements to cover the costs of commuting by public transit. Regulations were issued in January 1992 to increase this amount to $21 to reflect inflation since 1984.

The exclusion for employer-provided commuting benefits applies only if the total value of the passes, tokens, fare cards and reimbursements provided to an employee does not exceed $21 per month. That is, an employee who receives benefits valued at more than $21 per month cannot exclude any portion of the value from income, even if the value exceeds $21 by only a small amount.

Reasons for Change

The Administration believes that a significant increase in the amount of employer-provided public transit commuting benefits that may be excluded from income subject to tax would create a more meaningful incentive for commuting by public transit than the exclusion provided under current law. The Administration also believes that the requirement under current law that the entire value of public transit commuting benefits that exceed the excludable amount be included in income subject to tax may discourage the provision of these benefits.

Proposal

The proposal would allow taxpayers to exclude from gross income up to $60 per month of employer-provided passes, tokens, fare cards and reimbursements to cover the costs of commuting by public transit, regardless of whether the total amount exceeds $60. The proposal would apply to benefits covering expenses incurred on or after February 1, 1992.

Effects of Proposal

The proposal would increase incentives for commuting by public transit. Increasing the excludable amount to $60 would allow taxpayers to exclude up to approximately $2.75 per work day in commuting expenses from income subject to tax, an amount sufficient to cover the cost of commuting by public transit for many taxpayers. The proposal would also create greater parity between the tax treatment of commuting by public transit and commuting by private automobile, the latter of which benefits from an exclusion from income for employer-provided parking for employees on or near the business premises of their employers.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Expand public transit exclusion:	-*	-*	-*	-*	-*	-*	-0.1

* Less than $50 million.

FAMILY TAX ALLOWANCE

Current Law

In general, a taxpayer is allowed a personal exemption for himself, his spouse, and for each dependent. Personal exemptions are allowed as deductions in computing taxable income. The amount of each personal exemption is $2,300 for taxable years beginning in 1992.

In general, a child age 18 or under qualifies as a dependent if the taxpayer furnishes over half the child's support. A "child" includes a child by blood, an adopted child, a stepchild, and a child placed with the taxpayer by an authorized placement agency for legal adoption. In addition, a child who is a member of the taxpayer's household and lives with the taxpayer during the entire taxable year may be considered the taxpayer's "child." The amount of the personal exemption is indexed for inflation. Personal exemptions are phased out for high-income taxpayers.

Reasons for Change

Taxpayers incur significant costs in rearing children. An increase in the personal exemption for dependent children is a simple and effective way to decrease the financial burden on families.

Proposal

The proposal increases the personal exemption for dependent children age 18 and under at the end of the taxable year by $500 per child. This amount would be indexed for inflation. The proposal is effective October 1, 1992.

Effects of Proposal

Under the proposal, the personal exemption for dependent children age 18 or under at the end of the taxable year will increase by $500 per child. For taxable years beginning in 1992, the increase will be prorated.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of dollars)						
Family tax allowance:	0	-4.4	-4.6	-4.7	-5.0	-5.2	-23.8

HOMEBUYERS

PROVIDE FIRST-TIME HOMEBUYERS A $5,000 TAX CREDIT

Current Law

There is no tax credit for homebuyers under current law. There are a number of other tax benefits for homeowners under current law. For example, homeowners are allowed to deduct mortgage interest and property taxes if they itemize their deductions. In addition, capital gains on the sale of a principal residence may be deferred if the seller purchases a new principal residence within a specified rollover period and the new residence costs at least as much as the adjusted sales price of the old residence.

Reasons for Change

A temporary tax credit for first-time homebuyers would accelerate the time at which first-time homebuyers purchase a home. By accelerating and increasing expenditures on home purchases, such a credit would also assist in the recovery of the homebuilding industry.

Proposal

First-time homebuyers would receive a tax credit on the purchase of a principal residence. The credit would equal 10 percent of the purchase price of the residence, up to a maximum of $5,000. Half of the credit would be allowed in the year the residence is purchased and half in the succeeding year. The credit would be available to any first-time homebuyer, regardless of income, and could be taken on the purchase of any residence that is the purchaser's principal residence.

The tax credit would be available for any purchase of a first home on or after February 1, 1992, and before January 1, 1993. For calendar-year taxpayers, half the credit would thus be available to offset 1992 income tax liability and half to offset 1993 income tax liability. Although the credit would not be refundable if it exceeded income tax liability, any unused portion of the credit could be carried forward for up to 5 years if it could not be used in the current year.

For example, if a first-time homebuyer purchased a principal residence in June 1992 for $80,000, the allowable credit would be the maximum of $5,000. Under the proposal, the taxpayer could take a credit of $2,500 in 1992 and $2,500 in 1993. Alternatively, if the residence cost $40,000, the allowable credit would be $4,000; the taxpayer could take a credit of $2,000 in 1992 and $2,000 in 1993.

A first-time homebuyer would include any individual who did not own a present interest in any residence at any time during the 3-year period prior to the date of purchasing the principal residence on which the credit is to be claimed. However, if an individual is deferring tax on gain from sale of an old principal residence and is permitted an extended rollover period, that individual would not be considered a first-time homebuyer until after the end of the extended rollover period.

Only a single credit may be claimed per residence and all purchasers must be first-time homebuyers. If the credit is claimed on more than one return (e.g., in the case of a married couple filing a separate return), the credit must be apportioned under rules to be provided in regulations.

The credit would be recaptured if the residence on which the credit is claimed is disposed of within 3 years of the date the residence was purchased. The recapture rule would not apply, however, to dispositions by reason of the taxpayer's death or pursuant to the taxpayer's divorce. If the taxpayer disposed of the residence within 3 years but purchased a new residence within the rollover period, the credit would be recaptured to the extent the taxpayer could not have claimed as much credit on the new residence.

Effects of Proposal

The tax credit would assist first-time homebuyers in entering the housing market to purchase homes. By encouraging such purchases during 1992, the credit would stimulate the housing industry.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Provide tax credit to first-time homebuyers:	-0.2	-2.1	-2.5	-0.6	0.2	0.1	-5.2

ALLOW DEDUCTION FOR LOSS ON SALE OF PRINCIPAL RESIDENCE

Current Law

Under current law, a deduction for nonbusiness losses is only available if the losses are casualty losses, and is limited in a number of ways. Casualty losses include losses arising from fire, storm, shipwreck, or other casualty, or from theft. A taxpayer can deduct casualty losses only if the taxpayer itemizes deductions. To calculate the amount of the deduction, the taxpayer must reduce each casualty loss by $100, and reduce the total amount of casualty losses by 10 percent of the taxpayer's adjusted gross income. Net casualty losses are deductible against ordinary income.

Capital gain on the sale of a residence is taxable unless a specific deferral or exclusion of the gain is available. Capital loss on the sale of a residence, however, is not deductible and cannot offset capital gain.

The tax on capital gain on the sale of a principal residence may be deferred if the seller purchases a new principal residence within a 2-year rollover period and the new residence costs at least as much as the adjusted sales price of the old residence. The tax basis of the new residence is reduced by the amount of any untaxed gain on the sale of the old residence. The 2-year rollover period is extended for certain taxpayers residing abroad and certain military personnel on active duty.

Capital gain on the sale of a principal residence may be excluded by a taxpayer who is age 55 or older and meets certain qualifications. This exclusion is limited to $125,000 of capital gain and is only available to a taxpayer once.

Reasons for Change

In a period of declining home values, the asymmetry of current law treatment of gains and losses on sales of homes places an inappropriate burden on homeowners who must sell their homes at a loss.

Proposal

The proposal would allow homeowners who sell their homes at a loss to treat the capital loss as a casualty loss, thus allowing a partial deduction. The limitations on deductibility of casualty losses would apply, and the deduction would be available only if the homeowner itemizes deductions.

In addition, the proposal would allow a homeowner who sells a principal residence at a loss and purchases a new principal residence within the 2-year rollover period to add the nondeductible portion of the loss to the tax basis of the new principal residence. The nondeductible portion of the loss would thus reduce gain on eventual sale of the residence. If a homeowner was eligible for a longer rollover period than 2 years by reason of foreign residency or military status, the longer rollover period would apply.

For example, if a homeowner with an adjusted gross income of $40,000 sold his or her home at a loss of $10,000 and had no other casualty gains or losses for the year, the homeowner would have a casualty loss deduction from the sale of the home of $5,900 ($10,000 less $100 less 10 percent of adjusted gross income). If the homeowner purchased a new principal residence within 2 years for

$90,000, the homeowner could add $4,100 (the nondeductible portion of the $10,000 loss) to the basis of the new principal residence. Under current law, the homeowner would have a nondeductible capital loss of $10,000 and no basis adjustment reflecting that loss.

The one-time $125,000 exclusion would still be available to homeowners who later sold their new principal residences at a gain.

The proposal would be effective for sales of principal residences on or after February 1, 1992. In addition, homeowners who sustained a loss on the sale of a principal residence on or after January 1, 1991 would be permitted to add the entire loss basis to the basis of a new principal residence purchased within the rollover period.

Effects of Proposal

The proposal would benefit homeowners who must sell their homes at a loss, thus easing the tax burden on such individuals. Although the full amount of the loss would not be currently deductible, the partial deduction combined with the basis adjustment would operate to correct much of the current imbalance between treatment of capital gains and capital losses from sales of principal residences.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Allow deduction for loss on sale of principal residence:	-*	-0.4	-0.4	-0.4	-0.4	-0.3	-1.9

* Less than $50 million.

WAIVE PENALTY FOR WITHDRAWALS FROM IRAS FOR FIRST-TIME HOMEBUYERS

Current Law

Married taxpayers who do not participate in a qualified retirement plan or who have adjusted gross income below $50,000 generally may make deductible contributions to an Individual Retirement Account (IRA). There is a lower threshold of $35,000 for unmarried taxpayers. The deductibility of contributions for taxpayers participating in a qualified retirement plan is phased out over the last $10,000 below the income threshold for each income tax filing status. Taxpayers who do participate in a qualified retirement plan and who have adjusted gross incomes above these thresholds may make only nondeductible contributions to an IRA. Both deductible and nondeductible IRA contributions are limited to the lesser of $2,000 or the individual's compensation for the year. Married individuals generally may contribute an additional $250 to an IRA for a nonworking spouse.

Withdrawals for IRAs must begin by age 70½. IRA withdrawals, except those from nondeductible contributions, are subject to income tax. Withdrawals from an IRA prior to age 59½ are generally subject to a 10 percent additional tax unless arrangements are made to withdraw substantially equal amounts over the taxpayer's expected remaining life.

Reasons for Change

The intent of this proposal is to expand savings incentives with respect to income that is saved for first-time home purchases. Increasing the flexibility of IRAs would help alleviate the difficulties that many individuals have in purchasing a new home.

The Tax Reform Act of 1986 sharply curtailed the attractiveness and availability of IRAs for many taxpayers. This resulted in a large decline in IRA participation. Prior to the 1986 Act, any individual under the age of 70½ could make deductible contributions, up to the current limits, to an IRA. The current proposal is designed to enhance the attractiveness of IRAs by making them more flexible. It would also provide an incentive for taxpayers to save for the purchase of their first home.

Proposal

The proposal would allow individuals to withdraw amounts of up to $10,000 from their IRAs for their first purchase of a principal residence. The 10 percent additional tax on early withdrawals would be waived for eligible individuals. Eligibility for penalty-free withdrawals would be limited to individuals who did not own a present interest in a residence at any time during the 3 years period prior to the purchase of the principal residence, or who are not within an extended period for rolling over gain from the sale of a principal residence. The proposal would be effective for withdrawals on or after February 1, 1992.

Effects of Proposal

This proposal would enhance the attractiveness of IRAs and help encourage individuals to save for the purchase of a first home.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Waive penalty for withdrawals from IRAs for first-time homebuyers:	-*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5

* Less than $50 million.

EXTEND MORTGAGE REVENUE BONDS

Current Law

State and local governments may use the proceeds of tax-exempt bonds to make loans to low and middle income individuals for the purpose of purchasing a single family residence to be used as their principal residence. Tax-exempt bonds used for this purpose are authorized under the Internal Revenue Code as mortgage revenue bonds. In lieu of issuing mortgage revenue bonds, State and local governments may issue mortgage credit certificates (MCC's) to low and middle income individuals with respect to qualifying purchases of principal residences. MCC's provide qualifying purchasers of principal residences a tax credit equal to a portion of the home mortgage interest paid by the purchaser.

Generally, only individuals with family incomes of less than 115 percent of the median family income for the area in which a residence is located are eligible to borrow proceeds of mortgage revenue bonds or to receive MCC's. In addition, the purchase price of a residence purchased with proceeds of mortgage revenue bonds or subsidized with MCC's may not exceed 90 percent of the average purchase price of residences in that area.

Mortgage revenue bonds and MCC's are subject to the tax-exempt bond volume cap and must compete with other private activity bonds for a share of a State's volume cap. The authority to issue mortgage revenue bonds and MCC's was scheduled to expire on December 31, 1991. This authority was extended through June 30, 1992 by the Tax Extension Act of 1991.

Reasons for Change

Programs funded with the proceeds of mortgage revenue bonds that provide loans to low and middle income homebuyers and programs providing MCC's to low and middle income homebuyers have been popular with many State and local governments. Making mortgage revenue bond proceeds and MCC's available to homebuyers results in lower costs of borrowing, thereby making housing more affordable for lower and middle income families. Extending this program will help lower and middle income families acquire residences.

Proposal

The authority to issue mortgage revenue bonds and MCC's would be extended 18 months, to December 31, 1993.

Effects of Proposal

The availability of low-interest rate or subsidized mortgage financing should make home ownership possible for more lower and middle income individuals and families.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend mortgage revenue bonds:	-*	-*	-0.1	-0.1	-0.1	-0.1	-0.3

* Less than $50 million.

OTHER PROPOSALS AFFECTING RECEIPTS

SUPPORT REVENUE NEUTRAL TAX SIMPLIFICATION

To reform the burden of taxpayer compliance with the nation's tax law, the Administration will continue to support revenue-neutral simplification of the tax Code, including simplification of tax rules applying to individual taxpayers, relating to amortization of purchased intangible assets and governing payroll tax deposits for small- and medium-sized businesses.

The Administration has set forth its position on specific simplification proposals currently pending before Congress in Treasury Department testimony delivered on July 23, 1991, before the House Committee on Ways and Means; on July 25, 1991, before the Select Revenue Measures Subcommittee of the House Committee on Ways and Means; on July 29, 1991, before the Select Revenue Measures Subcommittee of the House Committee on Ways and Means; on September 10, 1991, before the Senate Committee on Finance; and on October 2, 1991, before the House Committee on Ways and Means.

REVISE RULES FOR CHARITABLE CONTRIBUTIONS

Current Law

Alternative Minimum Tax. In calculating taxable income for ordinary income tax purposes, a taxpayer is generally allowed to deduct (subject to certain limits) the fair market value of property contributed to charitable organizations. The amount of the deduction, however, is generally limited to the taxpayer's basis in the property if a sale of the property would have given rise to ordinary income or to a short-term capital gain. The amount of the deduction is also limited to the taxpayer's basis if the property is tangible personal property and the recipient's use of the property is unrelated to its tax-exempt purpose.

A different rule was adopted in 1986 for donations of long-term capital gain property under the alternative minimum tax (AMT). In computing alternative minimum taxable income (AMTI), the taxpayer may not deduct the full value of the property. Rather, the taxpayer treats as a tax preference, and therefore adds back to AMTI, the amount by which the fair market value of the property exceeds the taxpayer's basis. However, under a special rule that applies for taxable years beginning in 1991 and for contributions made before July 1, 1992 in taxable years beginning in 1992, charitable contributions of tangible personal property do not result in this tax preference.[4]

Source Rule. Under the current statute and regulations, a taxpayer's charitable deductions generally are ratably allocated and apportioned between U.S. source and foreign source gross income. In making this computation, an affiliated group of corporations generally is treated as a single taxpayer. The allocation and apportionment of a charitable deduction to a taxpayer's foreign source income may reduce the allowed foreign tax credit of taxpayers with excess foreign tax credits.

Reporting by Charitable Donees. Section 6033 of the Internal Revenue Code requires most tax-exempt organizations eligible to receive tax-deductible charitable contributions to file an annual information return (the Form 990). However, of these entities, churches and their affiliated organizations and public charities with gross receipts of $25,000 or less are generally not required to file the Form 990. By regulation, exempt organizations required to file the Form 990 must generally report, among other items, the names and addresses of all persons who contributed, bequeathed, or devised $5,000 or more (in money or other property) during the taxable year.

In the Revenue Act of 1987, Congress adopted rules requiring exempt organizations other than charities (that is, other than organizations exempt under section 501(c)(3)) to disclose in their fund-raising solicitations that payments to the organization are not deductible as charitable contributions. Charities are not required to disclose, in soliciting donations, the circumstances under which donations, membership dues, payments for goods or services, or other items might not be deductible as charitable contributions.

Reporting by Donors. On Schedule A to the Form 1040, an individual taxpayer must separately state the aggregate amount of charitable contributions made by cash or check and the aggregate amount made other than by cash or check. In addition, on a form attached to the Form 1040, taxpayers must

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[4]See Rev. Rul. 90-111, 1990-2 C.B. 30 for the rules that apply to donations made in 1991.

separately identify charitable contributions of property valued at more than $500. The donor must provide certain specified information about the contributed property, including a description of the property and the date it was acquired, and the method used to determine its fair market value. Generally, a qualified appraiser must sign the form if the claimed deduction exceeds $5,000 per item or group of similar items. In the case of donated art for which a deduction of $20,000 or more is claimed, a complete copy of the signed appraisal must be attached.

A taxpayer is not required to provide information regarding specific contributions made by cash or check, regardless of amount.

Reasons for Change

Making the temporary AMT exclusion permanent and expanding it to cover intangible personal property and real property as well as tangible personal property will encourage charitable contributions of property. Items that might otherwise be sold would instead be given to charitable institutions, to the benefit of the general public. Charitable organizations have indicated that since the beginning of 1991, when the temporary exclusion from the AMT for gifts of tangible personal property took effect, gifts of this type of property have increased significantly.

Pro rata allocation and apportionment of charitable deductions on an affiliated group basis may discourage charitable giving by U.S. multinational corporations with excess foreign tax credits. Other methods of allocation and apportionment that could be allowed, by regulation, under the current statute (such as allocation based on the place of use of the charitable gift) may favor some charities over others.

On audit of individual taxpayers, the IRS is not readily able to distinguish between charitable donations to charities and payments to charities for goods and services, such as the admission to entertainment events and the purchase of consumer items. For example, a popular fundraising technique is the use of "charity auctions." Where the winning bidder writes a check to the charity for a large sum of money, significant tax revenues are lost if the taxpayer treats the payment as a charitable contribution rather than as a nondeductible payment for goods or services. Such payments, however, are difficult to identify on the face of the taxpayer's return, if they are aggregated on Schedule A with other cash contributions.

Proposal

Under the proposal, the temporary exclusion from AMTI would be made permanent and would be expanded to include the fair market value of all gifts of appreciated property, including real estate and stocks and bonds. By making permanent the temporary exclusion currently in effect and by expanding that exclusion to all types of property, the proposal restores the exclusion of gifts of appreciated property from the AMT that existed before the Tax Reform Act of 1986. The AMT change would be effective for contributions made in calendar years ending on or after December 31, 1992.

The proposal would also allocate all charitable contribution deductions of a taxpayer to U.S. source gross income to the extent thereof, effective for contributions made in calendar years ending on or after December 31, 1992.

In addition, organizations eligible to receive tax-deductible contributions would generally be required to file information returns with the IRS (and with the donor) reporting charitable contributions received from any individual in excess of $500 (in cash or property) during the calendar year. The organization would determine whether the amount received is potentially eligible for the charitable contribution deduction, based on whether the organization provided goods or services to the donor. Organizations with annual gross receipts of less than $25,000 would be exempt from this reporting requirement. It is expected that the IRS would revise Schedule A to the Form 1040 to require individuals who itemize deductions to separately report contributions of more than $500 (whether in cash or in kind) made in a calendar year to a single organization. The proposal for additional reporting would apply to contributions made on or after July 1, 1992.

Effects of Proposal

The proposal should encourage additional charitable contributions of appreciated property by individuals and by U.S. multinationals with excess foreign tax credits. The proposal also would avoid disadvantaging charities with activities abroad in seeking contributions from such corporations.

Preliminary data collected by IRS under its TCMP program show that taxpayers have frequently overstated charitable contributions. The proposal would reduce the amount of this overstatement by providing the IRS with information needed to monitor the claimed tax treatment of large donations made to charities. In addition, providing information to taxpayers should increase voluntary compliance and should simplify return preparation.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Revise rules for charitable contributions:	-*	0.1	0.1	0.1	0.1	0.2	0.6

* Less than $50 million.

CONFORM BOOK AND TAX ACCOUNTING FOR SECURITIES INVENTORIES

Current Law

Under Treasury regulations, inventories of marketable securities held by dealers for sale to customers may be valued at market, at cost, or at the lower of cost or market for purposes of computing taxable income.

The market method of inventory valuation (often referred to as the "mark to market" method) requires the taxpayer to determine the market value of its inventory at the end of each taxable year and include all unrealized inventory gains and losses in its income for the year. The market method tends to give the most accurate measure of a taxpayer's annual income, but it works best if the taxpayer's inventory is composed of items that can be readily valued at the end of each taxable year.

Because inventories of most businesses are difficult to value, however, most taxpayers use the cost method of inventory valuation (often referred to as the "historical cost" method). Under the cost method, a taxpayer values its inventory at the cost reflected on the taxpayer's books until the inventory is sold, and does not recognize any of the unrealized gains and losses that are reflected in the inventory's value. For most profitable businesses, the cost of the taxpayer's inventory will ordinarily be less than its market value and inventory levels will ordinarily increase over time. Thus, the cost method will tend to understate the taxpayer's annual income, compared to the market method.

Under the lower of cost or market method of inventory valuation (LCM), a taxpayer values each item of inventory at its market value or at its cost, whichever is lower at the end of each taxable year. Thus, the LCM method permits the taxpayer to deduct unrealized losses without requiring any unrealized gains to be included in income.

When the Treasury regulations regarding securities dealers were issued, the lower of cost or market method conformed to the best accounting practice in the trade or business, and securities dealers regularly inventoried their unsold securities on that basis in their financial statements. Because the LCM method understates a taxpayer's annual income, compared to either the market method or the cost method, it was considered a very conservative method of financial accounting. Since 1973, however, generally accepted accounting principles (GAAP) have required securities dealers to mark their inventories to market.

Reasons for Change

Inventories of marketable securities are easily valued at year end, and in fact are currently valued by securities dealers in computing their income for financial statement purposes and in adjusting their inventory to an LCM basis for Federal income tax purposes. The cost method and the LCM method tend to understate taxable income compared to the market method that securities dealers use to report their income to shareholders and creditors. The market method represents the best accounting practice in the trade or business of dealing in securities and is the method that most clearly reflects the income of a securities dealer.

Proposal

The Administration proposes to eliminate the ability of securities dealers to use the cost and LCM methods. Securities dealers would be required to compute their taxable income by marking their inventories of securities to market, as they already do when preparing financial statements in accordance with GAAP.

Each dealer that currently uses the cost or LCM method of accounting for its inventory of securities would be required to change to the market method for all of its securities held for sale to customers. The dealer would be required to value its inventory of securities at market for all taxable years ending on or after December 31, 1992. Under a transitional rule, the resulting change in inventory value would be included in taxable income ratably over a 10-year period. For example, a dealer that uses a calendar year and that is required to change from the LCM method to the market method on December 31, 1992, would increase its taxable income for 1992 and each of the next 9 years by 10 percent of the difference between the market value of its inventory on December 31, 1992, and the value of that inventory on December 31, 1992 under the LCM method.

Effects of Proposal

The proposal would more clearly reflect the annual income earned by dealers in securities.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Conform book and tax accounting for securities inventories:	0.2	0.6	0.8	0.8	0.8	0.8	4.0

EXTEND 45-DAY INTEREST-FREE PERIOD TO REFUNDS OF ALL TAXES

Current Law

Current law provides that no interest is to be paid by the Government on a refund arising from an original income tax return if the refund is issued by the 45th day after the later of the due date for the return (determined without regard to any extensions) or the date the return is filed.

Reasons for Change

There is no interest-free period for refunds of taxes other than income taxes (i.e., employment, excise and estate and gift taxes), or for refunds arising from amended returns. This treatment results in taxpayers receiving interest on some overpayments of tax that are refunded within a 45-day period, but not on others, although in all cases taxpayers control the time of filing and the IRS needs a minimum time period to process the return.

Proposal

The Administration proposes to provide a 45-day interest-free period in which the IRS may process refunds of any type of tax overpayment, regardless of whether the refund arises pursuant to an original return or an amended return.

Effects of Proposal

The proposal would eliminate the disparity in the payment of interest on overpayments of income tax and overpayments of other taxes, as well as the disparity in the payment of interest on refunds arising from original tax returns and refunds arising from amended tax returns.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend 45-day interest-free period:	*	0.3	0.3	0.4	0.4	0.4	1.8

* Less than $50 million.

DISALLOW INTEREST DEDUCTIONS ON CORPORATE-OWNED LIFE INSURANCE (COLI) LOANS

Current Law

A corporation is allowed to own life insurance policies insuring the lives of its employees and retirees. The investment income on the cash value of these COLI policies is exempt from current taxation, in accordance with the tax treatment provided life insurance policies generally. Interest on indebtedness secured by the cash value of these policies is deductible to the extent the amount of the indebtedness does not exceed $50,000 per insured life.

Reasons for Change

Corporations that borrow against the cash value of a life insurance policy are able to generate tax savings because the interest paid on the indebtedness is deductible while the build up of investment income on the cash value is not currently subject to tax. The corporation's actual net interest expense is minimal because the interest paid on the loan is approximately equal to the investment income the insurance company credits to the cash value. The Tax Reform Act of 1986 attempted to curtail this tax arbitrage by imposing a $50,000 per-insured-employee limitation on the amount of indebtedness on which interest may be deducted.

Since 1986, new types of COLI policies have evolved. Under these policies, a corporation insures a large number of employees, and the cash value with respect to each employee's insurance coverage is less than $50,000. This technique has allowed corporations to avoid the $50,000 per-insured-employee limitation and shelter large amounts of investment income from current taxation. Furthermore, COLI policies are being structured to pay for health and retirement benefits and could be used to avoid restrictions on benefit plans applicable under other provisions of the Code.

Proposal

The Administration proposes to disallow the deduction for interest paid by corporations on loans secured by the cash value of life insurance policies. The proposal would be effective for interest incurred on or after February 1, 1992.

Effects of Proposal

The proposal would eliminate tax arbitrage on COLI policies by disallowing the deduction for interest expense. Furthermore, it would remove an avenue by which corporations can avoid the nondiscrimination and other restrictions that are generally applicable to deductions for fringe benefit payments. Although the proposal would discourage borrowing against COLI policies insuring the lives of key employees, it would not prevent corporations from purchasing such policies.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Disallow interest deductions on corporate-owned life insurance loans:	0.1	0.3	0.4	0.5	0.6	0.6	2.5

PROHIBIT DOUBLE DIPPING BY THRIFTS RECEIVING FEDERAL FINANCIAL ASSISTANCE

Current Law

A taxpayer may claim a deduction for a loss on the sale or other disposition of property only to the extent that the taxpayer's adjusted basis for the property exceeds the amount realized on the disposition and the loss is not compensated for by insurance or otherwise. In the case of a taxpayer on the specific charge-off method of accounting for bad debts, a deduction is allowable for the debt only to the extent that the debt becomes worthless and the taxpayer does not have a reasonable prospect of being reimbursed for the loss. If the taxpayer accounts for bad debts on the reserve method, the worthless portion of a debt is charged against the taxpayer's reserve for bad debts, potentially increasing the taxpayer's deduction for an addition to this reserve.

Before it was amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), a special tax rule exempted financial assistance received by a thrift institution from the Federal Savings and Loan Insurance Corporation (FSLIC) from the thrift's income and prohibited a reduction in the tax basis of the thrift's assets on account of the receipt of the assistance. The FSLIC entered into a number of assistance agreements in which it agreed to provide loss protection to acquirers of troubled thrift institutions by compensating them for the difference between the book value and sales proceeds of the "covered assets." "Covered assets" typically are assets that were classified as nonperforming or troubled at the time of the assisted transaction. Many of these covered assets are also subject to yield maintenance guarantees, under which the FSLIC guarantees the acquirer a minimum return or yield on the value of the assets. The assistance agreements also generally grant the FSLIC the right to purchase covered assets at market or book value.

In addition, many of the assistance agreements permit the FSLIC to order assisted institutions to write down the value of covered assets on their books to fair market value in exchange for a payment in the amount of the write-down. It was not clear under prior law whether FSLIC assistance should be taken into account in determining the amount of an institution's tax loss on the sale or other disposition of an asset or deduction in connection with the write-down of a loan.

In September 1990, the Resolution Trust Corporation (RTC), in accordance with the requirements of FIRREA, issued a report to Congress and the Oversight Board of the RTC on certain FSLIC-assisted transactions (the "1988/89 FSLIC transactions"). The report recommended further study of the covered loss and other tax issues relating to these transactions. A March 4, 1991 Treasury Department report on tax issues relating to the 1988/89 FSLIC transactions concluded that deductions should not be allowed for losses that are reimbursed with exempt FSLIC assistance and recommended that Congress enact clarifying legislation disallowing these deductions.

Reasons for Change

Allowing tax deductions for losses on covered assets that are compensated for by FSLIC assistance gives thrift institutions a perverse incentive to hold these assets and to minimize their value when sold. The FSLIC, and not the institution, bears the economic burden corresponding to any reduction in value because it is required to reimburse the thrift for the loss. However, the tax benefit to the thrift and its affiliates increases as tax losses are enhanced. The institution, therefore, has an

incentive to minimize the value of covered assets in order to maximize its tax loss and the attendant tax savings.

Proposal

Under the Administration proposal, FSLIC assistance with respect to (1) any loss would be taken into account as compensation for that loss for purposes of section 165, and (2) any debt would be taken into account in determining the worthlessness of that debt for purposes of sections 166, 585 and 593 of the Code. FSLIC assistance would be defined as assistance provided with respect to a domestic building and loan association pursuant to section 406(f) of the National Housing Act or section 21A of the Federal Home Loan Bank Act.

The proposal would apply to FSLIC assistance credited on or after March 4, 1991 with respect to (1) assets disposed of and charge-offs made in taxable years ending on or after March 4, 1991; and (2) assets disposed of and charge-offs made in taxable years ending before March 4, 1991, but only for the purpose of determining the amount of any net operating loss carryover to a taxable year ending on or after March 4, 1991.

Effects of Proposal

Assisted thrift institutions will no longer have an incentive to minimize the value of covered assets in order to maximize their tax loss on the sale or write-down of these assets and the attendant tax savings. In addition, clarification of the tax treatment of FSLIC assistance will facilitate measures to renegotiate and reduce the cost of the 1988/89 FSLIC transactions.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Prohibit double dipping by thrifts receiving Federal financial assistance:	0.4	0.4	0.1	*	-*	0.1	0.9

* Less than $50 million.

EQUALIZE TAX TREATMENT OF LARGE CREDIT UNIONS AND THRIFTS

Current Law

Credit unions are exempt from tax on their income, whether such income is retained or distributed to depositors.

Reasons for Change

Because of their tax exemption, credit unions enjoy a competitive advantage over other financial institutions such as commercial banks and savings and loan associations. Credit unions have grown rapidly since 1951, when savings and loan associations and mutual savings banks became subject to the corporate income tax. Federally insured credit unions accounted for approximately 10 percent of consumer installment credit (not including mortgages) in 1991 and their asset size approximated $200 billion.

In an economy based on free market principles, the tax system should not provide a tax subsidy to particular commercial enterprises or a competitive advantage to those enterprises over others that perform substantially the same functions. Although credit unions were founded to extend short-term personal loans to narrowly defined groups, today large credit unions frequently function more as full-service consumer banks.

Most credit unions, however, are relatively small. Approximately 94 percent of all Federally insured credit unions have $50 million or less in assets and approximately 39 percent of all Federally insured credit union assets are held by these smaller institutions.

Proposal

The proposal would repeal the tax exemption for a credit union that has assets of more than $50 million in any taxable year ending on or after December 31, 1992. Such credit unions would be subject to tax under the same rules that apply to thrift institutions. Credit unions with $50 million or less in assets would continue to be exempt from tax.

Effects of Proposal

Repealing the tax exemption for large credit unions would place credit unions that perform the same functions as other financial institutions on the same competitive footing as those institutions and would contribute to a more efficient allocation of financial resources. The repeal also would eliminate a distinction under the tax law that is based on historical differences that, in the case of large credit unions, no longer exist.

In addition, the repeal would eliminate the incentive that large credit unions currently have to retain earnings free of tax, rather than distribute them to customer/owners. To the extent that retained earnings are necessary for growth, large credit unions would have to increase the spread between their "dividend" rates and loan rates to cover the Federal tax liability. As with other mutual depository institutions, however, large credit unions could reduce the amount of Federal income tax paid at the corporate level by distributing more "dividends" to depositors or by providing lower loan rates to

borrowers. Distributions of earnings would be included in taxable income currently at the individual level.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Equalize tax treatment of large credit unions and thrifts:	0.1	0.2	0.2	0.2	0.2	0.2	1.1

MODIFY TAXATION OF ANNUITIES WITHOUT LIFE CONTINGENCIES

Current Law

The tax law does not distinguish between annuities from which periodic payments are made for the duration of the taxpayer's life and annuities from which periodic payments are not based on the taxpayer's life. Individuals owning either type of annuity receive the tax advantage of deferral of investment income during the accumulation period and favorable basis recovery rules as annuity payments are made.

Reasons for Change

Most deferred annuities allow the owner of the annuity to select a settlement option prior to the time payments begin. The settlement options are generally (1) a pure life or joint lives contingency, (2) a life-contingent annuity containing a term or amount certain feature where annuity payments are guaranteed for a certain term or amount without regard to the time of the annuitant's death, (3) a lump sum payment, and (4) a term certain payment schedule without a life contingency. Deferred annuities that do not have substantial life contingency risks are similar to alternative investments offered by other financial institutions in which the investment earnings are currently taxed. Eliminating the tax advantages of these types of annuities would prevent tax avoidance through the purchase of annuities and reduce incentives to misallocate savings between investment vehicles.

Proposal

The Administration proposes to retain the current-law treatment of annuities, i.e., the deferral of tax on inside buildup during the accumulation phase and the *pro rata* exclusion of basis, only for annuities with substantial life contingencies. For other annuities, investment income would be taxed as earned. The distinction between annuities would be based on whether the annuity contains a substantial risk of loss of investment if the taxpayer dies prematurely. The policy would generally be considered an annuity for tax purposes only if payments were guaranteed (1) for a period of time equal to less than one-third of the annuitant's remaining life expectancy on the annuity starting date, or (2) for less than one-third of the annuity's cash value on the annuity starting date (or date of death, if earlier). Pension annuities and annuities that are part of structured settlements would not be included in this proposal. The proposal would be effective for all annuity contracts entered into on or after February 1, 1992.

Effects of Proposal

By conforming the tax treatment of annuities without substantial life contingencies to the tax treatment of similar investments, the proposal will require investors to decide whether they need the life expectancy protection an annuity offers, and the corresponding risk of loss of their investment due to premature death. For those investors who are primarily interested in tax deferred investment earnings, the proposal may have the effect of reallocating savings to different investment vehicles.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Modify taxation of annuities without life contingencies:	*	0.2	0.2	0.3	0.4	0.5	1.7

* Less than $50 million.

EXPAND COMMUNICATIONS EXCISE TAX

Current Law

The communications excise tax is imposed on amounts paid for local telephone service, toll telephone (i.e., long distance) service, and teletypewriter exchange service. The tax does not apply to amounts paid for access to a local digital data network that cannot be used for telephonic (voice) quality communication. It also does not apply to amounts paid for long distance transmission of digital data.

Although the communications excise tax is imposed on amounts paid for local telephone service and toll telephone service, the tax is not imposed on local telephone service paid for by inserting coins in a coin-operated telephone available to the public. A similar exemption applies to long distance telephone service, but only if the total charge is less than 25 cents.

Reasons for Change

Digital data transmission over a local digital data network or over a long distance line is similar to telephonic communication both in purpose and in method of transmission. The communications excise tax should be updated to reflect this technological advance.

The exemptions for coin-operated telephone service are not justified by any fundamental difference in the nature of the services provided. Their anomalous nature is particularly evident when the treatment of local calls from the same public telephone is compared. Calls that are paid for by coin are not subject to the tax, but tax is imposed on calls that are paid for by credit card.

Proposal

The proposal would impose the communications excise tax on amounts paid for access to a local digital data network or for long distance transmission of digital data. The proposal would also repeal the exemptions for coin-operated telephone service. Both changes would be effective July 1, 1992.

Effects of Proposal

The proposed expansion of the communications excise tax would equalize the tax treatment of voice and digital data transmissions over long distance lines and would also equalize the tax treatment of local telephone systems and local digital data networks.

Repealing the exemptions for coin-operated telephone service would eliminate disparities in the tax treatment of amounts paid for essentially equivalent services.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of dollars)						
Expand communications excise tax:	*	0.1	0.1	0.1	0.1	0.1	0.5

* Less than $50 million.

EXTEND ORPHAN DRUG TAX CREDIT

Current Law

Drugs for the treatment of rare diseases or physical conditions are often called "orphan drugs" because the narrow demand for them discourages taxpayers from undertaking the costly investment in clinical testing that must be completed before manufacture and distribution of the drugs can be approved by the Food and Drug Administration. To encourage development of the drugs, current law allows an elective, non-refundable tax credit for the clinical testing costs incurred by the taxpayer. Although expenses qualifying for the orphan drug credit cannot also qualify for the research and experimentation (R&E) credit, clinical testing expenses do qualify as R&E expenditures for purposes of determining whether the taxpayer's other research expenditures qualify for the R&E credit. If the taxpayer elects to claim the orphan drug credit, no deduction is allowed for an amount of the taxpayer's clinical testing expenses equal to the credit allowable for the taxable year.

The orphan drug credit expires with respect to amounts paid or incurred after June 30, 1992.

Reasons for Change

Although the country benefits from the development of drugs for rare diseases and conditions, taxpayers are not adequately rewarded financially for their clinical testing activities. Clinical testing is long-term in nature, and taxpayers should be able to plan their activities knowing that the credit will be available when the clinical testing is actually undertaken. Thus, if the orphan drug credit is to have its intended incentive effect, it should be made permanent.

Proposal

The Administration proposes to make the orphan drug credit permanent.

Effects of Proposal

Stable incentives allow taxpayers to undertake the development of drugs with greater assurance of future tax consequences. A permanent orphan drug credit permits taxpayers to undertake developmental activities without fear that the tax incentive will not be available when the clinical testing is carried out.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Extend orphan drug tax credit:	-*	-*	-*	-*	-*	-*	-0.1

* Less than $50 million.

MISCELLANEOUS PROPOSALS AFFECTING RECEIPTS

Proposals

Establish Federal Communications Commission (FCC) non-application processing fees. The Administration proposes to establish fees to cover non-application processing costs of the Commission. A portion of the amounts collected from these fees would be dedicated to the expansion of FCC services.

Extend abandoned mine reclamation fees. The abandoned mine reclamation fees, which are scheduled to expire on September 30, 1995, would be extended. Collections from the existing fees of 35-cents per ton for surface mined coal, 15-cents per ton for underground mined coal, and 10-cents per ton for lignite coal are allocated to States for reclamation grants. Abandoned mine land problems are expected to exist in certain States after all the money from the collection of fees under current law is expended.

Increase employee contributions to the Civil Service Retirement System (CSRS). Currently, most CSRS employees and their employing agencies are each contributing 7 percent of base pay to the retirement system. This is less than one-half the accruing cost of CSRS retirement benefits. To prevent further increases in the existing CSRS unfunded liability of $560 billion, the Administration proposes to increase CSRS employee contributions by 1 percentage point effective January 1, 1993 and by an additional 1 percentage point effective January 1, 1994.

Conform definition of compensation under Railroad Retirement Tax Act to that of social security. The Administration proposes to conform the definition of employee compensation under the Railroad Retirement Tax Act to the definition of employee compensation under social security. Discrepant tax treatment of employee compensation under the two systems results in unnecessary revenue losses to the ailing rail pension trust funds.

Implement Uruguay Round of Multilateral Trade Negotiations. The Uruguay Round of Multilateral Trade negotiations, due to be completed in early 1992, is a wide-ranging and complex negotiation to open global markets and energize world trade. Some aspects of the agreement, particularly the tariff negotiations, will affect customs duties and other tax receipts. Most of these tariff reductions are provided for in the Omnibus Trade and Competitiveness Act of 1988. However some tariff changes likely to be agreed to in the negotiations as well as some non-tariff agreements in the Uruguay Round will require new legislation. This implementing legislation will be transmitted to Congress under the "fast-track" procedures specified in the 1988 Act when the Uruguay Round negotiations are complete.

Revenue Estimate

	Fiscal Years						
	1992	1993	1994	1995	1996	1997	1992-97
	(Billions of Dollars)						
Establish FCC nonapplication processing fees:	0	0.1	0.1	0.1	0.1	0.1	0.4
Extend abandoned mine reclamation fees:	0	0	0	0	0.2	0.3	0.5
Increase employee contributions to CSRS:	0	0.4	1.1	1.2	1.2	1.2	5.1
Conform definition of compensation under Railroad Retirement Tax Act:	0	*	*	*	*	*	0.1
Implement Uruguay Round:	0	-*	*	*	-*	-0.1	-0.1

Department of the Treasury
Washington, D.C. 20220

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TREASURY NEWS

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

EPT. OF THE TREASURY

FOR RELEASE AT 2:30 P.M.
January 31, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $ 12,750 million of 364-day Treasury bills to be dated February 13, 1992, and to mature February 11, 1993 (CUSIP No. 912794 A6 1). This issue will provide about $ 200 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $ 12,550 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Thursday, February 6, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders.

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 February 13, 1992. In addition to the maturing 52-week bills, there are $21,076 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 $ 1,611 million as agents for foreign and international monetary authorities, and $ 8,335 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 $ 887 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.

NB-1644

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

TREASURY NEWS

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

EPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
JANUARY 31, 1992

CONTACT: SCOTT DYKEMA
202-566-2041

TREASURY ISSUES
CORRECTION ON EFFECTIVE DATE FOR ANNUITY TAX CHANGE;
CLARIFICATION ON HOME-BUYER CREDIT

The U.S. Treasury Department today announced a correction in the effective date of the proposal to modify the federal income tax treatment of annuities without substantial life contingencies.

The provision would be effective for all annuity contracts entered into on or after the date of enactment. As proposed earlier this week, the provision would have been effective for all annuity contracts entered into on or after February 1, 1992.

The Treasury also clarified that the proposed credit of up to $5,000 for first-time home-buyers would be effective for all contracts closed on or after February 1, 1992 and for all binding contracts entered into before December 31, 1992 and closed by June 30, 1993.

Both proposals would take effect only if enacted into law.

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NB-1645

TREASURY NEWS

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

For Release Upon Delivery
Expected at 1:00 PM
February 3, 1992

STATEMENT OF THE HONORABLE
JEROME H. POWELL
ASSISTANT SECRETARY OF THE TREASURY
FOR DOMESTIC FINANCE
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
FEBRUARY 3, 1992

Last fall, prompted by Salomon Brothers' revelations of wrongdoing, the Treasury, the Federal Reserve, and the Securities and Exchange Commission undertook a comprehensive review of the government securities market, with a commitment to report back to Congress with our recommendations and conclusions. After an intensive study conducted over the past several months, the three agencies released on January 22 the Joint Report on the Government Securities Market.

I would like to emphasize that the three agencies agree that the government securities market is not flawed or broken in any fundamental economic sense. However, there are several specific areas where the workings of the market could usefully be improved. These include mechanisms resulting in better enforcement of Treasury auction rules and in preventing and alleviating "short squeezes."

NB-1646

While the agencies were not able to reach a consensus on every point, the report shows that there is substantial agreement among the agencies and that we share common objectives. Among these objectives are preserving and enhancing the efficiency of the government's financing mechanism, ensuring the integrity and fairness of the marketplace, deterring and detecting fraud, and protecting investors. In particular, the agencies agree that, while change is necessary, it must be managed with care to ensure that the public debt is financed at the lowest possible cost. In general, market-oriented solutions have been put forward whenever possible to support the effectiveness and efficiency of this very important market.

The agencies believe that the administrative and regulatory changes announced in the report, in combination with the report's legislative recommendations, will significantly improve the workings of the government securities market. The improvements will ultimately redound to the benefit of the U.S. taxpayer in the form of lower interest costs on the public debt.

Changes already made in auction rules have had an impact -- modestly broadening participation in the auctions -- since their announcement on October 25.

- As a result of the announcement that <u>all</u> government securities brokers and dealers could submit bids for

customers, 39 additional entities have been authorized by Treasury to do so. Previously, only primary dealers and depository institutions could submit bids for customers.

- Eight broker/dealers have set up autocharge agreements in order to take advantage of broadened authority to submit bids without deposit.

- And, finally, the increase in the noncompetitive limit for notes and bonds has resulted in dramatically larger noncompetitive awards for certain securities. For example, noncompetitive awards at the November 30-year bond auction, at $937 million, were over four times larger than the noncompetitive awards at the bond auction immediately prior to the increase in the award limit.

I would like now to highlight some of the more significant changes and legislative recommendations made in the report.

Administrative and Regulatory Changes

In order to combat short squeezes, the Treasury will provide additional quantities of a security to the marketplace when an acute, protracted shortage develops, regardless of the reason for the shortage. The reopening of issues will greatly reduce the potential for short squeezes. Reopenings could occur either

through standard auctions, through "tap" issues whereby the Treasury offers securities to the market on a continuous basis, or through other means. The Treasury recognizes that this policy could prove difficult to implement but has concluded that it is justified under certain circumstances, given the increased concerns about the potential for prolonged shortages. The other agencies concur in this judgment.

The Treasury also plans to improve the auction process. The Treasury and the Federal Reserve have accelerated the schedule for automating Treasury auctions. It is anticipated that the auctions will be automated by the end of 1992. Automation will allow for the use of different auction techniques and for better monitoring of compliance with Treasury auction rules.

The Treasury will consider implementing an open method of auctioning securities with repeated rounds of bidding at descending yields. The total bids received at each yield would be announced after each round. All securities would be awarded at a single yield. Such a system will be feasible once the auctions are automated and could encourage broader participation in Treasury auctions and discourage attempts to engage in manipulative strategies.

To clarify the auction rules, Treasury has prepared a uniform offering circular, which was published in the _Federal_

Register on January 31 as a proposed rule with a request for comments.

A new working group comprising the Treasury, the SEC, the Federal Reserve Board, and the Federal Reserve Bank of New York has been formed to improve surveillance and to strengthen interagency coordination. The Federal Reserve Bank of New York will enhance and expand its market surveillance efforts, in its role as the agency that collects and provides the agencies with information needed for surveillance purposes.

The Federal Reserve Bank of New York has announced changes to the primary dealer system, which will make the system open to more firms, but will not eliminate primary dealers. The changes will also serve to clarify that the Federal Reserve Bank of New York is not the regulator of the primary dealers. Primary dealers will continue to be required to participate in a meaningful way in Treasury auctions and to be responsive to the needs of the Federal Reserve Bank of New York's Open Market Desk. The Treasury believes that the changes to the primary dealer system represent a balanced approach which recognizes an evolving marketplace and the success of the regulatory structure provided by the Government Securities Act of 1986 ("GSA").

Legislative Recommendations

The agencies all support prompt reauthorization of the Treasury's rulemaking authority under the GSA, which expired on October 1, 1991. We hope that the House of Representatives will act soon on this matter.

The agencies also support the provision in S.1699, which the Senate passed on September 25, that would make it an explicit violation of the Securities Exchange Act of 1934 ("Exchange Act") to make false or misleading written statements in connection with the issuance of government securities.

With respect to the securities of Government-sponsored enterprises ("GSEs"), the agencies support legislation removing the exemptions from the federal securities laws for equity and unsecured debt. Since this recommendation may receive considerable attention, it should be emphasized that this proposal would not affect GSE mortgage-backed securities. This proposal is limited in other ways as well. In particular, any legislation enacting this recommendation should make clear that all GSE securities would maintain their current eligibility for use in repurchase agreement transactions and for trading by government securities brokers and dealers that have registered or filed notice under section 15C of the Exchange Act.

The Treasury, the Federal Reserve Bank of New York, and the SEC support legislation that would give the Treasury backup authority to require reports from holders of large positions in particular Treasury securities. This authority would not be used unless the reopening policy and other measures fail to solve the problem of acute, protracted market shortages.

The report also discusses other reforms of the government securities markets. A summary of the administrative and regulatory changes and legislative recommendations contained in the report is attached to my written statement.

The report represents a serious effort by the agencies to arrive at a consensus on measures that can be taken to improve the government securities market. To a large extent, we were able to reach a consensus. On those matters requiring legislative action by the Congress, we hope that such action can be taken promptly.

In closing, Mr. Chairman, I would like to mention that we are especially appreciative of the continued interest of this Subcommittee and the full Committee in assuring that the Treasury can continue to finance the public debt at the lowest possible cost.

# # #

SUMMARY OF REFORMS[1]

ADMINISTRATIVE AND REGULATORY CHANGES

- **Broadening participation in auctions:**

  - All government securities brokers and dealers registered with the SEC are now allowed to submit bids for customers in Treasury auctions. Formerly, only primary dealers and depository institutions could do so (announced October 25).

  - Any bidder is now permitted to bid in note and bond auctions without deposit, provided the bidder has an agreement with a bank (an "autocharge agreement") to facilitate payment for securities purchased at auctions. Formerly, only primary dealers and depository institutions could do so (announced October 25).

  - To facilitate bidding by smaller investors, the noncompetitive award limitation has been raised from $1 million to $5 million for notes and bonds (announced October 25).

- **Stronger enforcement of auction rules:**

  - The Federal Reserve now engages in spot-checking of customer bids in Treasury auctions for authenticity (announced September 11).

  - The Treasury and the Federal Reserve are instituting a new system of confirmation by customers receiving large awards (over $500 million), to verify the authenticity of customer bids.

  - The Treasury and the Federal Reserve have tightened enforcement of noncompetitive bidding rules.

- **Detecting and combatting short squeezes:**

  - **Improved surveillance of the Treasury market.** A new working group of the Agencies has been formed to improve surveillance and strengthen interagency coordination. The Federal Reserve Bank of New York

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[1] Reforms have the unanimous support of the Department of the Treasury, the Board of Governors of the Federal Reserve, and the Securities and Exchange Commission ("SEC") (the "Agencies") unless otherwise noted. All actions listed are recommended or implemented as part of this report, unless otherwise indicated.

("FRBNY") will enhance and expand its market surveillance efforts, in its role as the agency that collects and provides the SEC, the Treasury, and the Federal Reserve Board with information needed for surveillance purposes.

— **Reopening policy to combat short squeezes.** The Treasury will provide additional quantities of a security to the marketplace when an acute, protracted shortage develops, regardless of the reason for the shortage. The reopening of issues will greatly reduce the potential for short squeezes. Reopenings could occur either through standard auctions, through "tap" issues whereby the Treasury offers securities to the market on a continuous basis, or through other means.

- **Changes to Treasury auction policies:**

— **Automation.** The Treasury and the Federal Reserve have accelerated the schedule for automating Treasury auctions. It is anticipated that the auctions will be automated by the end of 1992 (announced September 11).

— **Proposal of uniform-price, open auction system.** The Treasury will consider implementing an open method of auctioning securities with repeated rounds of bidding at descending yields. The total bids received at the announced yield would be announced after each round. All securities would be awarded at a single yield. Such a system will be feasible once the auctions are automated and could encourage broader participation in Treasury auctions.

— **Publication of uniform offering circular.** Treasury auction rules and procedures have been compiled into a uniform offering circular, to be published in the *Federal Register* with a request for comments.

— **Change to noncompetitive auction rules.** To limit noncompetitive bidding to the small, less sophisticated bidders for whom it was designed, the Treasury will not permit a noncompetitive bidder in a Treasury auction to have a position in the security being auctioned in the when-issued, futures, or forward markets prior to the auction. Furthermore, the Treasury will not permit bidders to submit both competitive and noncompetitive bids in a single auction.

— **Change in net long position reporting required on auction tender form.** To streamline reporting requirements, the Treasury will not require competitive bidders to report net long positions at the time of the auction, unless the total of the bidder's net long position plus its bid exceeds a high threshold amount. This threshold amount will represent a substantial share of each auction and will be announced for each auction.

- **Improvements to the primary dealer system:**

  - **Opening up the system by eliminating the market share requirement.** The Federal Reserve will gradually move to a more open set of trading relationships. To this end, the FRBNY is eliminating the requirement that each primary dealer effect at least one percent of all customer trades in the secondary market. The FRBNY expects to add counterparties that meet minimum capital standards, initially in modest numbers, but on a larger scale once open market operations are automated.

  - **Clarification of regulatory authority over primary dealers.** In the future, direct regulatory authority over primary dealers will rest unambiguously with the primary regulator — in most cases, the SEC. Although the FRBNY has no statutory authority to regulate the primary dealers, the primary dealer system may have generated the false impression in the marketplace that the FRBNY somehow regulates or takes responsibility for the conduct of primary dealers. To make clear that its relationship with the primary dealers is solely a business relationship, the FRBNY will eliminate its dealer surveillance program, while upgrading its market surveillance program as described above.

  - **Other features regarding primary dealers.** To remain a primary dealer, firms must demonstrate to the FRBNY that they make reasonably good markets, provide it with market information, and bid in Treasury auctions. Primary dealers must also maintain capital standards. Failure to meet the Federal Reserve's performance standards, or the capital standards, will lead to removal of the primary dealer designation. In addition, any primary dealer that is convicted of (or pleads guilty or *nolo contendere* to) a felony will face suspension of its primary dealer designation.

- **Enhanced GSCC.** The Agencies support enhancements to the Government Securities Clearing Corporation, which provides comparison and netting facilities for reducing risk in the government securities market.

LEGISLATIVE RECOMMENDATIONS

- **Reauthorization of Treasury rulemaking authority under GSA.** Treasury rulemaking authority under the Government Securities Act of 1986 for government securities brokers and dealers expired on October 1, 1991. The Agencies support prompt reauthorization of this authority.

- **Misleading statements as violation of federal securities laws.** The Agencies support legislation that would make it an explicit violation of the Securities Exchange Act of

- 1934 to make false or misleading written statements to an issuer of government securities in connection with the primary issuance of such securities.

- **Registration of GSE securities.** The Agencies support legislation removing the exemptions from the federal securities laws for equity and unsecured debt securities of Government-sponsored enterprises ("GSEs"), which would require GSEs to register such securities with the SEC.

- **Backup position reporting.** The Treasury, the FRBNY, and the SEC support legislation that would give the Treasury backup authority to require reports from holders of large positions in particular Treasury securities. This authority would not be used unless the reopening policy and other measures implemented fail to solve the problem of acute, protracted market shortages. The Federal Reserve Board believes that the reopening policy makes this authority unnecessary and that it would be difficult to resist activating this authority if it were granted; thus, it opposes this proposal.

- **Sales practice rules.** The Treasury and the SEC support legislation granting authority to impose sales practice rules, but differ on the implementation and extent of such rules. The Federal Reserve does not believe that a case has been made for sales practice rules authority, but would not oppose application of such rules to National Association of Securities Dealers members.

- **Backup transparency authority.** The SEC supports legislation that would grant it authority to require, if deemed necessary, expanded public dissemination of price and volume information in the secondary market for government securities. The Treasury and the Federal Reserve believe that private sector initiatives should be allowed to develop and that the costs of such regulation would outweigh the benefits at this time; therefore, they oppose this proposal.

- **Audit trails.** The SEC supports legislation that would give it authority to require audit trails — time-sequenced reporting of trades to a self-regulatory organization — in the government securities market. The Treasury and the Federal Reserve believe that the costs of such regulation would outweigh the benefits, and oppose this proposal.

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Contact: Anne Kelly Williams
202-566-2041

The Honorable John E. Robson
Deputy Secretary of the Treasury
Remarks to the
Mortgage Bankers Association
February 3, 1992
San Diego, California

Good morning, and thanks for inviting me here to join you to discuss some important economic issues that affect not only your industry, but the economic vitality of the entire country.

I'm glad to be here because, for one thing, the Bush Administration recognizes that a stronger real estate industry will provide a major boost to the economy and help to ensure robust growth over the long term. We know the real estate industry supports close to ten million people -- architects, builders, brokers, engineers, plumbers, carpenters, and building managers to name a few -- and that many other businesses depend on it. And I'm also glad to be here because we recognize that you mortgage bankers are a vital cog in that powerful economic machine.

I know very well how tough things have been in the real estate industry and for those tied to it. But, today, economic problems extend well beyond real estate, and we would have to characterize the entire economy as unsatisfactorily sluggish. In part, this is caused by forces of the business cycle. But there are also some strong transitional factors at work. Consumers and businesses are working off debt piled up during the 1980's -- which means less money is being spent by consumers and invested by businesses. And there is also some permanent restructuring of American business going on.

The economic statistics are mixed and sometimes appear contradictory. Consumer confidence and retail sales are weak. Key sectors such as the automobile industry have been hit extremely hard. New home sales and the leading indicators are reported down. And unemployment is higher than any of us want. So, a lot of American businesses and American people are hurting.

On the other hand, the stock market is up and exports have been strong. December housing starts were up. The trade deficit is down, which helped lead to positive growth for the last quarter. Inflation is well under control at just about three percent -- only half of what it was a year ago -- and interest rates are down significantly.

As to interest rates, let me just say that the President, the Secretary of the Treasury and others of us in the Administration appreciate fully the importance of low interest rates to the real estate markets -- as well as the overall economy. That's why we have been continuously pressing the Fed to bring the rates down. Finally, after a year of taking quarter-point baby step decreases, the Fed dropped the discount rate a full point last December. Now, the prime rate is down to a much more attractive level and mortgage interest rates are at a fourteen-year low.

But with inflation so clearly under control, there may well be room for even further easing by the Fed to stoke the fire of our slow-burning economy.

However, with the economic signals mixed, and despite some signs of improvement -- signs that have led the Congressional Budget Office, the Federal Reserve Chairman and a number of private economists to forecast a pretty sturdy economic recovery by about mid-year -- the Bush Administration is not content to simply let nature take its course.

Last week, the President announced his plan to accelerate job-creating economic growth right now, while at the same time establishing a solid path for future growth. It is a balanced and comprehensive plan. There are no gimmicks. It is a plan that rests firmly on what I consider to be the pillars of long-term economic growth: savings, investment, education, and health -- and fiscal discipline.

Most important to this group, the President's plan should bolster real estate values and strengthen real estate markets.

First, President Bush's plan proposes some passive loss relief to put the real estate development business on a more level playing field with other businesses that net their gains and losses for tax purposes.

Second, the President's plan proposes to facilitate real estate investments by pension funds. With nearly $2 trillion in assets, America's pension funds are a major capital source. And, by modifying existing tax impediments, we can hope that pension funds will pursue newfound opportunities in commercial properties -- following in the direction of the California State Pension fund, which has announced its plan to invest $225 million in the development of new homes.

And for those in the multi-family sector, we propose extending the low-income housing tax credit to stimulate private-sector construction and refurbishing of rental housing for lower-income Americans.

But the President's growth package does more: it proposes a deep cut in the capital gains tax -- down to as low as 15 percent for assets held three years or more.

Since this Administration came to office, it has proposed, and Congress has stymied, a capital gains tax reduction. It's time to unlock the American financial resources that are imprisoned by punitive capital gains tax rates. It would encourage business investment, entrepreneurship, create new jobs, and strengthen real estate values. All the nations that are America's principal economic competitors have a capital gains tax differential, and it is about time Congress got with it and provided one for the United States of America.

Another focus of the President's plan is residential real estate, and it's worth noting that homebuilding and home buying have played major roles in fueling the recoveries after the past three recessions. Here, we propose a $5,000 credit and penalty-free IRA withdrawals for first-time home buyers -- plus the deduction of losses on personal home sales.

Other features of the President's growth plan include tax incentives to foster new business investment, enterprise zones to promote entrepreneurship in distressed areas, and a permanent research and development tax credit to help foster the new technology upon which America's long-term prosperity depends.

The President's plan will also uphold the fiscal discipline necessary to ensure long-term growth. Today, the limits on spending and the pay-as-you-go features of the budget agreement are working to restrain Congress' appetite to spend and spend and spend. We want to keep it that way.

Besides, if we go on a budget-busting binge, we risk raising long term interest rates -- which is about the worst thing we can do to your industry and to business investment generally. American investors, and our foreign trading partners, are counting on us to keep the deficit under control, and we will.

But our economic growth efforts should not stop at the State of the Union message. And they won't. As many of you know, we at Treasury have been working on the credit crunch problem for well over a year now -- often hand in hand with representatives of the real estate and mortgage banking industries.

There has simply been too little credit available to finance the needs of your industry and of business generally. The credit crunch has a number of causes. But the result is an environment in which too few are able to borrow, and too many are reluctant to lend. And, frankly, it's about time the banks came out of hibernation and started lending.

Recently I saw some statistics showing that -- while bank loans fell $47 billion for the year ending last September 30th -- bank portfolios of Treasury securities grew by $27 billion. I don't think that federal and state agencies charter these institutions simply to have them take deposits and invest them in U.S. Treasury securities. That is not banking.

Banking is the business of making loans to provide capital. It is not risk-free and not intended to be so. And bankers should be stepping forward now to make loans to sound borrowers.

I know many of you work with banks and thrifts on a limited basis and that your funds come primarily from other sources such as insurance companies and pension funds. And I know it isn't just banks that are holding back real estate credit. But in numerous ways your sources of funds are affected by general economic conditions, as well as factors peculiar to the real estate markets -- and both of those are directly affected by the credit crunch.

That is why the Administration has worked hard to create an environment where banks are once again taking appropriate risks. And that is why Treasury has been working with the leadership of the bank and thrift regulatory agencies to make sure that over-regulation of financial institutions is not contributing to the lack of credit. We want regulators to be part of the solution -- not part of the problem.

I hope you've heard of the "credit crunch guidelines." These instructions to bank and thrift examiners -- over 30 in number and more than a year in the making -- are the product of the four bank regulatory agencies. The goal is to promote balance and good judgment in bank and thrift examinations with straightforward commonsense ideas that simply need equally commonsense application in the field.

The guidance to bank and thrift examiners addresses a number of important issues that affect the real estate community. This includes guidance on mini-perm loans so banks can prudently refinance these vital commercial real estate credits without fear of regulatory retribution.

Examiners are also instructed to take a reasonable, long-term view of real estate values. We cannot have examiners hanging a scarlet letter on real estate. We cannot have examiners taking a rigid, formula-driven approach to real estate concentrations.

And, we want examiners to get away from a mark-everything-to-market attitude that appraises real estate loans based on liquidation values in markets that are simply not functioning normally. Examiners are instructed to look out beyond the

immediate market conditions and expect some return to normalcy over time. The same is true of real estate appraisals.

Frankly, we hope someone is giving these same perspectives on real estate to the insurance companies and their regulators and rating agencies.

We want to make sure the credit crunch message gets through and that the examiner guidelines are faithfully applied in the field. So, in the past year we held over 200 meetings around the country -- including more than 75 with developers and mortgage bankers -- to discuss credit crunch issues and to improve the understanding and implementation of the credit crunch guidelines.

And we are working on other credit crunch fronts as well. For example, we support two changes in regulatory law that we believe will help credit availability for the real estate industry. The first will give OTS some flexibility in granting extensions relating to the need for thrifts to set aside capital against their investments in real estate subsidiaries. And the second is a proposal that will reduce the amount of capital thrift institutions must hold against certain residential construction loans.

We have worked with the Environmental Protection Agency to get a sensible rule for Superfund lender liability. And we have pushed forward on a number of regulatory changes to help lending institutions raise or maintain capital levels -- such as including purchased mortgage servicing rights and credit card relationships in Tier I bank capital, and changing the risk rating on certain residential construction credits.

One of the main reasons we have a credit crunch is because the banking system is weak. And the main reason the banking system is weak is because it operates under antiquated laws that prevent it from becoming financially healthy and internationally competitive.

Last year, the Bush Administration submitted a comprehensive bank reform bill to Congress. But Congress totally failed to adopt anything resembling the needed degree of reform. Instead, they passed flawed legislation that imposes more regulation, higher costs, and offers no opportunity for the banks to strengthen themselves financially.

If we don't correct the fundamental problems in the financial services system, we are going to unnecessarily expose the American taxpayers to the costs of a potential bank cleanup. That's why we're going to try again this year to get fundamental bank reform.

Finally, let me say a word about an Administration-wide effort to take a hard look at what we are doing as regulators and to strip away or modify as many regulations as possible that retard economic growth or impose unnecessary burdens on business. This is being done intensively throughout the entire government under a 90-day regulation moratorium declared by the President.

Let me give you a couple of examples of what we re doing at Treasury:

One is to simplify and make less costly the payroll tax deposit system for small businesses by allowing direct electronic payment without a bunch of paperwork. And another is to require only a single tax form that serves the payroll deposit needs for both state and federal purposes.

There are countless examples of opportunities for large or small regulatory relief that doesn't take Congressional action. You know better than anyone where the shoe pinches or where some government regulation seems senseless. Let us know where you think something can be done. We'll listen. We may not always agree, but we really want to hear from you. I urge you, do not pass up this opportunity!

All of us must do what we can to get the economy on the right track. President Bush has put forward his proposals to boost the economy now and to strengthen long-term growth. We now look to Congress to cooperate. And your support will be essential if we are to accomplish our mutual goals.

I know there are elements of the President's plan you would like to see improved, expanded, or changed -- passive loss and depreciation recapture for example. But let me just observe that time is the enemy of getting an acceptable growth program enacted by Congress. You, and many other affected groups, must decide whether you will join us and get fully behind the Administration's plan, or attempt to press for changes that -- if others do the same -- risk producing legislation that cannot get through Congress or, if it does, cannot be signed by the President.

Economic growth must come first. We all share in a commitment to secure growth for our nation. Now, I hope we can work together to fulfill that commitment.

Thank you.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 3, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,432 million of 13-week bills to be issued February 6, 1992 and to mature May 7, 1992 were accepted today (CUSIP: 912794YM0).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.85%	3.95%	99.027
High	3.86%	3.96%	99.024
Average	3.86%	3.96%	99.024

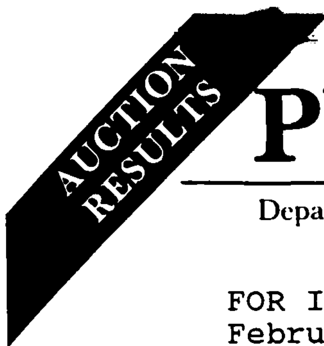
$355,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 58%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	40,380	40,380
New York	33,468,130	8,904,010
Philadelphia	15,575	15,575
Cleveland	46,305	46,305
Richmond	63,540	49,340
Atlanta	26,830	24,830
Chicago	1,498,195	230,895
St. Louis	53,970	13,970
Minneapolis	7,605	7,605
Kansas City	32,085	32,085
Dallas	26,015	26,015
San Francisco	545,520	99,520
Treasury	941,345	941,345
TOTALS	$36,765,495	$10,431,875
Type		
Competitive	$31,996,840	$5,663,220
Noncompetitive	1,622,790	1,622,790
Subtotal, Public	$33,619,630	$7,286,010
Federal Reserve	2,786,515	2,786,515
Foreign Official Institutions	359,350	359,350
TOTALS	$36,765,495	$10,431,875

An additional $50,350 thousand of bills will be issued to foreign official institutions for new cash.

NB-1648



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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
February 3, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,417 million of 26-week bills to be issued February 6, 1992 and to mature August 6, 1992 were accepted today (CUSIP: 912794ZF4).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.91%	4.06%	98.023
High	3.93%	4.08%	98.013
Average	3.93%	4.08%	98.013

Tenders at the high discount rate were allotted 30%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	26,040	26,040
New York	32,778,240	9,358,475
Philadelphia	14,310	14,310
Cleveland	28,255	28,255
Richmond	49,845	34,845
Atlanta	17,370	17,370
Chicago	1,039,890	77,190
St. Louis	28,970	10,470
Minneapolis	4,925	4,925
Kansas City	28,585	28,585
Dallas	17,210	13,710
San Francisco	721,895	84,895
Treasury	718,275	718,275
TOTALS	$35,473,810	$10,417,345
Type		
Competitive	$30,771,210	$5,714,745
Noncompetitive	1,128,550	1,128,550
Subtotal, Public	$31,899,760	$6,843,295
Federal Reserve	2,650,000	2,650,000
Foreign Official Institutions	924,050	924,050
TOTALS	$35,473,810	$10,417,345

An additional $150,750 thousand of bills will be issued to foreign official institutions for new cash.

NB-1649

TREASURY NEWS

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DEPT. OF THE TREASURY

FOR RELEASE AT 3:00 p.m.
February 3, 1992

Contact: Anne Kelly Williams
(202)566-2041

TREASURY ANNOUNCES MARKET BORROWING NEEDS

The Treasury Department today announced that its net market borrowing needs for the January-March 1992 quarter are expected to be $84.7 billion, with a $20 billion cash balance on March 31, 1992. The Treasury also announced that its net market borrowing needs for the April-June 1992 quarter are expected to be in a range of $70 billion to $75 billion, with a $30 billion cash balance at the end of June 1992. The borrowing estimates include allowances for Resolution Trust Corporation operations.

In the quarterly refunding announcement on October 30, 1991, the Treasury estimated net market borrowing during the January-March quarter to be in a range of $95 billion to $100 billion, assuming a $20 billion cash balance on March 31. The reduction in market borrowing reflects a larger-than-anticipated cash balance at the end of December, which is partly offset by an increase in the cash deficit.

Actual market borrowing in the quarter ended December 31, 1991, was $81.0 billion, while the end-of-quarter cash balance was $48.8 billion. On October 30, the Treasury had estimated market borrowing for the October-December quarter to be $75.8 billion, with a $30 billion cash balance on December 31. Larger-than-anticipated sales of assets and reduced expenditures by the Resolution Trust Corporation and an increase in Treasury market borrowing accounted for the rise in the cash balance.

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NB-1650

TREASURY NEWS

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

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DEPT. OF THE TREASURY

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TESTIMONY OF NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

I am pleased to testify today on the economic proposals announced by the President in his State of the Union address and detailed in his Budget for FY 1993. The President's actions and proposals will accelerate economic recovery in the short term, stimulate the nation's long-term economic growth and increase the competitiveness of American goods and services in the world economy.

The President's comprehensive program for growth includes initiatives beyond those we shall discuss here today, for example: record federal investment in research and development; in Head Start and in children generally; in education; crime and drug abuse; and in preventive health. The President's program for Job Training 2000 will improve the delivery and effectiveness of job training and vocational education and his proposal to combine law enforcement and social services is designed to reinvigorate impoverished and embattled communities.

When enacted by the Congress, the President's plan will expand opportunity and enhance the nation's standard of living. The President's tax proposals are specifically addressed to the fundamental economic concerns of American families.

As you well know, Mr. Chairman, many factors have coalesced to make the economic recovery sluggish: We experienced a mideast crisis and a war, during which oil prices rose to over $40 a barrel. We have had two and a half years of restrictive, high interest rates that only recently have abated. The nation's businesses and its families and government borrowed too much. And, unfortunately, improving the climate for increased jobs and investment has not been a congressional priority.

Some Encouraging Signs

Nevertheless, there are some encouraging signs.

American corporations and families have moved to pay down their debt burden.

The spiral of rising prices has been halted so that American families need no longer fear that run-away inflation will rob them of their purchasing power. And American businesses do not have to worry that rapid price increases will render American products noncompetitive in world markets.[1] American exports are strong, and business inventories lean.

Interest rates are now the lowest in twenty years. The decline in interest rates could, in 1992, save American families as much as $25 billion in interest costs on mortgages, and other household debt. Lower interest rates also should mean a savings of about $10 billion for American corporations, and federal, state, and local governments will save another $10 billion.

And all of this has occurred against the backdrop of the end of the Cold War, an economic stimulus that none of us can now calculate, but that will, over time, be of enormous proportions.

The American People Want Action

But positive signals are only the beginning. The American people remain concerned about the strength of their nation's economy. People who have worked in industries or companies that have contracted want to be confident that they can find new jobs and if necessary shift careers. Families who own no home want to be sure that they will someday, and homeowners hope to see strength in the value of their house, their most valuable asset.

American families deserve to be confident about their children's future, the quality and safety of their children's schools, and their ability to afford the education necessary to raise their children and grandchildren's standard of living.

The public is entitled to assurance about the soundness of the financial institutions on which they have long depended for help and security. Witnessing the failure of a savings and loan or bank where you or your neighbors have saved and borrowed is extremely unsettling. The country worries that American

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[1]Graphs 1 and 2 show changes over time in consumer and producer prices, respectively.

banks, which for so long were dominant in the world, are now overshadowed by foreign banks. Small businesses and other investors have had difficulty obtaining loans they need to expand their businesses and create jobs. And the Congress so far has refused to modernize the legal framework governing banks that was designed decades ago for a totally different economic era.

The American people deserve to be certain of our ability to compete in the new global economy. They demand that we maintain our advantage of superior technology and our capacity for stunning innovation.

Economic Growth is the Engine of Progress

Mr. Chairman, there is only one response that we, the Congress and the President working together, can make to fulfill the hopes of the American people. We should embrace policies that foster economic growth. We should move at once to enact into law the President's proposals that will accelerate economic recovery. We must demonstrate an unwavering commitment to creating an environment for sustained growth over the long term.

Over time gains in family income depend upon improved national productivity. Only sustained economic growth can improve the incomes of wage-earning men and women; only sustained economic growth will provide the resources to feed and house the poor and guarantee health care to all Americans. And only sustained economic growth -- not higher tax rates -- will increase the resources of federal, state and local governments.

There should be no misunderstanding about this important point. A one percent decrease in real GDP growth in 1992 alone could decrease federal government receipts by nearly $80 billion and increase the federal deficit by more than $100 billion during the period FY 1992-1997. A one percent lower annual real GDP growth rate during each of the years from 1992 to 1997 would decrease the federal government's receipts by more than $260 billion and increase the deficit by nearly $350 billion during that period. The productive power of economic growth as a contributor to government revenues is not controversial.

If the collapse of communism and the disintegration of the Soviet Union this past year have taught us anything at all, it is that government policies that concentrate on managing how limited resources are distributed among the populace are a poor substitute for concentrating on ensuring economic growth.

The President's Economic Growth Agenda

The President's economic growth agenda will accelerate economic recovery and job-creating investments, create opportunities for home ownership, foster a real estate recovery, and help families build for the future. The economic growth agenda set forth by the President is about jobs.

The plan calls for a new investment tax allowance, which would produce nearly $11 billion of tax savings in calendar 1992 for businesses that acquire new equipment, thereby increasing their cash flow and lowering their cost of capital. The President also recommends permanent adjustments to simplify and liberalize the alternative minimum tax to remove tax impediments for modernizing business plant and equipment.

Jobs and global competitiveness also demand that businesses carry on vigorous research and development. The President's plan would make permanent the credit for research and development and extend the rules for allocating R&D expenses to foreign and domestic income. Although, as the largest economy in the world, the United States continues to be the largest investor in R&D activities, the rate of growth of nondefense R&D has recently been much higher in West Germany and Japan, as Graph 3 demonstrates.

The President has increased funding for basic research by 29 percent since 1989 and continues to recommend record levels of federal funding for R&D. Each year since taking office, the President has proposed making the R&D tax credit permanent. This is the year for Congress to act.

The President also urges Congress to cut the capital gains tax rate, which will raise American living standards by unlocking job-creating investments, boosting productivity, and raising the value of productive assets. The President has proposed cutting the capital gains tax to 15.4 percent for taxpayers now subject to a 28 percent capital gains tax rate and to 8.25 percent for taxpayers now subject to a 15 percent capital gains tax rate.

Reducing the capital gains tax will be particularly helpful to America's new companies and small businesses in attracting start-up capital. Small businesses and start-up companies traditionally rely on equity capital -- they cannot float bonds, issue commercial paper or compete with big corporate rivals for bank loans. These firms continue to be the source of new jobs; businesses with 20 or fewer employees generate over two-thirds of all net new private-sector jobs.

Lowering the capital gains tax to create jobs and make America more productive is a bipartisan objective. At least 220

Democratic Members of Congress -- more than two thirds -- have sponsored or cosponsored legislation to reduce the capital gains tax.

The argument really is about what kind of capital gains tax to have. The President's proposal is broad in scope. It would reduce the burden of overtaxation of inflationary gains for all Americans. It would benefit the large number of middle-income people who realize capital gains and would unlock capital for more productive uses. A targeted capital gains tax cut could not serve each of these important purposes.

The President's economic growth plan also recognizes the importance of a healthy real estate sector in our economy and the critical need to ensure that businesses have access to credit. Real estate and construction represent more than 15 percent of our GDP, and employ almost 10 million people. More than half of all household net worth is in real estate.

That is why -- in addition to our ongoing efforts to keep interest rates down and increase credit availability -- the President has asked for a $5,000 tax credit for first-time homebuyers, modification of passive loss rules for real estate developers, opportunities for greater pension fund investments in real estate, deductibility of losses on the sale of personal residences, and an extension of mortgage revenue bond authority.

The President also proposes tax incentives for enterprise zones to stimulate jobs and investment in disadvantaged rural and urban areas, and an extension of both the targeted jobs tax credit and the low-income housing tax credit.

President Bush's plan will both hasten economic recovery and help American families -- with proposals that specifically address their most pressing concerns. These include an increase in the personal exemption for families with children; and a new flexible IRA that will allow families to begin saving, regardless of purpose, without any income-tax burden.

In combination with the other proposals I have mentioned, the President's $5,000 tax credit for first-time homebuyers will help middle-income families purchase their own homes and offer protection to current homeowners from declining property values.

In combination with the President's proposal to increase funding for Head Start by $600 million and the Administration's other education initiatives, the proposals to permit deduction of interest on qualifying student loans and penalty-free IRA withdrawals, will help families fulfill their educational goals.

The President's comprehensive health plan, which he will describe in greater detail later this week, builds on the strengths of the existing market-based system. It will provide tax credits or deductions for the purchase of health insurance of up to $3,750 for poor and middle-class families. This will provide financial help for more than 90 million people.

These initiatives will provide stimulus in both the short and long term. They will make it possible for American families to buy homes, save for college, guard against major health expenses, and plan for retirement.

The President's plan is directed at the specific needs and aspirations of most Americans. For families attempting to buy a home, save for the future, finance educational loans, or purchase health insurance, the President's plan provides substantial tax savings.

Fairness

Issues of American justice arise in many contexts. But there can be no doubt that among them is the requirement that the burdens and benefits of government must be fairly distributed. The President's plan meets this test of fairness.

The current distribution of taxes and transfers is essentially fair, despite widespread claims to the contrary. As Graph 4 demonstrates, the net effect of federal tax and transfer programs is highly progressive. In 1990, households in the top 20 percent **paid** an average of over $22,000 to the federal government, households in the lowest twenty percent **received** an average of almost $8,800 from the federal government.

But I do not wish to dwell on statistics. Statistics can be used to show almost anything.

For example, tax distribution tables depict only the burden of payroll taxes and leave out entirely the payment of social security and federal health insurance benefits. These social insurance programs are highly progressive, and comparisons of the tax burden alone, without the benefits, present a very misleading picture. The federal income tax is also progressive.

The President's plan for economic growth is fair. The full array of the President's tax proposals, including the President's health plan, would dramatically decrease taxes for low- and middle-income families and would only slightly reduce taxes for those with higher incomes.

The Need for Fiscal Restraint

The President's program to accelerate the economy, provide jobs, and improve the climate for long-term growth is accomplished while maintaining the fiscal restraint of pay-as-you-go. We cannot achieve economic growth if federal spending is not controlled. Confident, stable financial markets live in the house of financial discipline, and interest rates and long term growth depend on adherence to this principle.

There Is No Silver Bullet

Creating an environment through this nation's tax, spending, and regulatory policies that invites and sustains long-term economic growth is no simple task. There is no silver bullet. However, we now have an opportunity to put some important building blocks in place. Together, we must begin that task today.

The President in his State of the Union address requested congressional action by March 20 on seven proposals:

- The capital gains tax reduction;
- The investment tax allowance;
- The AMT enhancement and simplification;
- The easing of passive loss restrictions on real estate developers;
- The $5,000 credit for first-time homebuyers;
- The waiver of penalties on IRA withdrawals by first-time homebuyers; and
- The proposals to facilitate real estate investment by pension funds and others.

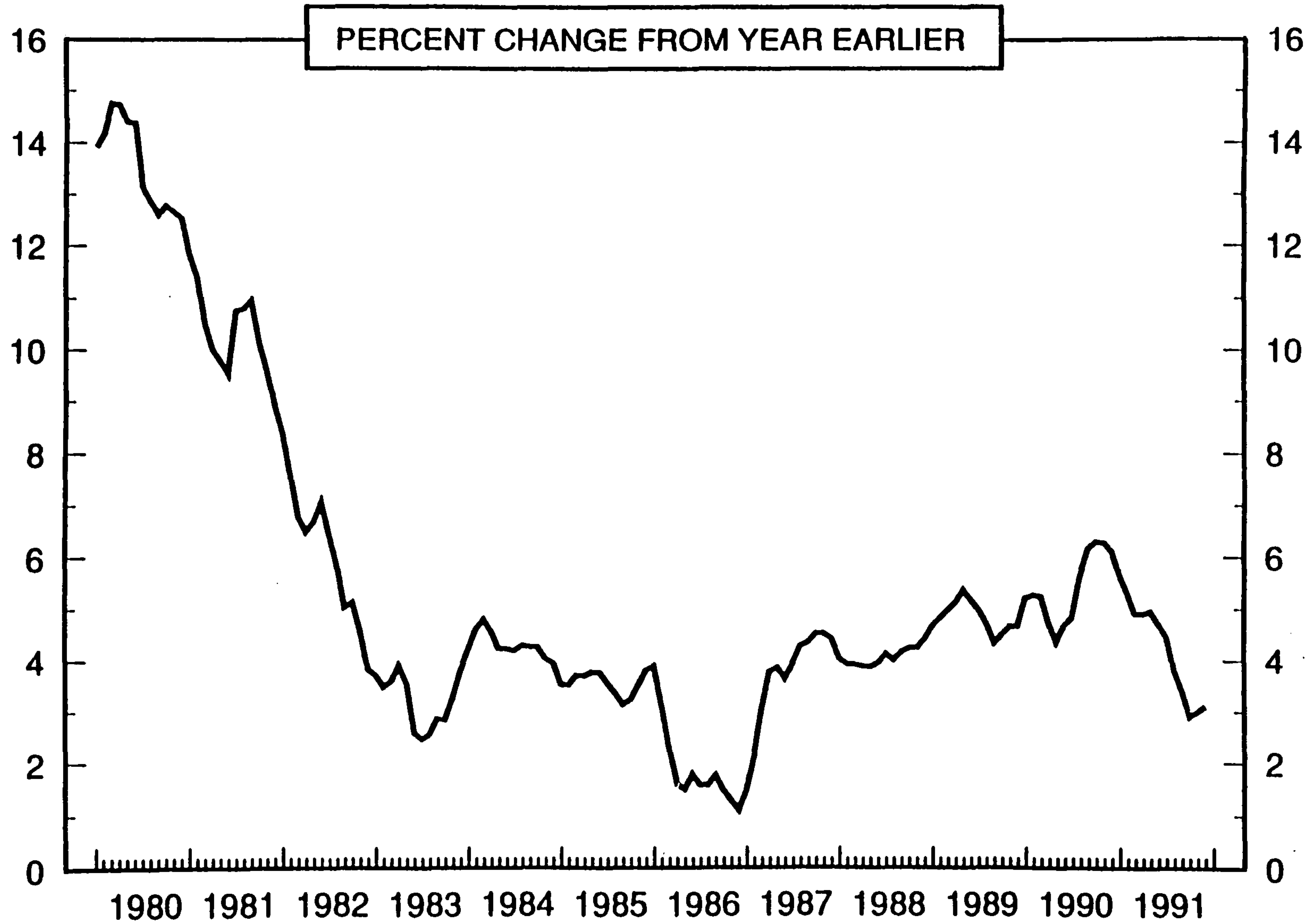
These proposals should be enacted immediately to accelerate economic recovery. The total cost of these proposals over the period FY 1992-1997 is just over $4.5 billion. The President's budget provides a variety of ways to cover this cost in a manner consistent with pay-as-you-go discipline. The President would prefer prompt enactment of all of his program. But surely these few changes can be enacted now. It should be done promptly. And it must be paid for.

Conclusion

Today, this nation remains the world's preeminent economic force. The United States is the world's largest exporter of goods and services and the world's largest foreign investor.

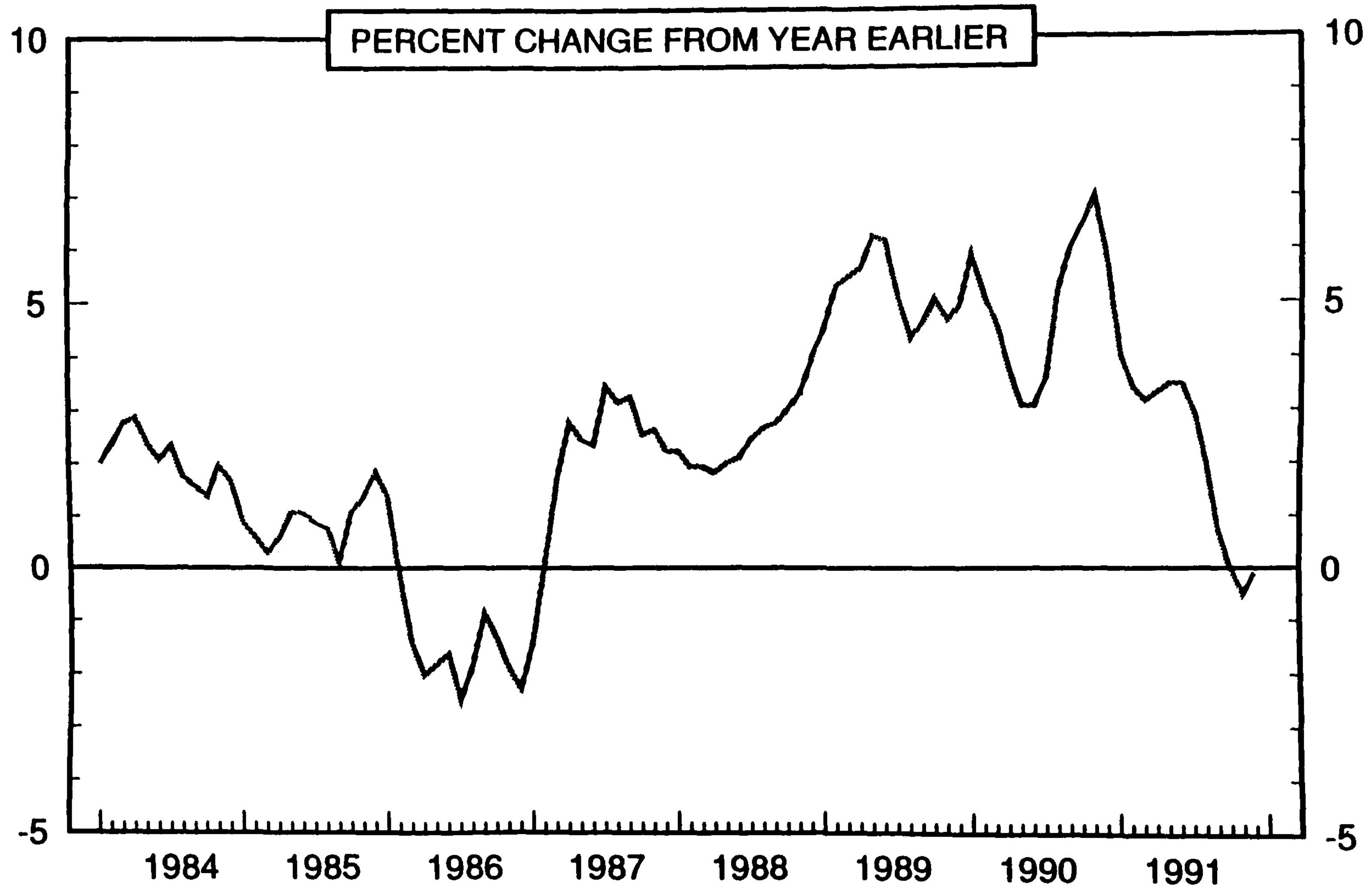
No one should underestimate the energy and optimism of the American people, nor the resilience and fundamental strengths of the American economy. The government alone cannot make American products more competitive, but, in partnership, the President, the Congress, American businesses and workers can construct an environment to facilitate the nation's productive growth.

Graph 1
Consumer Price Index, All Items

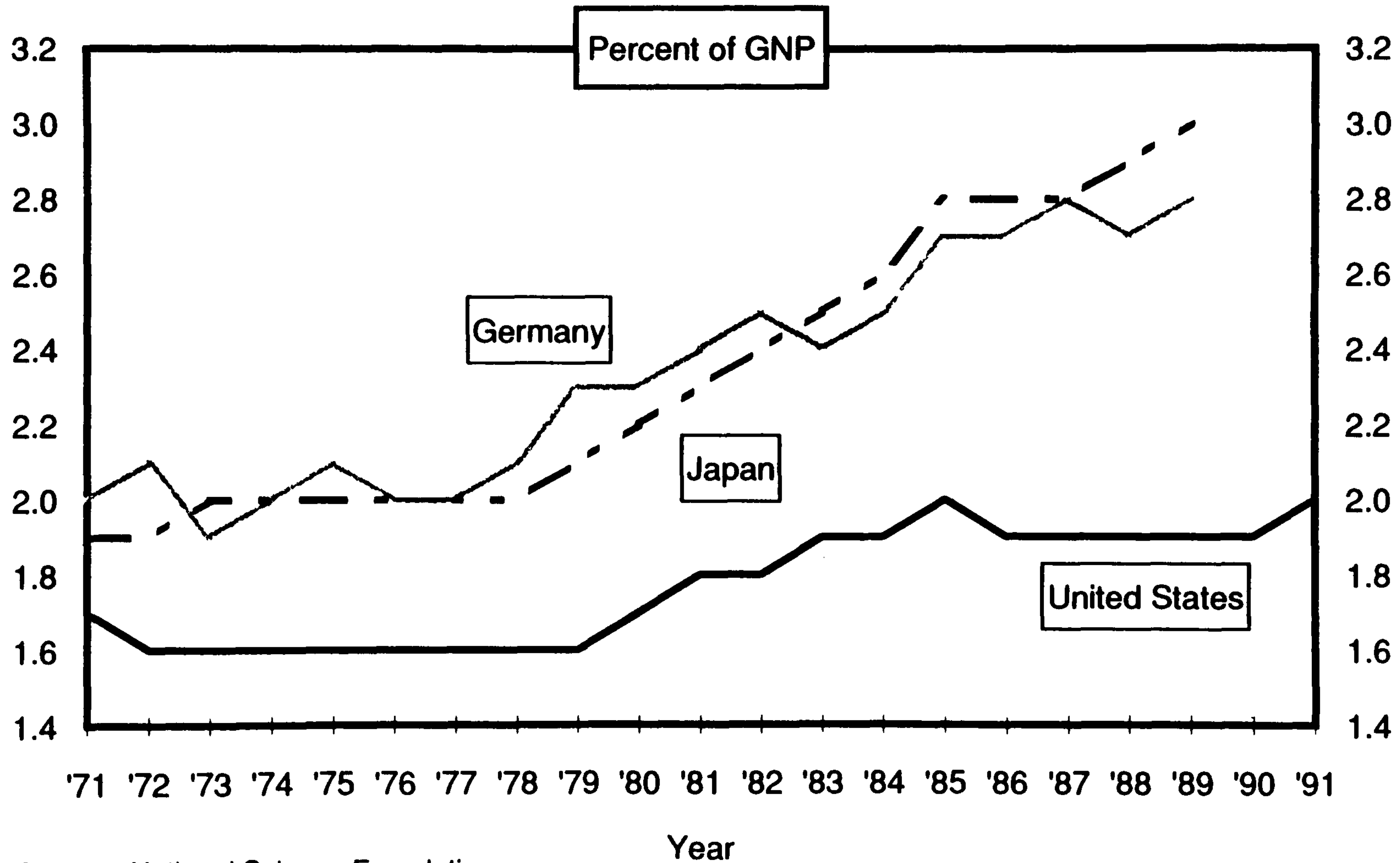


Graph 2

Producer Price Index for Finished Goods



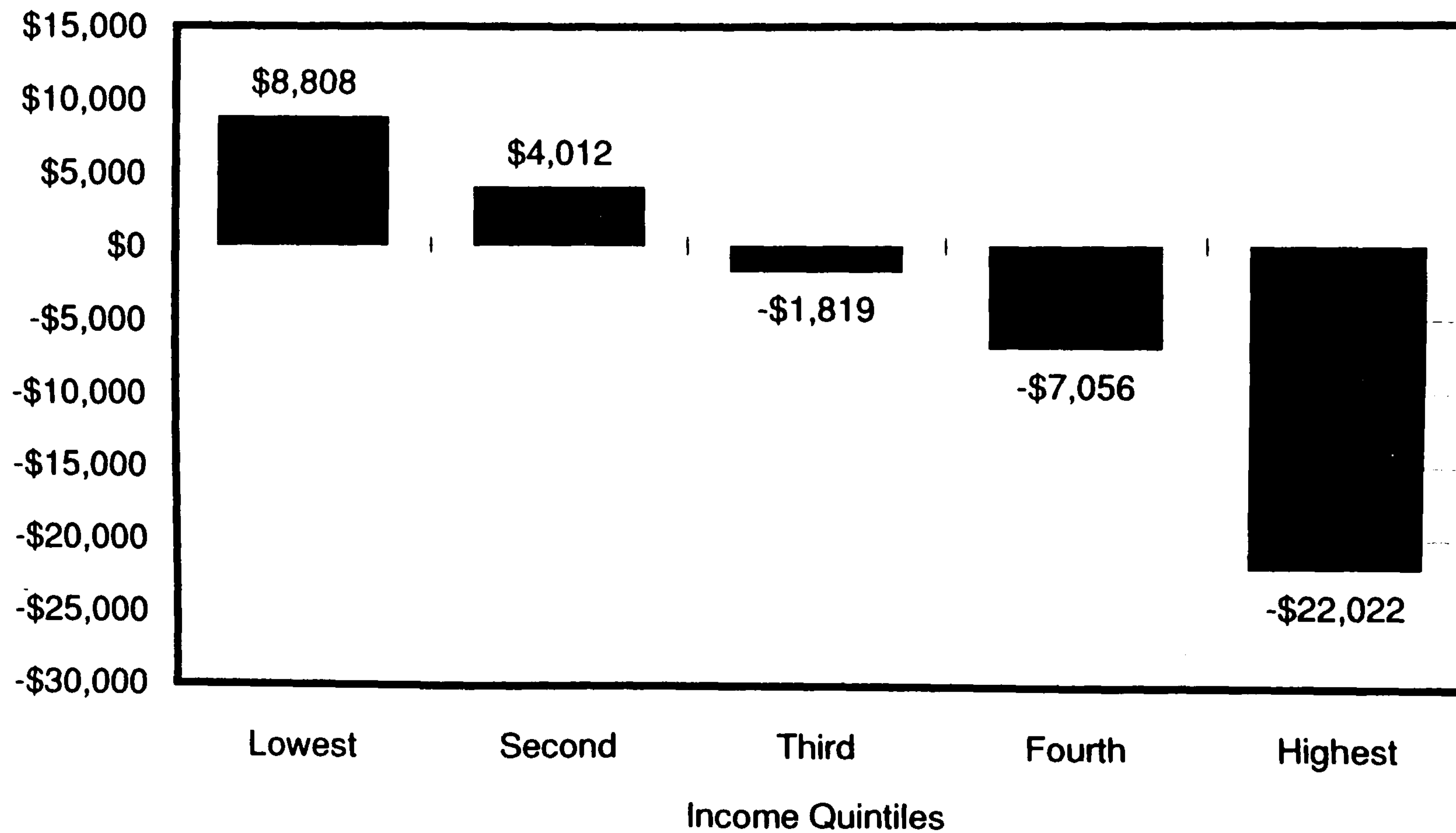
Graph 3
Non-Defense R&D Expenditures



Source: National Science Foundation
('90-'91 data not available for Japan, Germany)

Graph 4

Effects of Federal Tax and Transfers on Take-Home Income, 1990



Source: Bureau of the Census

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
February 4, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 20,800 million, to be issued February 13, 1992. This offering will result in a paydown for the Treasury of about $275 million, as the maturing bills are outstanding in the amount of $ 21,076 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, February 10, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 10,400 million, representing an additional amount of bills dated November 14, 1991 and to mature May 14, 1992 (CUSIP No. 912794 YN 8), currently outstanding in the amount of $ 10,625 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $10,400 million, to be dated February 13, 1992 and to mature August 13, 1992 (CUSIP No. 912794 ZG 2).

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 February 13, 1992. In addition to the maturing 13-week and 26-week bills, there are $12,550 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 $ 624 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $ 1,511 million as agents for foreign and international monetary authorities, and $8,335 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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

TREASURY NEWS

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

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DEPT. OF THE TREASURY

STATEMENT OF THE HONORABLE
DAVID C. MULFORD
UNDER SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE, TRADE
AND MONETARY POLICY
U.S. HOUSE OF REPRESENTATIVES
FEBRUARY 5, 1992

Madame Chair and Members of the Committee, thank you for the invitation to discuss events in the former Soviet Union and the United States response. As always, it is a pleasure to be here.

I would like first to review economic developments in the former Soviet Union in 1991, outline the reform measures proposed to date, and discuss progress in their implementation. I will then turn to the Western response, including the evolving relationships with the International Financial Institutions and bilateral assistance.

INTRODUCTION

The effort being undertaken in the former republics of the Soviet Union is a response to one of history's greatest economic challenges. The depth and breadth of the transformation being attempted have probably never been matched. Commentators have compared the current situation to the effort to rebuild Europe after World War II. One important difference, however, is that the process in Europe was a rebuilding, while the process in the new states requires creation of institutions and systems for a market based economy which has not existed in these countries during much of the present century.

In many ways, the greatest challenge will be overcoming ingrained attitudes among the former Soviet people. Widespread attitudes toward private property, profit and self-interest are directly contradictory to the creation of market-oriented incentives designed to reward and promote productivity, innovation and hard work. Overcoming these psychological hurdles will be as difficult to the new leadership as transforming the industrial and financial dinosaurs that are a legacy of the central planning system.

NB-1653

ECONOMIC PERFORMANCE

Any discussion of economic developments in the former Soviet republics must be prefaced by a significant caveat. Economic data of the kind we are accustomed to in the West do not, in effect, exist. Having been outside the world economic and financial system for most of this century, the Soviets had no incentive to align their data collection systems with those prevalent elsewhere. The data collected were tailored directly to the requirements of a command economy and are of little current use. Moreover, in the absence of a functioning market, price data are virtually useless. With the assistance of the West, however, improvements are being made. But to date there exist no truly reliable measures of consumer and wholesale prices, monetary and credit expansion, foreign debt, or even basic industrial and agricultural production. Neither inflation nor unemployment, for instance, ever officially existed.

Given that fact, what do we know about economic performance in 1991? Based on the assessments of U.S. government analysts in the Moscow Embassy and in Washington, as well as informal reports from the IMF, we have been able to put together a picture that we think is fairly reliable. This assessment addresses activity on the territory of the former Union as a whole, even though the break-up actually began before the end of the year.

It is not a very positive picture. Following a decline of about 5 percent in 1990, GDP for the former Union probably fell by 11 or 12 percent last year.

- Industrial production was down six percent. Construction dropped sharply as the government halted many major investment projects as part of its budget cutting measures.

- Agricultural production dropped ten percent. Meat and milk production were down about 15 percent. The 1991 grain crop was down 25 percent.

- Both oil and coal production were down sharply, 10-12 percent by some estimates. Petroleum output (oil and natural gas liquids) dropped from 12.5 million barrels per day in 1988 to 10.3 mmb/d in 1991.

Inflation has been very difficult to quantify, but there is no doubt the inflationary pressures have been strong. The IMF estimates "measured" inflation of 140 percent for 1991. Prices do not tell the full story in this economy though; a good portion of what people "pay" for goods involves standing in long lines or spending months or years on waiting lists for consumer goods like cars or refrigerators. "Waiting time prices" also increased sharply during 1991, as longer lines at state stores reflected reduced supply.

In 1991, the budget deficit increased dramatically, reflecting both declining revenues and increasing expenditures. The generally depressed economic situation and the shift away from state stores to the private market reduced revenues at the same time steep price subsidies, large transfer payments (partly to compensate for price rises) and continued support for failing industries swelled expenditures. The Russian government assumed responsibility for the budget of the former Union and ended the year with a budget deficit of more than 22 percent of GDP.

To keep the economy afloat, the authorities printed rubles as fast as possible. A plethora of newly chartered, but lightly regulated, banks have contributed to a situation where there is little effective control on creation of money and credit. The broadest measures of the money supply roughly doubled in 1991.

The former Union showed a trade surplus in 1991, the result of sharp declines in both imports (-47 percent) and exports (-29 percent). Exports of crude petroleum fell 50 percent in volume terms, but the effects were partially offset by a 24 percent increase in gas export volumes. Arrears on debt service to private suppliers emerged when enterprises that borrowed abroad without a guarantee from the State Bank for Foreign Economic Relations, Vneshekonombank (VEB), were not able to get foreign exchange to service their obligations. In response, banks cut credit lines. Short-term credit lines were reduced from $7 billion to almost zero by the end of 1991. By December, foreign exchange reserves had effectively disappeared.

Foreign debt has increased rapidly in recent years. Although consolidating data on the debt obligations of the former Soviet Union has been difficult, most recent estimates place total external debt at about $65 billion. (Estimates that put the total near $80 billion do so by including *domestic* hard currency obligations of the banking system, which are not usually considered "foreign debt" and should be treated separately.) Western government exposure increased in 1991 while private creditors withdrew.

It should be noted that the underlying debt burden of the former Union is relatively small by global standards, when compared with the size of the economy, particularly given the substantial natural resource endowment. However, due to changes in the trade system in 1990 and 1991 that allowed enterprises to contract for imports without the hard currency to pay for them, a liquidity crisis emerged.

Much of the liquidity crisis can be blamed on the inability of the monetary authorities to get access to foreign exchange earnings. Foreign exchange earnings were kept outside the system, because there were few incentives for enterprises to bring hard currency into the banking system. Until January of

this year, the exchange rate, 1.6 rubles/dollar, was confiscatory. Furthermore, the underlying banking structures could not be counted on to honor hard currency deposits.

ECONOMIC REFORMS

To date, the Russian Federation has made the most progress of all of the former republics in implementing reforms. We have been encouraged by the willingness of the Yeltsin government to announce substantial changes in policy. Yeltsin's team, led by Deputy Prime Minister Yegor Gaidar, has worked with the IMF to begin to develop plans to free prices, liberalize the exchange rate, accelerate privatization, and implement macroeconomic stabilization measures. The IMF and Russian officials are currently working intensively to reach agreement on a comprehensive economic program containing all the necessary initial elements of stabilization and reform.

Other former republics are also pursuing economic reform programs, and are cooperating with the IMF. Ukraine, Kazakhstan, Kyrgyzstan, Armenia and Belarus are all making good progress. We are attempting to follow these developments as closely as possible. For a variety of institutional factors, we know the most about the situation in the Russian Federation. Due to the size of the Russian economy, and the importance of developments there for the other former republics, I will focus my comments today on the Russian situation.

In November and December of 1991, President Yeltsin issued a series of decrees that began to lay the groundwork for the first serious effort at reform.

Fiscal Policy: A Russian budget, for the first quarter of 1992 only, was approved by Parliament on January 24. The deficit is planned at about 1 percent of GNP (11.5 billion rubles), compared with more than 22 percent for all of 1991. While this is a laudable goal, it is probably unrealistic.

On the revenue side, the government introduced three new taxes in January of this year:

-- a VAT of 28 percent, that replaced sales and turnover taxes,

-- a profits tax of 32 percent, and

-- an enterprise wage tax (social security tax) of 37 percent

While we have concerns that the VAT will be complicated to administer in light of the current state of the Russian economy, it is definitely a step in the right direction. Deputy Prime

Minister Gaidar has said he expects to collect 80 percent of potential VAT revenues this year.

On the expenditure side, the Russians have drastically cut both domestic and military spending (especially new arms acquisitions and reduced state investments). Price liberalization has almost eliminated the huge subsidies that used to make up the largest single item in the Soviet budget.

Monetary Policy: Until recently, the Yeltsin government had not been able to persuade the President of the Central Bank to avoid the excessive creation of money and credit, which would have been a major shortcoming in their program. Deputy Prime Minister Gaidar recently told us, though, that the Central Bank understands the importance of tight money, and that appropriate measures were being introduced, including an increase in reserve requirements and liberalization of some interest rates. The lack of effective supervision of the hundreds of new commercial banks that have been chartered in the past two years remains a problem.

Foreign Exchange System: The ruble was sharply devalued and the system changed markedly on January 1, 1992. The bulk of commercial transactions now takes place at a new "quasi-market" rate, currently 110 rubles/dollar. This rate is administratively determined by the Central Bank of Russia, but "based upon" the Bank's estimates of what a free market rate might be. (The "black market rate" was 135-140 rubles/dollar in Moscow in mid-January.)

Russian authorities have made the point that market-related rates currently do not reflect the true relative purchasing power of the ruble, as a general lack of confidence in the system and a desire for hard currency have caused the Russian people to avoid holding rubles at almost any price. They hope that, as people gain confidence in the reform program and thus in the ruble, the free market value of the ruble will strengthen and they will be able to adjust the "quasi-market" rate accordingly.

Ten percent of all export revenues must be sold to the Central Bank of Russia at the "quasi-market rate". In addition, forty percent of export earnings on natural resources (oil, gas, timber and precious metals) and weapons must be surrendered at the "special commercial rate" of 55 rubles/dollar, half the "quasi-market" rate. In practice these categories account for about 70 percent of exports. Enterprises are allowed to retain the balance of their foreign exchange earnings, though they must be repatriated and deposited in domestic banks.

The Central Bank has indicated that it is working on a proposal for a "foreign investment rate" of 8-10 rubles/dollar that would apply to all foreign direct investment in Russia. This is a disturbing possibility that could significantly hurt

Russia's chances to attract needed foreign investment.

While most of these steps are in the right direction, it is too soon to tell whether or when the new system will convince enterprises to begin bringing their hard currency into the banking system and under the control of the authorities.

Price Liberalization: On January 2, prices on most consumer goods were freed. Prices on several "essential" items (food, fuels, utilities, and transportation) were increased by a factor of three to five, but remain controlled. Rent was the only price left unchanged. There seems to be no intention to control wages.

As expected, prices have surged. Overall consumer prices have roughly doubled since January 1. Some prices have begun to creep back down, after original sharp increases. There will be much fluctuation before any real equilibrium is reached.

Energy prices were traditionally cost-oriented and unrelated to demand, but there is now an intent to move toward market prices. Accordingly, the price of oil in Russia was increased five-fold. This brings it to 90 cents per barrel (at the relevant "special commercial" rate of 55 rubles/dollar) compared to the current world market price of about $19 per barrel. While these prices will have to come up much further, it is important to note that the relative price of oil products already has increased within Russia.

Privatization: President Yeltsin issued a decree on December 29 providing for privatization of smaller state-owned enterprises to be carried out by local authorities. He intends to sell off 60 percent of small retail outlets and 70 percent of small enterprises this year. A program for privatization of larger state-owned enterprises is to be issued by March 1.

A December 28 decree would make it easier for farmers to withdraw from collective and state farms and set up individual farms. This could make private land ownership more viable. However, implementation has been left in the hands of local (i.e. conservative) authorities.

RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS

International Monetary Fund

The IMF is playing a central role in the reform process in the new states, as it has in Eastern Europe, Latin America, and other regions. With strong U.S. and G-7 support, the IMF is providing authoritative advice to the republics on stabilization and macroeconomic reform programs. From the outset, we recognized the need for the IMF to take on this responsibility, long before membership in the international financial

institutions was realistic or warranted. For this reason, President Bush proposed a Special Association in 1990 to furnish badly needed IMF policy and technical expertise to the Soviets.

Following the shift in favor of market reform after the coup attempt, Secretary Brady called for accelerated implementation of the Special Association to get Fund staff actively engaged in gathering economic information and providing policy guidance to all the republics. This preliminary arrangement has paid off. We now have a head start on the issues which must be addressed in the membership process. These include collecting the data necessary for the calculation of IMF quotas for the new states, as well as reviews of economic policies and developments.

Recent developments, including the break-up of the Union and reform progress in some of the newly independent states, create the basis for moving forward on membership for some states as quickly as possible. In early January, Secretary Brady announced U.S. support for early consideration by the IMF and the World Bank of membership for new states with which the U.S. is establishing diplomatic relations. Subsequently, at their January meeting, the G-7 Finance Ministers and Central Bank Governors requested the IMF to act expeditiously to finalize membership arrangements for states meeting membership conditions by the spring Fund/Bank meetings. So far, Russia, Ukraine, Azerbaijan, Kazakhstan, Armenia, Kyrgyzstan and Moldova have applied. Following membership, access to substantial IMF financing for those new states willing to commit to satisfactory economic programs should be available quickly, within a matter of months, providing crucial and timely support.

Last year, the Administration submitted legislation providing for U.S. participation in the quota increase of the IMF. This request was based on an assessment of the IMF's financing needs at that time, including the demands associated with the Fund's historic efforts to help Eastern European countries discard central planning and to support market reforms and debt reduction in Latin America. The prospective entry of the former republics of the Soviet Union into the IMF will likely result in substantial new financing demands on the IMF and enhances the importance of the quota increase. We continue to believe that the passage of the IMF quota increase is essential and we urge Congress to support this legislation.

In the meantime, we have urged the IMF to commit extensive technical assistance resources to helping the new states and it has done so. Fund teams visited all new states before the end of last year. Beginning in January and continuing this month, Fund missions are returning to all new states to work with officials on reform programs and to discuss membership issues. In the case of Russia, Fund staff expect to reach agreement shortly on a stabilization and comprehensive reform program. I believe that

the rapid IMF response to the needs of the new states, even prior to membership, demonstrates the importance of this institution to U.S. international economic policy objectives.

World Bank

The World Bank will play a major role in supporting economic reform in the republics of the former Soviet Union. Membership applications have been received from ten of the former republics, including Russia, Ukraine and the three Baltic states, with applications from the remaining former republics expected within the next month. A formal decision on membership of the new applicants will depend upon the pace of discussions with the IMF, as it is conditioned, inter alia, on Fund membership.

Teams of World Bank specialists have already visited many of these republics. Visits to the remainder will be completed in the next few weeks. These teams, a number of which have overlapped with IMF teams, have been preparing the basis for Bank membership and possible lending programs. Although further analysis by the World Bank must be done on the economies of the former republics, it is likely that they all will be eligible to borrow from the Bank, and some may qualify as IDA or blend (i.e., borrowing from both IDA and the World Bank) borrowers.

In the meantime, the World Bank is providing a wide range of technical assistance to the former republics under the terms of a $30 million Technical Cooperation Agreement which was signed this past November. Most of these activities have been concentrated on the four republics which signed the November agreement: Russia, Kazakhstan, Kyrgyzstan and Belarus. The Bank is also carrying on an expanding range of activities in many of the other republics, such as training and technical assistance in the area of agriculture and food distribution. The Bank's primary areas of focus in these efforts are:

-- systemic reform, such as price and trade liberalization, enterprise reform and privatization, and financial and legal sector reform;

-- sector reform in key areas such as agriculture, energy and housing;

-- development of a social safety net; and

-- training programs and institutional reform.

In all of these areas the Bank has developed programs of collaboration and coordination with other international institutions such as the IMF, the EBRD and the EC.

Looking ahead, the Bank will shortly present a new work plan that will propose a substantial further expansion of its activities in the former Soviet republics, which will be supported by revised budget and staffing arrangements. A key focus of operations under the new work plan would be to overcome bottlenecks in food and energy production, as well as an intensification of the ongoing efforts mentioned above.

IFC: Five of the former Soviet republics and Lithuania have also applied for membership in the International Finance Corporation, the World Bank affiliate specifically designed to promote private sector growth. An increase in the IFC's capital stock will be required to meet these and other requests likely to be forthcoming. However, in contrast to the legislation guiding U.S. participation in the IBRD, the United States cannot vote for an IFC capital stock increase without specific Congressional authorization. This could place the United States in the difficult position of delaying IFC membership for some of the new states even though we believe they could benefit significantly from the IFC's support. We hope to work constructively with the Congress to effectively address this situation.

EBRD

The European Bank for Reconstruction and Development -- the EBRD -- will also play a role in assisting the countries which were part of the former Soviet Union. As you may know, the former Soviet Union was a borrowing member of the EBRD, although the Charter limited the amount of financing that was available to that country to the amount of its contribution, i.e., about $43 million per year through April of 1994.

With the dissolution of the Soviet Union, the EBRD Board of Directors has been discussing methodologies for dealing with the membership of the former USSR republics. A broad approach has been agreed upon, subject to the approval of the Board of Governors. Under this approach, the countries which were part of the former USSR are eligible for EBRD membership provided they confirm their wish to accept membership and confirm that they adhere to the principles in the Bank's charter of "multiparty democracy, pluralism and market economics." The membership must then be approved by the Board of Governors, and country strategies for each country prepared before the Bank can provide financing. It is expected that, under this procedure, some of the former USSR republics could be confirmed as EBRD members by the time of the Annual Meeting in Budapest (April 13-14), and project financing could commence soon afterwards.

An issue still to be resolved is how to deal with the limitations set out in the Charter on borrowing by the former Soviet Union. There is general agreement that the Charter limitation is no longer appropriate given the dissolution of the

USSR, and the strong commitment by some of the former republics to a comprehensive economic reform program. Members also generally agree that a new type of limitation on borrowing by the former republics must be developed, in order to maintain the focus of the Bank on the countries of Eastern Europe as well as for prudential reasons. The discussion of a new limitation will take place over the next month.

The Bank's Board of Directors had already approved two private sector projects, both in the Russian Federation, before the dissolution of the former USSR. These projects will continue to be implemented. For the future, we would expect that, for those former Soviet republics that want to be members of the Bank and whose membership has been approved by the Governors, the Bank's focus will be on the development of the private sector and privatization activities. The Bank is in the process of discussing possible projects in the areas of oil and gas and agricultural distribution and processing. The Bank is also presently providing technical assistance to the former republics in a wide range of areas that includes privatization, banking sector development, transportation and the environment.

WESTERN RESPONSE

Debt Deferral

In response to the debt service difficulties that were being experienced by the former Soviet Union last fall, leading creditor countries considered the most appropriate means of assistance. During the G-7 Ministerial meeting in Bangkok last October, the Ministers and Governors and the Soviet representatives discussed the Soviet external payments situation in great detail. Several key considerations were emphasized during this exchange:

-- The importance of working with the international financial institutions on comprehensive economic reforms;

-- The necessity to honor external financial obligations and fulfill any understandings with external creditors in order to maintain access to new credits;

-- In the context of the evolving center/republic relations, the need for a framework to govern the ongoing financial relations between the Soviet Union and its many creditors; and

-- The further need for full disclosure of Soviet economic and financial data.

As effective political and economic control shifted from the Union to the soon-to-be independent states, creditors made clear to these former republics that assumption of responsibility for the debt obligations of the former Soviet Union was crucial to the provision of new assistance. Following further discussions between representatives of the G-7 and the center and the republics, a Memorandum of Understanding was signed on October 28, 1991 by 8 republics and the Soviet Union. In the MOU, the parties declared themselves to be jointly and severally liable for the entire external debt of the former USSR, and designated the VEB as debt manager.

Further negotiations between the G-7 and the Soviet Union and the 8 republics which signed the October 28 MOU produced a communique dated November 21, 1991. In keeping with the points stressed by the G-7 Ministers in Bangkok, the representatives of the former Soviet Union:

-- reaffirmed the October 28 MOU on joint and several responsibility for debt obligations of the former Soviet Union and the role of VEB as debt manager, and agreed to adopt measures to mobilize foreign exchange to enable VEB to service the debt;

-- agreed to work with the IMF on macroeconomic reforms which would address in particular: reducing fiscal deficits, public expenditure and monetary growth; liberalizing prices; and the exchange rate; and

-- agreed to disclose fully existing economic and financial data and indicated their willingness to improve their data collection systems.

For their part, the G-7 representatives agreed to a deferral of payments on principal on medium- and long-term external debts contracted before January 1, 1991. The G-7 representatives also indicated their willingness to support the maintenance of short-term credits by their export credit agencies, as well as possible emergency financing in the form of a gold swap facility.

This agreement was made official on January 4, 1992, when seventeen creditor governments signed the deferral agreement. (The VEB, in its role as debt manager, signed for the former Soviet Union.) The deferral is to continue beyond March 31, 1992, until December 31, 1992, provided satisfactory progress is made, in particular on the mobilization of foreign exchange and the adoption of economic reform programs in full consultation with the IMF.

The amount of principal deferred by the 17 creditor governments through the end of 1992 is $3.2 billion. Since U.S. government Commodity Credit Corporation (CCC) credits were

extended subsequent to the contract cut-off date for the deferral of January 1, 1991, these credits are not affected by the agreement. All principal and interest on these credits is due as originally scheduled. The first principal payment, due January 17, 1992, has been received; interest payments are due semi-annually.

The deferral agreement by official creditor governments requires the debt manager to seek comparable treatment from all other creditors including commercial banks, other creditor countries, and suppliers. On December 17, 1991, the commercial bank advisory committee for the former Soviet Union agreed to a deferral on principal payments falling due through March 31, 1992.

Bilateral Assistance

The West has pledged a great deal of assistance to the new states over the past two years. By some counts, over $70 billion has been pledged. This is an indicative figure, that represents some commitments with indefinite disbursement schedules, including German contributions related to reunification that may be disbursed over several years. It is, however, a good guideline to the level of Western commitment to assisting economic and political transformation in the new states.

US assistance to the former Soviet Union, available and proposed, totals over $5 billion, about $3 billion of which has already been disbursed

1) Humanitarian Aid

Humanitarian Transport: The Defense Department will reallocate up to $100 million of its FY-92 appropriation to fund the transportation of humanitarian assistance.

AID Medical Assistance: AID made available $5 million in medical assistance in FY-91. An additional $25 million is available for medical assistance in FY-92.

2) Food Aid

CCC Credit Guarantees: The Administration has announced $3.75 billion in CCC export credit guarantees since January 1991 for the purchase of agricultural products by the former Soviet Union. About $3 billion has already been used to buy and ship over 19.5 million tons of food.

Food Grants: Grant food aid totals $210 million. Of this, $165 million will be provided through USDA food aid programs and $45 million in surplus food stocks will be donated by the Defense Department.

3) Technical Assistance

$120 million in technical assistance is to be funded out of FY-91 and FY-92 Economic Support Funds (ESF) and USDA technical assistance monies. This builds on technical cooperation efforts carried out since 1989, largely by U.S. government agencies without specific funding. Priority areas include food distribution and processing, energy, transportation, housing and financial services.

President Bush announced (January 1992) an additional $620 million in technical assistance, including $100 million in Economic Support Funds, $10 million in Development Assistance Funds, $10 million for the "Farmer-to-Farmer" program and a $500 million for a new "humanitarian/technical assistance account".

4) Nuclear Risk Reduction

The Department of Defense is authorized to reallocate up to $400 million of its FY-92 appropriations to assist the former Soviet Union in destroying nuclear, chemical, and other weapons and in assisting in the prevention of the proliferation of weapons of mass destruction.

SUMMARY

The enormity of the challenge facing the leaders and peoples of the former Soviet Union cannot be overestimated. We have witnessed the failure of the largest, most comprehensive economic experiment in modern history. What is required now is the top-to-bottom dismantling and restructuring of an economic system that spans eleven time zones and includes over five percent of the world's population.

The total transformation will take many years, perhaps decades. Russia is currently well ahead of the other republics in this effort; President Yeltsin and his team have made a very good start. They deserve the support and encouragement of the West.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 5, 1992

Contact: Scott Dykema
(202) 566-2041

FRED T. GOLDBERG, JR.
SWORN IN AS ASSISTANT SECRETARY OF THE TREASURY
FOR TAX POLICY

Fred T. Goldberg, Jr. was sworn in Monday, February 3, 1992 as the assistant secretary of the Treasury for tax policy. He was confirmed by the Senate on January 31, and was appointed by the President on February 3.

As assistant secretary for tax policy, Mr. Goldberg will serve as the chief representative of and advisor to the secretary in the formulation and execution of domestic and international tax policies and programs.

Prior to his appointment, Mr. Goldberg served as the commissioner of Internal Revenue, where he has been since 1989. There, he was in charge of over 116,000 employees and responsible for an operating budget of over $6 billion, and total tax collections in 1991 exceeding $1 trillion. As commissioner, Mr. Goldberg directed the tax system modernization program to update and improve the IRS' computer and information systems, and a program to reduce taxpayer burden and improve voluntary compliance.

From 1986 until 1989, Mr. Goldberg was a partner in the law firm of Skadden, Arps, Slate, Meagher & Flom. From 1984 to 1986, he served as chief counsel for the Internal Revenue Service.

Mr. Goldberg received a B.A. in economics (1969), and a J.D. (1973) from Yale University.

Mr. Goldberg, a native of St. Louis, Missouri, and his wife, the former Wendy Meyer, have five children and reside in Potomac, Maryland.

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NB-1654

TREASURY NEWS

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

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
February 5, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will raise about $14,975 million of new cash and refund $21,032 million of securities maturing February 15, 1992, by issuing $15,000 million of 3-year notes, $11,000 million of 9-3/4-year 7-1/2% notes, and $10,000 million of 29-3/4-year 8% bonds. The $21,032 million of maturing securities are those held by the public, including $608 million held, as of today, by Federal Reserve Banks as agents for foreign and international monetary authorities.

The three issues totaling $36,000 million are being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

In addition to the public holdings, Federal Reserve Banks hold $1,830 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities at the average prices of accepted competitive tenders.

The 7-1/2% Bonds of 1988-93 that were called for redemption on October 9, 1991, are also being redeemed on February 18, 1992 from available funds. There are $1.8 billion of these bonds outstanding of which $.9 billion are held by private investors. The 2-year 6% notes issued in October 1991 included an amount sufficient to redeem the called bonds.

The 9-3/4-year note and 29-3/4-year bond being offered today will be eligible for the STRIPS program.

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

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Attachment

NB-1655

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC

FEBRUARY 1992 QUARTERLY FINANCING

February 5, 1992

Amount Offered to the Public	$15,000 million	$11,000 million	$10,000 million
<u>Description of Security</u>:			
Term and type of security	3-year notes	9-3/4-year notes (reopening)	29-3/4-year bonds (reopening)
Series and CUSIP designation	Series N-1995 (CUSIP No. 912827 E2 4)	Series D-2001 (CUSIP No. 912827 D2 5)	Bonds of November 2021 (CUSIP No. 912810 EL 8)
CUSIP Nos. for STRIPS Components . .	Not applicable	Listed in Attachment B of offering circular	Listed in Attachment B of offering circular
Issue date	February 18, 1992	February 18, 1992	February 18, 1992
Maturity date	February 15, 1995	November 15, 2001	November 15, 2021
Interest rate	To be determined based on the average of accepted bids	7-1/2%	8%
Investment yield	To be determined at auction	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction	To be determined after auction
Interest payment dates	August 15 and February 15	May 15 and November 15 (first payment on May 15, 1992)	May 15 and November 15 (first payment on May 15, 1992)
Minimum denomination available . . .	$5,000	$1,000	$1,000
Amount required for STRIPS	Not applicable	$80,000	$25,000
<u>Terms of Sale</u>:			
Method of sale	Yield auction	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield with two decimals, e.g., 7.10%	Must be expressed as an annual yield with two decimals, e.g., 7.10%	Must be expressed as an annual yield with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $5,000,000	Accepted in full at the average price up to $5,000,000	Accepted in full at the average price up to $5,000,000
Accrued interest payable by investor	None	$19.57418 per $1,000 (from November 15, 1991 to February 18, 1992)	$20.87912 per $1,000 (from November 15, 1991 to February 18, 1992)
<u>Key Dates</u>:			
Receipt of tenders	Tuesday, February 11, 1992	Wednesday, February 12, 1992	Thursday, February 13, 1992
a) noncompetitive	prior to 12:00 noon, EST	prior to 12:00 noon, EST	prior to 12:00 noon, EST
b) competitive	prior to 1:00 p.m., EST	prior to 1:00 p.m., EST	prior to 1:00 p.m., EST
Settlement (final payment due from institutions):			
a) funds immediately available to the Treasury	Tuesday, February 18, 1992	Tuesday, February 18, 1992	Tuesday, February 18, 1992
b) readily-collectible check	Thursday, February 13, 1992	Thursday, February 13, 1992	Thursday, February 13, 1992

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TREASURY NEWS

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

Embargoed Until Delivered
Expected at 10 a.m.
February 6, 1992

TESTIMONY OF NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BUDGET
UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

I am pleased to testify today on the economic proposals announced by the President in his State of the Union address and detailed in his Budget for FY 1993. The President's actions and proposals will accelerate economic recovery in the short term, stimulate the nation's long-term economic growth and increase the competitiveness of American goods and services in the world economy.

The President's comprehensive program for growth includes initiatives beyond those we shall discuss here today, for example: record federal investment in research and development; in Head Start and in children generally; in education; crime and drug abuse; and in preventive health. The President's program for Job Training 2000 will improve the delivery and effectiveness of job training and vocational education and his proposal to combine law enforcement and social services is designed to reinvigorate impoverished and embattled communities.

When enacted by the Congress, the President's plan will expand opportunity and enhance the nation's standard of living. The President's tax proposals are specifically addressed to the fundamental economic concerns of American families.

As you well know, Mr. Chairman, many factors have coalesced to make the economic recovery sluggish: We experienced a mideast crisis and a war, during which oil prices rose to over $40 a barrel. We have had two and a half years of restrictive, high interest rates that only recently have abated. The nation's businesses and its families and government borrowed too much. And, unfortunately, improving the climate for increased jobs and investment has not been a congressional priority.

Some Encouraging Signs

Nevertheless, there are some encouraging signs.

American corporations and families have moved to pay down their debt burden.

The spiral of rising prices has been halted so that American families need no longer fear that run-away inflation will rob them of their purchasing power. And American businesses do not have to worry that rapid price increases will render American products noncompetitive in world markets.[1] American exports are strong, and business inventories lean.

Interest rates are now the lowest in twenty years. The decline in interest rates could, in 1992, save American families as much as $25 billion in interest costs on mortgages, and other household debt. Lower interest rates also should mean a savings of about $10 billion for American corporations, and federal, state, and local governments will save another $10 billion.

And all of this has occurred against the backdrop of the end of the Cold War, an economic stimulus that none of us can now calculate, but which will be, over time, be of enormous proportions.

The American People Want Action

But positive signals are only the beginning. The American people remain concerned about the strength of their nation's economy. People who have worked in industries or companies that have contracted want to be confident that they can find new jobs and if necessary shift careers. Families who own no home want to be sure that they will someday, and homeowners hope to see strength in the value of their house, their most valuable asset.

American families deserve to be confident about their children's future, the quality and safety of their children's schools, and their ability to afford the education necessary to raise their children and grandchildren's standard of living.

The public is entitled to assurance about the soundness of the financial institutions on which they have long depended for help and security. Witnessing the failure of a savings and loan or bank where you or your neighbors have saved and borrowed is extremely unsettling. The country worries that American

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[1]Graphs 1 and 2 show changes over time in consumer and producer prices, respectively.

banks, which for so long were dominant in the world, are now overshadowed by foreign banks. Small businesses and other investors have had difficulty obtaining loans they need to expand their businesses and create jobs. And the Congress so far has refused to modernize the legal framework governing banks that was designed decades ago for a totally different economic era.

The American people deserve to be certain of our ability to compete in the new global economy. They demand that we maintain our advantage of superior technology and our capacity for stunning innovation.

Economic Growth is the Engine of Progress

Mr. Chairman, there is only one response that we, the Congress and the President working together, can make to fulfill the hopes of the American people. We should embrace policies that foster economic growth. We should move at once to enact into law the President's proposals that will accelerate economic recovery. We must demonstrate an unwavering commitment to creating an environment for sustained growth over the long term.

Over time gains in family income depend upon improved national productivity. Only sustained economic growth can improve the incomes of wage-earning men and women; only sustained economic growth will provide the resources to feed and house the poor and guarantee health care to all Americans. And only sustained economic growth -- not higher tax rates -- will increase the resources of federal, state and local governments.

There should be no misunderstanding about this important point. A one percent decrease in real GDP growth in 1992 alone could decrease federal government receipts by nearly $80 billion and increase the federal deficit by more than $100 billion during the period FY 1992-1997. A one percent lower annual real GDP growth rate during each of the years from 1992 to 1997 would decrease the federal government's receipts by more than $260 billion and increase the deficit by nearly $350 billion during that period. The productive power of economic growth as a contributor to government revenues is not controversial.

If the collapse of communism and the disintegration of the Soviet Union this past year have taught us anything at all, it is that government policies that concentrate on managing how limited resources are distributed among the people are a poor substitute for concentrating on ensuring economic growth.

The President's Economic Growth Agenda

The President's economic growth agenda will accelerate economic recovery and job-creating investments, create opportunities for home ownership, foster a real estate recovery, and help families build for the future. The economic growth agenda set forth by the President is about jobs.

The plan calls for a new investment tax allowance, which would produce nearly $11 billion of tax savings in calendar 1992 for businesses that acquire new equipment, thereby increasing their cash flow and lowering their cost of capital. The President also recommends permanent adjustments to simplify and liberalize the alternative minimum tax to remove tax impediments for modernizing business plant and equipment.

Jobs and global competitiveness also demand that businesses carry on vigorous research and development. The President's plan would make permanent the credit for research and development and extend the rules for allocating R&D expenses to foreign and domestic income. Although, as the largest economy in the world, the United States continues to be the largest investor in R&D activities, the rate of growth of nondefense R&D has recently been much higher in West Germany and Japan, as Graph 3 demonstrates.

The President has increased funding for basic research by 29 percent since 1989 and continues to recommend record levels of federal funding for R&D. Each year since taking office, the President has proposed making the R&D tax credit permanent. This is the year for Congress to act.

The President also urges Congress to cut the capital gains tax rate, which will raise American living standards by unlocking job-creating investments, boosting productivity, and raising the value of productive assets. The President has proposed cutting the capital gains tax to 15.4 percent for taxpayers now subject to a 28 percent capital gains tax rate and to 8.25 percent for taxpayers now subject to a 15 percent capital gains tax rate.

Reducing the capital gains tax will be particularly helpful to America's new companies and small businesses in attracting start-up capital. Small businesses and start-up companies traditionally rely on equity capital -- they cannot float bonds, issue commercial paper or compete with big corporate rivals for bank loans. These firms continue to be the source of new jobs; businesses with 20 or fewer employees generate over two-thirds of all net new private-sector jobs.

Lowering the capital gains tax to create jobs and make America more productive is a bipartisan objective. At least 220

Democratic Members of Congress -- more than two thirds -- have sponsored or cosponsored legislation to reduce the capital gains tax.

The argument really is about what kind of capital gains tax to have. The President's proposal is broad in scope. It would reduce the burden of overtaxation of inflationary gains for all Americans. It would benefit the large number of middle-income people who realize capital gains and would unlock capital for more productive uses. A targeted capital gains tax cut could not serve each of these important purposes.

The President's economic growth plan also recognizes the importance of a healthy real estate sector in our economy and the critical need to ensure that businesses have access to credit. Real estate and construction represent more than 15 percent of our GDP, and employ almost 10 million people. More than half of all household net worth is in real estate.

That is why -- in addition to our ongoing efforts to keep interest rates down and increase credit availability -- the President has asked for a $5,000 tax credit for first-time homebuyers, modification of passive loss rules for real estate developers, opportunities for greater pension fund investments in real estate, deductibility of losses on the sale of personal residences, and an extension of mortgage revenue bond authority.

The President also proposes tax incentives for enterprise zones to stimulate jobs and investment in disadvantaged rural and urban areas, and an extension of both the targeted jobs tax credit and the low-income housing tax credit.

President Bush's plan will both hasten economic recovery and help American families -- with proposals that specifically address their most pressing concerns. These include an increase in the personal exemption for families with children; and a new flexible IRA that will allow families to begin saving, regardless of purpose, without any income-tax burden.

In combination with the other proposals I have mentioned, the President's $5,000 tax credit for first-time homebuyers will help middle-income families purchase their own homes and offer protection to current homeowners from declining property values.

In combination with the President's proposal to increase funding for Head Start by $600 million and the Administration's other education initiatives, the proposals to permit deduction of interest on qualifying student loans and penalty-free IRA withdrawals, will help families fulfill their educational goals.

The President's comprehensive health plan, which he will describe in greater detail later today, builds on the strengths of the existing market-based system. It will provide tax credits or deductions for the purchase of health insurance of up to $3,750 for poor and middle-class families. This will provide financial help for more than 90 million people.

These initiatives will provide stimulus in both the short and long term. They will make it possible for American families to buy homes, save for college, guard against major health expenses, and plan for retirement.

The President's plan is directed at the specific needs and aspirations of most Americans. For families attempting to buy a home, save for the future, finance educational loans, or purchase health insurance, the President's plan provides substantial tax savings.

Fairness

Issues of American justice arise in many contexts. But there can be no doubt that among them is the requirement that the burdens and benefits of government must be fairly distributed. The President's plan meets this test of fairness.

The current distribution of taxes and transfers is essentially fair, despite widespread claims to the contrary. As Graph 4 demonstrates, the net effect of federal tax and transfer programs is highly progressive. In 1990, households in the top 20 percent **paid** an average of over $22,000 to the federal government, households in the lowest twenty percent **received** an average of almost $8,800 from the federal government.

But I do not wish to dwell on statistics. Statistics can be used to show almost anything.

For example, tax distribution tables depict only the burden of payroll taxes and leave out entirely the payment of social security and federal health insurance benefits. These social insurance programs are highly progressive, and comparisons of the tax burden alone, without the benefits, present a very misleading picture. The federal income tax is also progressive.

The President's plan for economic growth is fair. The full array of the President's tax proposals, including the President's health plan, would dramatically decrease taxes for low- and middle-income families and would only slightly reduce taxes for those with higher incomes.

The Need for Fiscal Restraint

The President's program to accelerate the economy, provide jobs, and improve the climate for long-term growth is accomplished while maintaining the fiscal restraint of pay-as-you-go. We cannot achieve economic growth if federal spending is not controlled. Confident, stable financial markets live in the house of financial discipline, and interest rates and long term growth depend on adherence to this principle.

There Is No Silver Bullet

Creating an environment through this nation's tax, spending, and regulatory policies that invites and sustains long-term economic growth is no simple task. There is no silver bullet. However, we now have an opportunity to put some important building blocks in place. Together, we must begin that task today.

The President in his State of the Union address requested congressional action by March 20 on seven proposals:

- The capital gains tax reduction;
- The investment tax allowance;
- The AMT enhancement and simplification;
- The easing of passive loss restrictions on real estate developers;
- The $5,000 credit for first-time homebuyers;
- The waiver of penalties on IRA withdrawals by first-time homebuyers; and
- The proposals to facilitate real estate investment by pension funds and others.

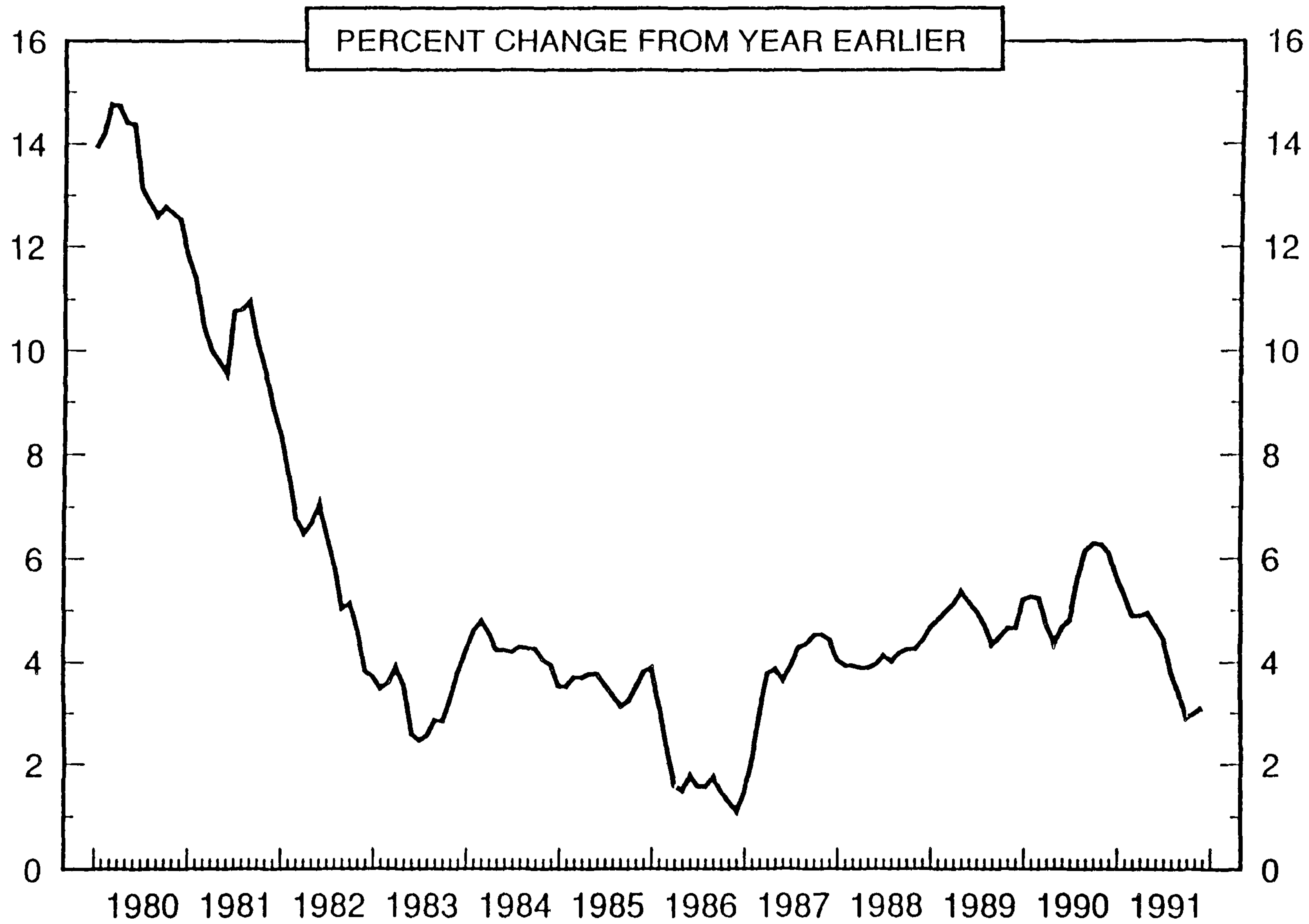
These proposals should be enacted immediately to accelerate economic recovery. The total cost of these proposals over the period FY 1992-1997 is just over $4.5 billion. The President's budget provides a variety of ways to cover this cost in a manner consistent with pay-as-you-go discipline. There is simply no reason why the President's economic growth proposals should not be financed through reductions in federal spending. The President would prefer prompt enactment of all of his program. But surely these few changes can be enacted now. It should be done promptly. And it must be paid for.

Conclusion

Today, this nation remains the world's preeminent economic force. The United States is the world's largest exporter of goods and services and the world's largest foreign investor.

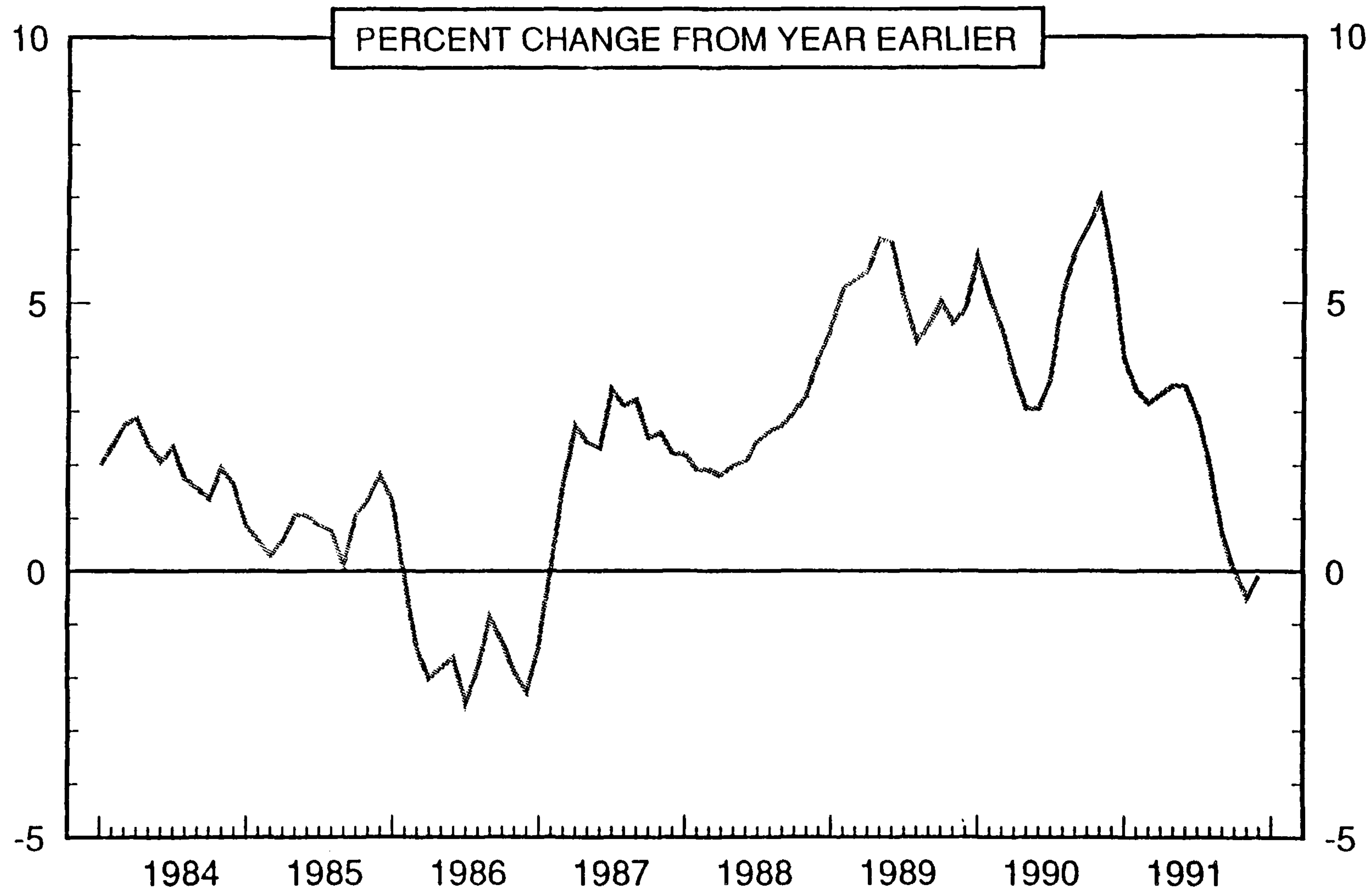
No one should underestimate the energy and optimism of the American people, nor the resilience and fundamental strengths of the American economy. The government alone cannot make American products more competitive, but, in partnership, the President, the Congress, American businesses and workers can construct an environment to facilitate the nation's productive growth.

Graph 1
Consumer Price Index, All Items



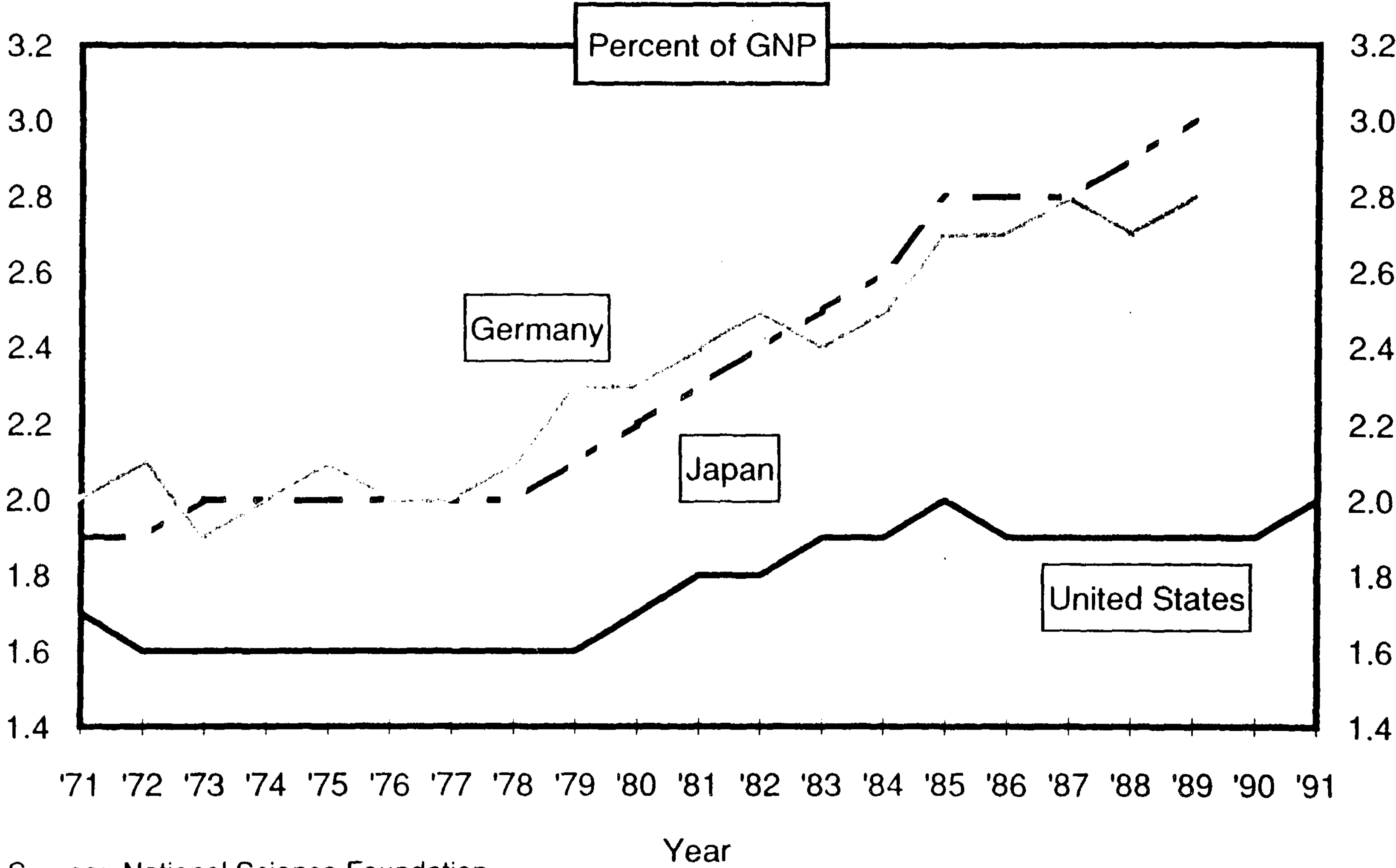
Graph 2

Producer Price Index for Finished Goods



Graph 3

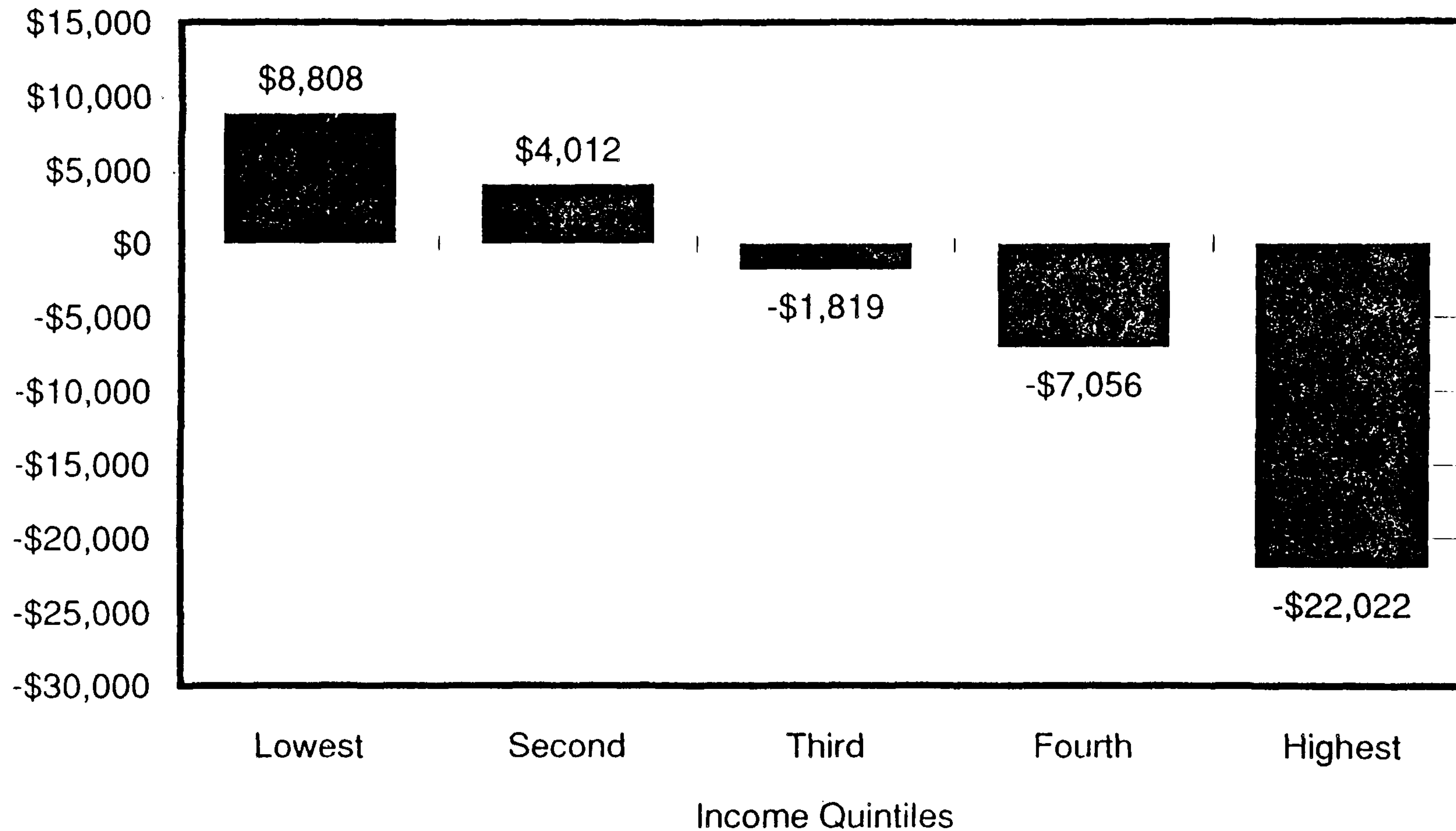
Non-Defense R&D Expenditures



Source: National Science Foundation
('90-'91 data not available for Japan, Germany)

Graph 4

Effects of Federal Tax and Transfers on Take-Home Income, 1990



Source: Bureau of the Census

TREASURY NEWS

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

For Release Upon Delivery
Expected at 10:00 AM
February 6, 1992

STATEMENT OF THE HONORABLE
JEROME H. POWELL
ASSISTANT SECRETARY OF THE TREASURY
FOR DOMESTIC FINANCE
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
AND THE
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
UNITED STATES HOUSE OF REPRESENTATIVES
FEBRUARY 6, 1992

Last fall, prompted by Salomon Brothers' revelations of wrongdoing, the Treasury, the Federal Reserve, and the Securities and Exchange Commission undertook a comprehensive review of the government securities market, with a commitment to report back to Congress with our recommendations and conclusions. After an intensive study conducted over the past several months, the three agencies released on January 22 the Joint Report on the Government Securities Market.

I would like to emphasize that the three agencies agree that the government securities market is not flawed or broken in any fundamental economic sense. However, there are several specific areas where the workings of the market could usefully be improved. These include mechanisms resulting in better enforcement of Treasury auction rules and in preventing and alleviating "short squeezes."

NB-1657

While the agencies were not able to reach a consensus on every point, the report shows that there is substantial agreement among the agencies and that we share common objectives. Among these objectives are preserving and enhancing the efficiency of the government's financing mechanism, ensuring the integrity and fairness of the marketplace, deterring and detecting fraud, and protecting investors. In particular, the agencies agree that, while change is necessary, it must be managed with care to ensure that the public debt is financed at the lowest possible cost. In general, market-oriented solutions have been put forward whenever possible to support the effectiveness and efficiency of this very important market.

The agencies believe that the administrative and regulatory changes announced in the report, in combination with the report's legislative recommendations, will significantly improve the workings of the government securities market. The improvements will ultimately redound to the benefit of the U.S. taxpayer in the form of lower interest costs on the public debt.

Changes already made in auction rules have had an impact -- modestly broadening participation in the auctions -- since their announcement on October 25.

- As a result of the announcement that all government securities brokers and dealers could submit bids for

customers, 39 additional entities have been authorized by Treasury to do so. Previously, only primary dealers and depository institutions could submit bids for customers.

- Nine broker/dealers have set up autocharge agreements in order to take advantage of broadened authority to submit bids without deposit.

I would like now to highlight some of the more significant changes and legislative recommendations made in the report.

Administrative and Regulatory Changes

In order to combat short squeezes, the Treasury will provide additional quantities of a security to the marketplace when an acute, protracted shortage develops, regardless of the reason for the shortage. The reopening of issues will greatly reduce the potential for short squeezes. Reopenings could occur either through standard auctions, through "tap" issues whereby the Treasury offers securities to the market on a continuous basis, or through other means. The Treasury recognizes that this policy could prove difficult to implement but has concluded that it is justified under certain circumstances, given the increased concerns about the potential for prolonged shortages. The other agencies concur in this judgment.

The Treasury also plans to improve the auction process. The Treasury and the Federal Reserve have accelerated the schedule for automating Treasury auctions. It is anticipated that the auctions will be automated by the end of 1992. Automation will allow for the use of different auction techniques and for better monitoring of compliance with Treasury auction rules.

The Treasury will consider implementing an open method of auctioning securities with repeated rounds of bidding at descending yields. The total bids received at each yield would be announced after each round. All securities would be awarded at a single yield. Such a system will be feasible once the auctions are automated and could encourage broader participation in Treasury auctions and discourage attempts to engage in manipulative strategies.

To clarify the auction rules, Treasury has prepared a uniform offering circular, which was published in the Federal Register on January 31 as a proposed rule with a request for comments.

A new working group comprising the Treasury, the SEC, the Federal Reserve Board, and the Federal Reserve Bank of New York has been formed to improve surveillance and to strengthen interagency coordination. The Federal Reserve Bank of New York will enhance and expand its market surveillance efforts, in its

role as the agency that collects and provides the agencies with information needed for surveillance purposes.

The Federal Reserve Bank of New York has announced changes to the primary dealer system, which will make the system open to more firms, but will not eliminate primary dealers. The changes will also serve to clarify that the Federal Reserve Bank of New York is not the regulator of the primary dealers. Primary dealers will continue to be required to participate in a meaningful way in Treasury auctions and to be responsive to the needs of the Federal Reserve Bank of New York's Open Market Desk. The Treasury believes that the changes to the primary dealer system represent a balanced approach which recognizes an evolving marketplace and the success of the regulatory structure provided by the Government Securities Act of 1986 ("GSA").

Legislative Recommendations

The agencies all support prompt reauthorization of the Treasury's rulemaking authority under the GSA, which expired on October 1, 1991. We hope that the House of Representatives will act soon on this matter.

The agencies also support the provision in S.1699, which the Senate passed on September 25, that would make it an explicit violation of the Securities Exchange Act of 1934 ("Exchange Act")

to make false or misleading written statements in connection with the issuance of government securities.

With respect to the securities of Government-sponsored enterprises ("GSEs"), the agencies support legislation removing the exemptions from the federal securities laws for equity and unsecured debt. Since this recommendation may receive considerable attention, it should be emphasized that this proposal would not affect GSE mortgage-backed securities. This proposal is limited in other ways as well. In particular, any legislation enacting this recommendation should make clear that all GSE securities would maintain their current eligibility for use in repurchase agreement transactions and for trading by government securities brokers and dealers that have registered or filed notice under section 15C of the Exchange Act.

The Treasury, the Federal Reserve Bank of New York, and the SEC support legislation that would give the Treasury backup authority to require reports from holders of large positions in particular Treasury securities. This authority would not be used unless the reopening policy and other measures fail to solve the problem of acute, protracted market shortages.

The report also discusses other reforms of the government securities markets. A summary of the administrative and

regulatory changes and legislative recommendations contained in the report is attached to my written statement.

The report represents a serious effort by the agencies to arrive at a consensus on measures that can be taken to improve the government securities market. To a large extent, we were able to reach a consensus. On those matters requiring legislative action by the Congress, we hope that such action can be taken promptly.

# # #

SUMMARY OF REFORMS[1]

ADMINISTRATIVE AND REGULATORY CHANGES

- **Broadening participation in auctions:**

  — All government securities brokers and dealers registered with the SEC are now allowed to submit bids for customers in Treasury auctions. Formerly, only primary dealers and depository institutions could do so (announced October 25).

  — Any bidder is now permitted to bid in note and bond auctions without deposit, provided the bidder has an agreement with a bank (an "autocharge agreement") to facilitate payment for securities purchased at auctions. Formerly, only primary dealers and depository institutions could do so (announced October 25).

  — To facilitate bidding by smaller investors, the noncompetitive award limitation has been raised from $1 million to $5 million for notes and bonds (announced October 25).

- **Stronger enforcement of auction rules:**

  — The Federal Reserve now engages in spot-checking of customer bids in Treasury auctions for authenticity (announced September 11).

  — The Treasury and the Federal Reserve are instituting a new system of confirmation by customers receiving large awards (over $500 million), to verify the authenticity of customer bids.

  — The Treasury and the Federal Reserve have tightened enforcement of noncompetitive bidding rules.

- **Detecting and combatting short squeezes:**

  — **Improved surveillance of the Treasury market.** A new working group of the Agencies has been formed to improve surveillance and strengthen interagency coordination. The Federal Reserve Bank of New York

[1] Reforms have the unanimous support of the Department of the Treasury, the Board of Governors of the Federal Reserve, and the Securities and Exchange Commission ("SEC") (the "Agencies") unless otherwise noted. All actions listed are recommended or implemented as part of this report, unless otherwise indicated.

("FRBNY") will enhance and expand its market surveillance efforts, in its role as the agency that collects and provides the SEC, the Treasury, and the Federal Reserve Board with information needed for surveillance purposes.

- **Reopening policy to combat short squeezes.** The Treasury will provide additional quantities of a security to the marketplace when an acute, protracted shortage develops, regardless of the reason for the shortage. The reopening of issues will greatly reduce the potential for short squeezes. Reopenings could occur either through standard auctions, through "tap" issues whereby the Treasury offers securities to the market on a continuous basis, or through other means.

• **Changes to Treasury auction policies:**

- **Automation.** The Treasury and the Federal Reserve have accelerated the schedule for automating Treasury auctions. It is anticipated that the auctions will be automated by the end of 1992 (announced September 11).

- **Proposal of uniform-price, open auction system.** The Treasury will consider implementing an open method of auctioning securities with repeated rounds of bidding at descending yields. The total bids received at the announced yield would be announced after each round. All securities would be awarded at a single yield. Such a system will be feasible once the auctions are automated and could encourage broader participation in Treasury auctions.

- **Publication of uniform offering circular.** Treasury auction rules and procedures have been compiled into a uniform offering circular, to be published in the *Federal Register* with a request for comments.

- **Change to noncompetitive auction rules.** To limit noncompetitive bidding to the small, less sophisticated bidders for whom it was designed, the Treasury will not permit a noncompetitive bidder in a Treasury auction to have a position in the security being auctioned in the when-issued, futures, or forward markets prior to the auction. Furthermore, the Treasury will not permit bidders to submit both competitive and noncompetitive bids in a single auction.

- **Change in net long position reporting required on auction tender form.** To streamline reporting requirements, the Treasury will not require competitive bidders to report net long positions at the time of the auction, unless the total of the bidder's net long position plus its bid exceeds a high threshold amount. This threshold amount will represent a substantial share of each auction and will be announced for each auction.

- **Improvements to the primary dealer system:**

  - **Opening up the system by eliminating the market share requirement.** The Federal Reserve will gradually move to a more open set of trading relationships. To this end, the FRBNY is eliminating the requirement that each primary dealer effect at least one percent of all customer trades in the secondary market. The FRBNY expects to add counterparties that meet minimum capital standards, initially in modest numbers, but on a larger scale once open market operations are automated.

  - **Clarification of regulatory authority over primary dealers.** In the future, direct regulatory authority over primary dealers will rest unambiguously with the primary regulator — in most cases, the SEC. Although the FRBNY has no statutory authority to regulate the primary dealers, the primary dealer system may have generated the false impression in the marketplace that the FRBNY somehow regulates or takes responsibility for the conduct of primary dealers. To make clear that its relationship with the primary dealers is solely a business relationship, the FRBNY will eliminate its dealer surveillance program, while upgrading its market surveillance program as described above.

  - **Other features regarding primary dealers.** To remain a primary dealer, firms must demonstrate to the FRBNY that they make reasonably good markets, provide it with market information, and bid in Treasury auctions. Primary dealers must also maintain capital standards. Failure to meet the Federal Reserve's performance standards, or the capital standards, will lead to removal of the primary dealer designation. In addition, any primary dealer that is convicted of (or pleads guilty or *nolo contendere* to) a felony will face suspension of its primary dealer designation.

- **Enhanced GSCC.** The Agencies support enhancements to the Government Securities Clearing Corporation, which provides comparison and netting facilities for reducing risk in the government securities market.

LEGISLATIVE RECOMMENDATIONS

- **Reauthorization of Treasury rulemaking authority under GSA.** Treasury rulemaking authority under the Government Securities Act of 1986 for government securities brokers and dealers expired on October 1, 1991. The Agencies support prompt reauthorization of this authority.

- **Misleading statements as violation of federal securities laws.** The Agencies support legislation that would make it an explicit violation of the Securities Exchange Act of

TREASURY NEWS

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

EMBARGOED UNTIL GIVEN
ESTIMATED 9:45 AM
February 6, 1992

Contact: Anne Kelly Williams
(202) 566-2041

Statement by
Secretary of the Treasury
Nicholas F. Brady

The Administration's comprehensive banking reform legislation was reintroduced this week by Congressman Michel and Senator Dole. Today, the Senators and Representatives gathered here are submitting positive legislation to allow banks to engage in interstate banking and branching. While these initiatives differ from the Administration's interstate proposal, they demonstrate the kind of momentum we need to pass truly meaningful reform and protect the taxpayers.

The so-called bank reform bill that was passed last year provided further regulations and restrictions for the banking industry without providing a way for the industry to pay. This year's legislation -- especially the interstate component -- simply must be passed if we are to protect the taxpayers and keep costs to the Bank Insurance Fund to a minimum.

Our banking laws are outdated and outmoded and they render our financial institutions uncompetitive. The United States is the only industrialized country in the world that does not have a truly national banking system. That must change. And the support shown here today is evidence that the time for real reform is here.

I look forward to working with the Congress -- especially Senators Garn and Dodd, and Congressmen Wylie, McCollum, Vento and Hoagland -- as we forge real bank reform that will promote the long-term health for the industry and long-term financial security for the American people.

NB - 1658

AUCTION RESULTS

PUBLIC DEBT NEWS

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

00097

FOR IMMEDIATE RELEASE
February 6, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $12,861 million of 52-week bills to be issued February 13, 1992 and to mature February 11, 1993 were accepted today (CUSIP: 912794A61).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.01%	4.21%	95.945
High	4.02%	4.22%	95.935
Average	4.01%	4.21%	95.945

Tenders at the high discount rate were allotted 13%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	19,830	19,830
New York	36,319,880	12,205,040
Philadelphia	11,895	11,895
Cleveland	25,105	22,020
Richmond	44,105	25,405
Atlanta	18,400	18,400
Chicago	1,071,925	81,175
St. Louis	18,420	10,420
Minneapolis	7,305	7,305
Kansas City	26,450	25,580
Dallas	12,210	12,210
San Francisco	688,520	64,520
Treasury	357,375	357,375
TOTALS	$38,621,420	$12,861,175
Type		
Competitive	$34,022,275	$8,262,030
Noncompetitive	698,145	698,145
Subtotal, Public	$34,720,420	$8,960,175
Federal Reserve	3,100,000	3,100,000
Foreign Official Institutions	801,000	801,000
TOTALS	$38,621,420	$12,861,175

NB-1659

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
February 6, 1992

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JANUARY 1992

Treasury's Bureau of the Public Debt announced activity figures for the month of January 1992, of securities within the Separate Trading of Registered Interest and Principal of Securities program, (STRIPS).

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$569,724,725
Held in Unstripped Form	$436,502,160
Held in Stripped Form	$133,222,565
Reconstituted in January	$7,568,250

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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PA-75

TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JANUARY 31, 1992
(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	$4,877,754	$1,780,800	$72,000
11-1/4% Note A-1995	2/15/95	6,933,861	6,152,421	781,440	100,000
11-1/4% Note B-1995	5/15/95	7,127,086	5,384,846	1,742,240	105,120
10-1/2% Note C-1995	8/15/95	7,955,901	6,771,101	1,184,800	58,400
9-1/2% Note D-1995	11/15/95	7,318,550	5,837,350	1,481,200	0
8-7/8% Note A-1996	2/15/96	8,575,199	8,226,399	348,800	136,000
7-3/8% Note C-1996	5/15/96	20,085,643	19,783,243	302,400	11,200
7-1/4% Note D-1996	11/15/96	20,258,810	19,370,810	888,000	0
8-1/2% Note A-1997	5/15/97	9,921,237	9,726,437	194,800	100,000
8-5/8% Note B-1997	8/15/97	9,362,836	9,180,436	182,400	0
8-7/8% Note C-1997	11/15/97	9,808,329	9,093,129	715,200	0
8-1/8% Note A-1998	2/15/98	9,159,068	9,149,788	9,280	0
9% Note B-1998	5/15/98	9,165,387	9,128,387	37,000	0
9-1/4% Note C-1998	8/15/98	11,342,646	11,213,846	128,800	0
8-7/8% Note D-1998	11/15/98	9,902,875	9,360,475	542,400	60,800
8-7/8% Note A-1999	2/15/99	9,719,623	9,602,823	116,800	0
9-1/8% Note B-1999	5/15/99	10,047,103	9,119,103	928,000	0
8% Note C-1999	8/15/99	10,163,644	10,081,619	82,025	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	10,334,630	161,600	0
8-3/4% Note C-2000	8/15/00	11,080,646	11,041,926	38,720	20,000
8-1/2% Note D-2000	11/15/00	11,519,682	11,304,482	215,200	0
7-3/4% Note A-2001	2/15/01	11,312,802	11,246,402	66,400	0
8% Note B-2001	5/15/01	12,398,083	12,398,083	-0-	0
7-7/8% Note C-2001	8/15/01	12,339,185	12,335,985	3,200	0
7-1/2% Note D-2001	11/15/01	12,762,549	12,762,549	0	0
11-5/8% Bond 2004	11/15/04	8,301,806	4,676,206	3,625,600	192,000
12% Bond 2005	5/15/05	4,260,758	2,220,658	2,040,100	305,050
10-3/4% Bond 2005	8/15/05	9,269,713	8,504,113	765,600	161,600
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	2,345,584	3,660,000	144,000
11-1/4% Bond 2015	2/15/15	12,667,799	2,329,719	10,338,080	480,480
10-5/8% Bond 2015	8/15/15	7,149,916	1,927,516	5,222,400	678,720
9-7/8% Bond 2015	11/15/15	6,899,859	2,120,659	4,779,200	139,200
9-1/4% Bond 2016	2/15/16	7,266,854	6,494,854	772,000	164,000
7-1/4% Bond 2016	5/15/16	18,823,551	17,253,951	1,569,600	104,800
7-1/2% Bond 2016	11/15/16	18,864,448	17,138,608	1,725,840	264,240
8-3/4% Bond 2017	5/15/17	18,194,169	6,326,809	11,867,360	536,960
8-7/8% Bond 2017	8/15/17	14,016,858	9,743,258	4,273,600	302,400
9-1/8% Bond 2018	5/15/18	8,708,639	2,603,039	6,105,600	323,200
9% Bond 2018	11/15/18	9,032,870	1,291,870	7,741,000	42,000
8-7/8% Bond 2019	2/15/19	19,250,798	6,761,198	12,489,600	492,800
8-1/8% Bond 2019	8/15/19	20,213,832	12,434,952	7,778,880	370,240
8-1/2% Bond 2020	2/15/20	10,228,868	3,922,868	6,306,000	80,000
8-3/4% Bond 2020	5/15/20	10,158,883	2,533,923	7,624,960	60,160
8-3/4% Bond 2020	8/15/20	21,418,606	5,926,606	15,492,000	566,880
7-7/8% Bond 2021	2/15/21	11,113,373	9,071,773	2,041,600	86,400
8-1/8% Bond 2021	5/15/21	11,958,888	7,081,768	4,877,120	409,600
8-1/8% Bond 2021	8/15/21	12,163,482	11,974,362	189,120	0
8% Bond 2021	11/15/21	12,136,733	12,135,733	1,000	0
Total		569,724,725	436,502,160	133,222,565	7,568,250

[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.

TREASURY NEWS

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

Embargoed Until Delivered
Expected at 10 a.m.
February 7, 1992

TESTIMONY OF NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON THE BUDGET
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

I am pleased to testify today on the economic proposals announced by the President in his State of the Union address and detailed in his Budget for FY 1993. The President's actions and proposals will accelerate economic recovery in the short term, stimulate the nation's long-term economic growth and increase the competitiveness of American goods and services in the world economy.

The President's comprehensive program for growth includes initiatives beyond those we shall discuss here today, for example: record federal investment in research and development; in Head Start and in children generally; in education; crime and drug abuse; and in preventive health. The President's program for Job Training 2000 will improve the delivery and effectiveness of job training and vocational education and his proposal to combine law enforcement and social services is designed to reinvigorate impoverished and embattled communities.

When enacted by the Congress, the President's plan will expand opportunity and enhance the nation's standard of living. The President's tax proposals are specifically addressed to the fundamental economic concerns of American families.

As you well know, Mr. Chairman, many factors have coalesced to make the economic recovery sluggish: We experienced a mideast crisis and a war, during which oil prices rose to over $40 a barrel. We have had two and a half years of restrictive, high interest rates that only recently have abated. The nation's businesses and its families and government borrowed too much. And, unfortunately, improving the climate for increased jobs and investment has not been a congressional priority.

Some Encouraging Signs

Nevertheless, there are some encouraging signs.

American corporations and families have moved to pay down their debt burden.

The spiral of rising prices has been halted so that American families need no longer fear that run-away inflation will rob them of their purchasing power. And American businesses do not have to worry that rapid price increases will render American products noncompetitive in world markets.[1] American exports are strong, and business inventories lean.

Interest rates are now the lowest in twenty years. The decline in interest rates could, in 1992, save American families as much as $25 billion in interest costs on mortgages, and other household debt. Lower interest rates also should mean a savings of about $10 billion for American corporations, and federal, state, and local governments will save another $10 billion.

And all of this has occurred against the backdrop of the end of the Cold War, an economic stimulus that none of us can now calculate, but which will be, over time, be of enormous proportions.

The American People Want Action

But positive signals are only the beginning. The American people remain concerned about the strength of their nation's economy. People who have worked in industries or companies that have contracted want to be confident that they can find new jobs and if necessary shift careers. Families who own no home want to be sure that they will someday, and homeowners hope to see strength in the value of their house, their most valuable asset.

American families deserve to be confident about their children's future, the quality and safety of their children's schools, and their ability to afford the education necessary to raise their children and grandchildren's standard of living.

The public is entitled to assurance about the soundness of the financial institutions on which they have long depended for help and security. Witnessing the failure of a savings and loan or bank where you or your neighbors have saved and borrowed is extremely unsettling. The country worries that American

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[1]Graphs 1 and 2 show changes over time in consumer and producer prices, respectively.

banks, which for so long were dominant in the world, are now overshadowed by foreign banks. Small businesses and other investors have had difficulty obtaining loans they need to expand their businesses and create jobs. And the Congress so far has refused to modernize the legal framework governing banks that was designed decades ago for a totally different economic era.

The American people deserve to be certain of our ability to compete in the new global economy. They demand that we maintain our advantage of superior technology and our capacity for stunning innovation.

Economic Growth is the Engine of Progress

Mr. Chairman, there is only one response that we, the Congress and the President working together, can make to fulfill the hopes of the American people. We should embrace policies that foster economic growth. We should move at once to enact into law the President's proposals that will accelerate economic recovery. We must demonstrate an unwavering commitment to creating an environment for sustained growth over the long term.

Over time gains in family income depend upon improved national productivity. Only sustained economic growth can improve the incomes of wage-earning men and women; only sustained economic growth will provide the resources to feed and house the poor and guarantee health care to all Americans. And only sustained economic growth -- not higher tax rates -- will increase the resources of federal, state and local governments.

There should be no misunderstanding about this important point. A one percent decrease in real GDP growth in 1992 alone could decrease federal government receipts by nearly $80 billion and increase the federal deficit by more than $100 billion during the period FY 1992-1997. A one percent lower annual real GDP growth rate during each of the years from 1992 to 1997 would decrease the federal government's receipts by more than $260 billion and increase the deficit by nearly $350 billion during that period. The productive power of economic growth as a contributor to government revenues is not controversial.

If the collapse of communism and the disintegration of the Soviet Union this past year have taught us anything at all, it is that government policies that concentrate on managing how limited resources are distributed among the people are a poor substitute for concentrating on ensuring economic growth.

The President's Economic Growth Agenda

The President's economic growth agenda will accelerate economic recovery and job-creating investments, create opportunities for home ownership, foster a real estate recovery, and help families build for the future. The economic growth agenda set forth by the President is about jobs.

The plan calls for a new investment tax allowance, which would produce nearly $11 billion of tax savings in calendar 1992 for businesses that acquire new equipment, thereby increasing their cash flow and lowering their cost of capital. The President also recommends permanent adjustments to simplify and liberalize the alternative minimum tax to remove tax impediments for modernizing business plant and equipment.

Jobs and global competitiveness also demand that businesses carry on vigorous research and development. The President's plan would make permanent the credit for research and development and extend the rules for allocating R&D expenses to foreign and domestic income. Although, as the largest economy in the world, the United States continues to be the largest investor in R&D activities, the rate of growth of nondefense R&D has recently been much higher in West Germany and Japan, as Graph 3 demonstrates.

The President has increased funding for basic research by 29 percent since 1989 and continues to recommend record levels of federal funding for R&D. Each year since taking office, the President has proposed making the R&D tax credit permanent. This is the year for Congress to act.

The President also urges Congress to cut the capital gains tax rate, which will raise American living standards by unlocking job-creating investments, boosting productivity, and raising the value of productive assets. The President has proposed cutting the capital gains tax to 15.4 percent for taxpayers now subject to a 28 percent capital gains tax rate and to 8.25 percent for taxpayers now subject to a 15 percent capital gains tax rate.

Reducing the capital gains tax will be particularly helpful to America's new companies and small businesses in attracting start-up capital. Small businesses and start-up companies traditionally rely on equity capital -- they cannot float bonds, issue commercial paper or compete with big corporate rivals for bank loans. These firms continue to be the source of new jobs; businesses with 20 or fewer employees generate over two-thirds of all net new private-sector jobs.

Lowering the capital gains tax to create jobs and make America more productive is a bipartisan objective. At least 220

Democratic Members of Congress -- more than two thirds -wo thi sponsored or cosponsored legislation to reduce the capite the tax.

The argument really is about what kind of capiind of tax to have. The President's proposal is broad in scopead in would reduce the burden of overtaxation of inflationary flatio all Americans. It would benefit the large number of midmber o income people who realize capital gains and would unlockould u for more productive uses. A targeted capital gains tax gains not serve each of these important purposes.

The President's economic growth plan also recon also the importance of a healthy real estate sector in our ecr in o the critical need to ensure that businesses have access ave ac credit. Real estate and construction represent more thant mor percent of our GDP, and employ almost 10 million people.ion pe than half of all household net worth is in real estate. al est

That is why -- in addition to our ongoing effongoing keep interest rates down and increase credit availabilitavailal President has asked for a $5,000 tax credit for first-tior fir homebuyers, modification of passive loss rules for real s for developers, opportunities for greater pension fund inves fund real estate, deductibility of losses on the sale of persale of residences, and an extension of mortgage revenue bond aunue bo

The President also proposes tax incentives forentive enterprise zones to stimulate jobs and investment in ment i disadvantaged rural and urban areas, and an extension ofxtensi targeted jobs tax credit and the low-income housing tax ousing

President Bush's plan will both hasten economiten ec recovery and help American families -- with proposals throposa specifically address their most pressing concerns. Theserns. an increase in the personal exemption for families with ilies and a new flexible IRA that will allow families to begines to regardless of purpose, without any income-tax burden. burde

In combination with the other proposals I havesals I mentioned, the President's $5,000 tax credit for first-tfor fi homebuyers will help middle-income families purchase theurchas homes and offer protection to current homeowners from deers fr property values.

In combination with the President's proposal t propo increase funding for Head Start by $600 million and the on and Administration's other education initiatives, the propos the p permit deduction of interest on qualifying student loansudent penalty-free IRA withdrawals, will help families fulfillies fu educational goals.

The President's comprehensive health plan, which he presented yesterday, builds on the strengths of the existing market-based system. It will provide tax credits or deductions for the purchase of health insurance of up to $3,750 for poor and middle-class families. This will provide financial help for more than 90 million people.

These initiatives will provide stimulus in both the short and long term. They will make it possible for American families to buy homes, save for college, guard against major health expenses, and plan for retirement.

The President's plan is directed at the specific needs and aspirations of most Americans. For families attempting to buy a home, save for the future, finance educational loans, or purchase health insurance, the President's plan provides substantial tax savings.

Fairness

Issues of American justice arise in many contexts. But there can be no doubt that among them is the requirement that the burdens and benefits of government must be fairly distributed. The President's plan meets this test of fairness.

The current distribution of taxes and transfers is essentially fair, despite widespread claims to the contrary. As Graph 4 demonstrates, the net effect of federal tax and transfer programs is highly progressive. In 1990, households in the top 20 percent **paid** an average of over $22,000 to the federal government, households in the lowest twenty percent **received** an average of almost $8,800 from the federal government.

But I do not wish to dwell on statistics. Statistics can be used to show almost anything.

For example, tax distribution tables depict only the burden of payroll taxes and leave out entirely the payment of social security and federal health insurance benefits. These social insurance programs are highly progressive, and comparisons of the tax burden alone, without the benefits, present a very misleading picture. The federal income tax is also progressive.

The President's plan for economic growth is fair. The full array of the President's tax proposals, including the President's health plan, would dramatically decrease taxes for low- and middle-income families and would only slightly reduce taxes for those with higher incomes.

The Need for Fiscal Restraint

The President's program to accelerate the economy, provide jobs, and improve the climate for long-term growth is accomplished while maintaining the fiscal restraint of pay-as-you-go. We cannot achieve economic growth if federal spending is not controlled. Confident, stable financial markets live in the house of financial discipline, and interest rates and long term growth depend on adherence to this principle.

There Is No Silver Bullet

Creating an environment through this nation's tax, spending, and regulatory policies that invites and sustains long-term economic growth is no simple task. There is no silver bullet. However, we now have an opportunity to put some important building blocks in place.

The President in his State of the Union address requested congressional action by March 20 on seven proposals:

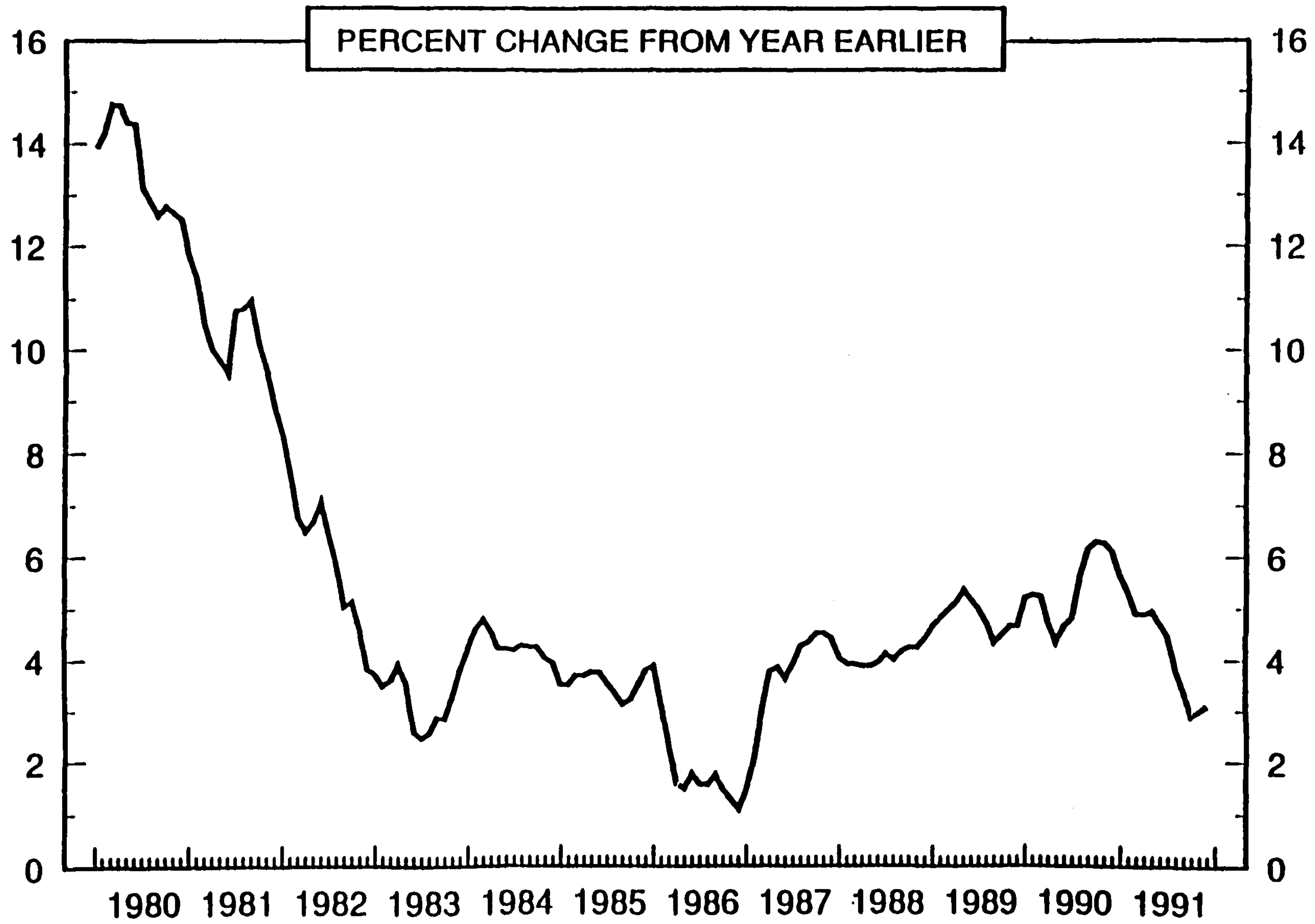
- The capital gains tax reduction;
- The investment tax allowance;
- The AMT enhancement and simplification;
- The easing of passive loss restrictions on real estate developers;
- The $5,000 credit for first-time homebuyers;
- The waiver of penalties on IRA withdrawals by first-time homebuyers; and
- The proposals to facilitate real estate investment by pension funds and others.

These proposals should be enacted immediately to accelerate economic recovery. The total cost of these proposals over the period FY 1992-1997 is just over $4.5 billion. The President's budget provides a variety of ways to cover this cost in a manner consistent with pay-as-you-go discipline. There is simply no reason why the President's economic growth proposals should not be financed through reductions in federal spending. The President would prefer prompt enactment of all of his program. But surely these few changes can be enacted now. It should be done promptly. And it must be paid for.

Conclusion

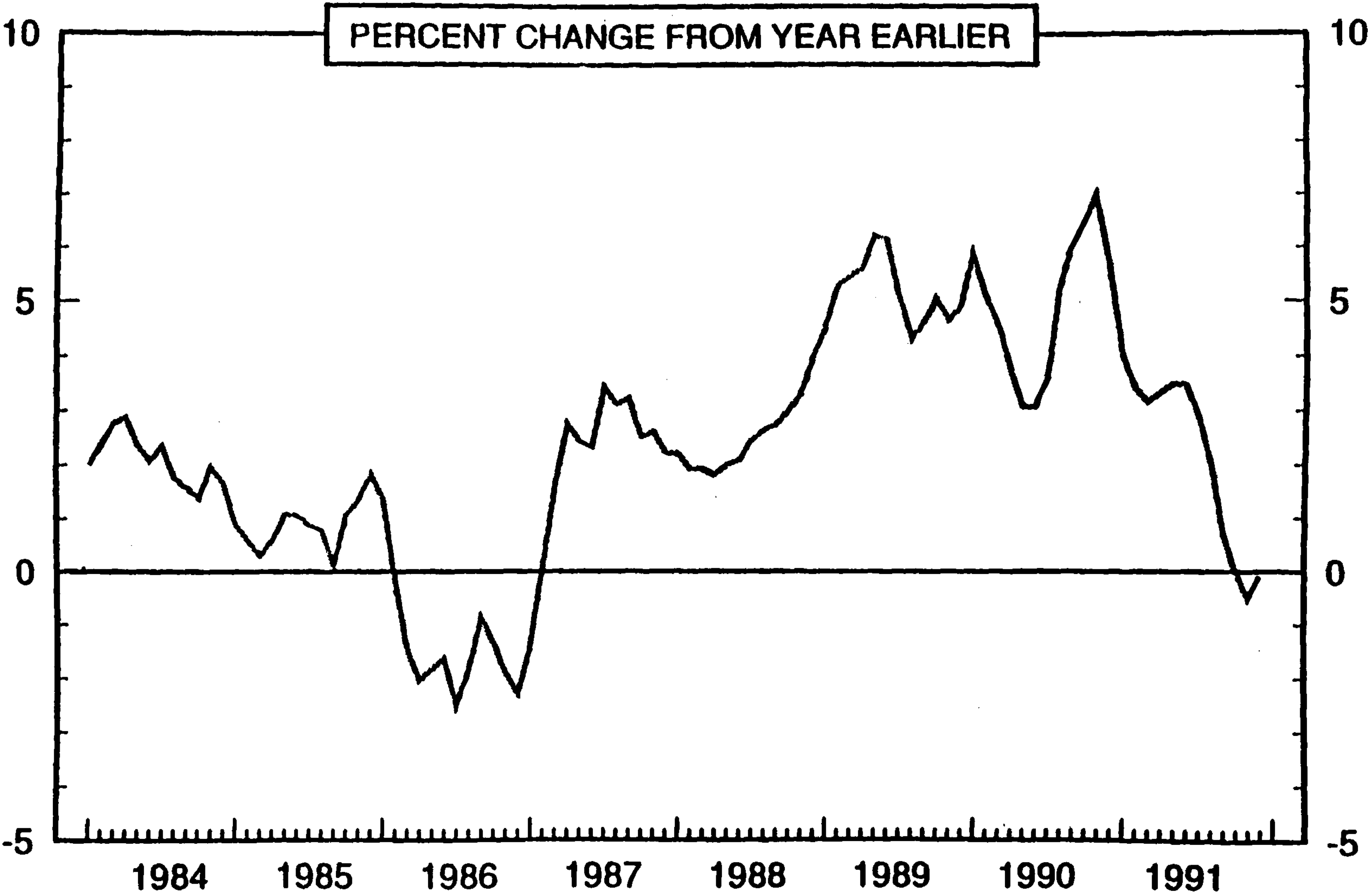
Today, this nation remains the world's preeminent economic force. The United States is the world's largest exporter of goods and services and the world's largest foreign investor.

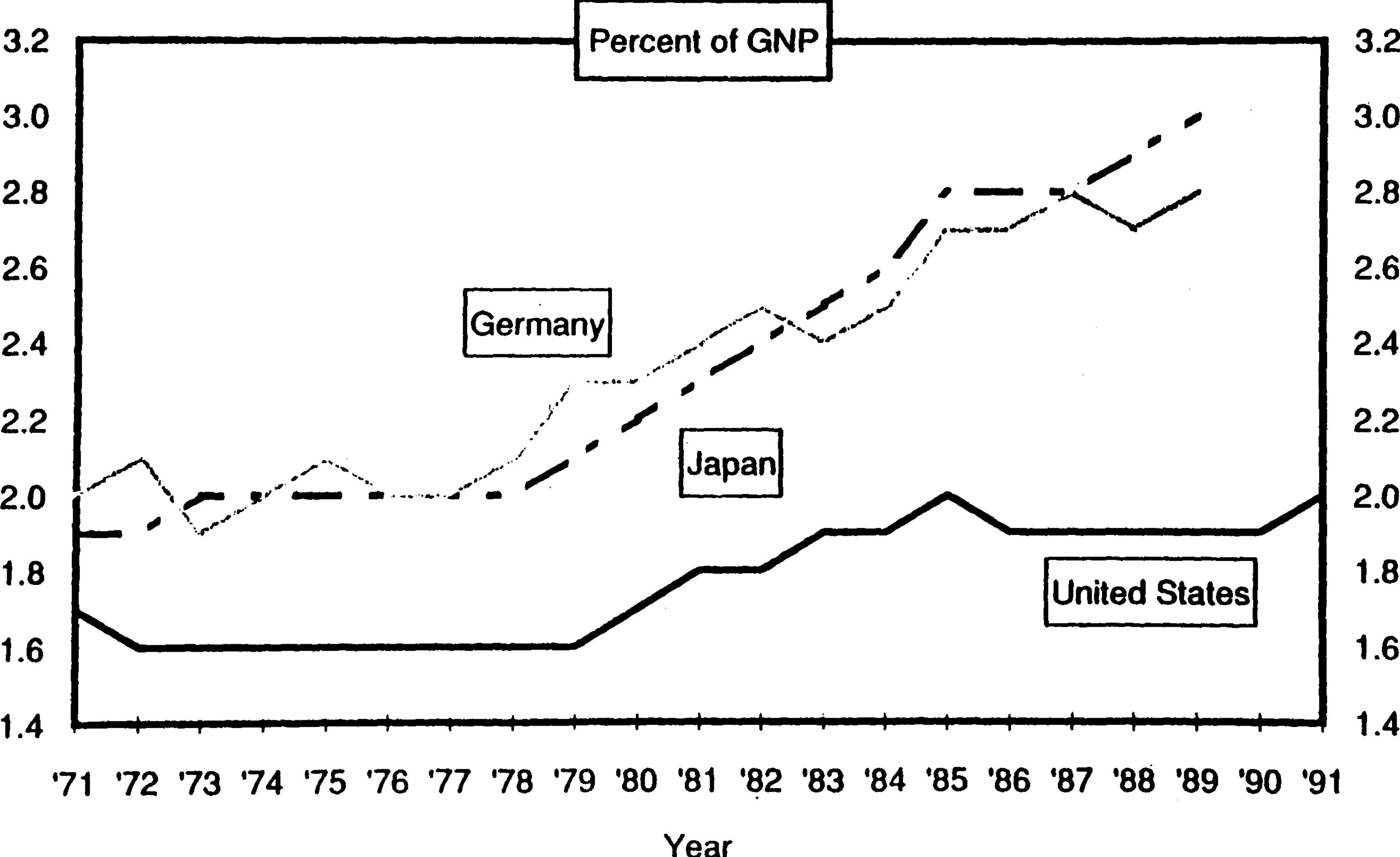
No one should underestimate the energy and optimism of the American people, nor the resilience and fundamental strengths of the American economy. The government alone cannot make American products more competitive, but, in partnership, the President, the Congress, American businesses and workers can construct an environment to facilitate the nation's productive growth.


Graph 1
Consumer Price Index, All Items
PERCENT CHANGE FROM YEAR EARLIER
16
14
12
10
8
6
4
2
0
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991

Graph 2

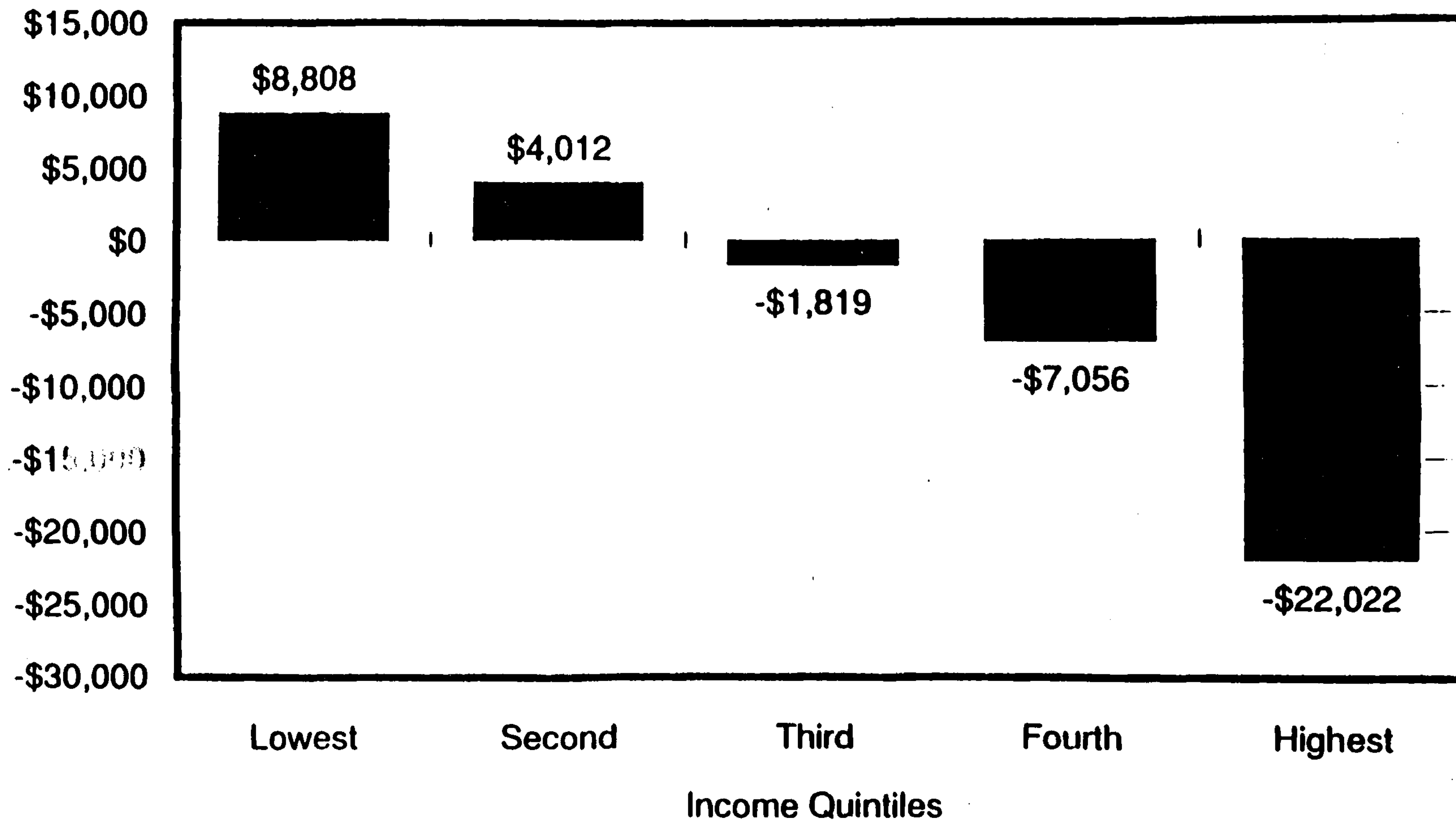
Producer Price Index for Finished Goods




Graph 3
Non-Defense R&D Expenditures
Percent of GNP
3.2
3.0
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
Germany
Japan
United States
'71 '72 '73 '74 '75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91
Year
Source: National Science Foundation
('90-'91 data not available for Japan, Germany)

Graph 4

Effects of Federal Tax and Transfers on Take-Home Income, 1990



Source: Bureau of the Census

AUCTION RESULTS

PUBLIC DEBT NEWS

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February 10, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,401 million of 13-week bills to be issued February 13, 1992 and to mature May 14, 1992 were accepted today (CUSIP: 912794YN8).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.71%	3.81%	99.062
High	3.73%	3.83%	99.057
Average	3.72%	3.82%	99.060

Tenders at the high discount rate were allotted 24%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	35,865	35,865
New York	27,881,530	8,291,980
Philadelphia	10,290	10,290
Cleveland	73,965	73,965
Richmond	43,085	39,285
Atlanta	29,805	28,285
Chicago	1,705,400	316,400
St. Louis	52,135	12,135
Minneapolis	16,050	16,050
Kansas City	31,790	30,030
Dallas	22,165	22,165
San Francisco	1,223,480	469,285
Treasury	1,055,220	1,055,220
TOTALS	$32,180,780	$10,400,955
Type		
Competitive	$27,479,700	$5,699,875
Noncompetitive	1,777,250	1,777,250
Subtotal, Public	$29,256,950	$7,477,125
Federal Reserve	2,684,610	2,684,610
Foreign Official Institutions	239,220	239,220
TOTALS	$32,180,780	$10,400,955

An additional $334,980 thousand of bills will be issued to foreign official institutions for new cash.

NB-1661

AUCTION RESULTS

PUBLIC DEBT NEWS

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RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,460 million of 26-week bills to be issued February 13, 1992 and to mature August 13, 1992 were accepted today (CUSIP: 912794ZG2).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.78%	3.92%	98.089
High	3.80%	3.94%	98.079
Average	3.80%	3.94%	98.079

$735,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 41%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	26,490	26,490
New York	28,272,910	9,202,810
Philadelphia	13,075	13,075
Cleveland	34,925	34,925
Richmond	61,660	58,710
Atlanta	46,030	45,440
Chicago	1,353,215	172,085
St. Louis	38,730	18,730
Minneapolis	8,000	8,000
Kansas City	47,855	47,265
Dallas	25,105	25,105
San Francisco	700,190	91,190
Treasury	715,990	715,990
TOTALS	$31,344,175	$10,459,815
Type		
Competitive	$27,073,430	$6,189,070
Noncompetitive	1,276,475	1,276,475
Subtotal, Public	$28,349,905	$7,465,545
Federal Reserve	2,550,000	2,550,000
Foreign Official Institutions	444,270	444,270
TOTALS	$31,344,175	$10,459,815

An additional $623,030 thousand of bills will be issued to foreign official institutions for new cash.

NB-1662

TREASURY NEWS

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For Release Upon Delivery
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February 11, 1992

STATEMENT OF
TERRILL A. HYDE
TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to present the Administration's views on the extent to which thrift institutions should be permitted to deduct losses that are reimbursed with tax-free government assistance.

As you are aware, the Administration has, in furtherance of the President's Budget Proposals, submitted draft legislation to Congress to clarify that losses reimbursed with tax-free government assistance are not deductible. Before describing the Administration's proposal and commenting on the other bills that are the subject of this hearing, let me briefly review the tax provisions and transactions that gave rise to this proposal.

Background

Prior to enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), financial assistance provided to insolvent thrift institutions by the Federal Savings and Loan Insurance Corporation (FSLIC) was excluded from income under section 597 of the Internal Revenue Code. In the case of assisted transactions occurring before January 1, 1989, insolvent thrift institutions that received tax-free financial assistance were not required to reduce tax attributes to reflect receipt of the assistance. However, for assisted transactions occurring on or after January 1, 1989 and before May 10, 1989, insolvent thrift institutions were required to reduce certain tax attributes by an amount equal to 50 percent of the tax-free assistance they received.

FIRREA repealed the favorable rules governing the receipt of assistance by insolvent financial institutions and provided that, for assisted transactions occurring on or after May 10, 1989,

Federal financial assistance must be included in the income of the recipient institution. In 1988 and 1989, before the enactment of FIRREA, FSLIC resolved 199 insolvent financial institutions in 96 assisted transactions (the 1988/89 transactions). FSLIC entered into long-term agreements obligating the government to make continuing assistance payments to the 91 institutions that remained after the restructurings that occurred in connection with those transactions. The pre-FIRREA rules excluding assistance from income continue to apply to payments being made under these long-term agreements. FSLIC was eliminated by FIRREA and these payments are now being made by the Federal Deposit Insurance Corporation (FDIC) as FSLIC's successor. The Resolution Trust Corporation (RTC) is administering these agreements for FDIC.

Assistance to be paid under the agreements took a variety of forms. The form that concerns us here today is assistance paid under the "capital loss protection" provisions included in nearly all the agreements covering the larger 1988/89 transactions. Under these provisions, FSLIC agreed to protect the resolved institutions against losses realized on the sale of designated assets or on the write-down of designated assets as totally or partially worthless. The designated assets are referred to as "covered assets" and are typically assets that were classified as nonperforming or troubled at the time of the assisted transaction. Many of the covered assets are also subject to yield maintenance guarantees, under which FSLIC guarantees a minimum return or yield on the assets as long as they are held by the resolved institution.

Under the capital loss protection provisions, FSLIC generally agreed to reimburse institutions for the difference between the book value of the covered assets and the amount for which they are sold, or for the amount by which the value of the assets is written down on an institution's books. FSLIC also obtained the right to purchase covered assets at their market or book value.

Institutions that were resolved in the 1988/89 transactions take the position that losses reimbursed tax-free by the government pursuant to capital loss protection agreements are nevertheless deductible for Federal income tax purposes. The RTC, in a September 1990 report to Congress and the RTC Oversight Board, recommended further study of the deductibility of reimbursed losses and other tax issues relating to the 1988/89 transactions.

In response to this recommendation, the Treasury Department issued a March 4, 1991 report (a copy of which is attached to this testimony), which points out the perverse incentives to maximize losses that arise from allowing deduction of losses on covered assets. For example, assume an institution sells a

covered asset with a book value and basis of $100 to a third party for $60, and FDIC reimburses the $40 economic loss. The $40 reimbursement is excluded from income and, if the loss were deductible for tax purposes, the institution would recognize a $40 tax loss. However, if the institution sold the asset for $20 instead of $60, the $80 economic loss would still be reimbursed by the FDIC -- thus giving the institution $100 of cash in either case -- but the institution would receive a tax deduction for an $80 loss instead of a $40 loss. Because the American taxpayer bears the entire economic loss on covered assets, the institution can increase its after-tax return by minimizing the price at which it sells the assets.

The Treasury Report analyzed existing law and concluded that, although the law is not entirely clear, the better view is that reimbursed losses on covered assets are not deductible. In reaching this conclusion, the Report examined the legislative history of the favorable tax rules applicable to the receipt of Federal financial assistance and determined that there is no indication Congress believed deductibility of losses on covered assets was necessary either to fulfill the Congressional purpose in providing the favorable tax rules or to facilitate resolution of insolvent institutions. Because Congress did not specifically provide for the deductibility of losses on covered assets, the Report concluded that deductibility is governed by general principles of tax law, which preclude the deduction of losses for which a taxpayer is compensated by insurance or other means. The Report also indicated that the Internal Revenue Service intends to challenge and litigate the deductibility of covered losses.

In order to avoid the delay and cost to taxpayers and the government of litigating the issue under existing law, the Treasury Report recommended that Congress enact legislation clarifying that it did not intend to allow the deduction of losses that are reimbursed with tax-free assistance. In making this recommendation, the Report acknowledged (i) that the Internal Revenue Service had ruled privately (in one technical advice memorandum and one closing agreement) that losses on covered assets are deductible, and (ii) that, at the time of the 1988/89 transactions, Internal Revenue Service personnel informally told FSLIC and potential acquirers that losses on covered assets were deductible. However, the Report concluded that acquirers represented by sophisticated counsel are not entitled to rely on rulings issued to other taxpayers or on informal advice conveyed to them by government personnel. The Report determined that the potential cost to the American taxpayer of continuing the perverse incentives that accompany the deductibility of covered losses outweighs the possible cost of creating a perception that the government is not adhering to its bargain.

Administration's Bill

The President's Budget proposes legislation to clarify that the institutions resolved in the 1988/89 transactions may not deduct losses on covered assets. Such legislation will enable taxpayers and the Internal Revenue Service to avoid years of costly litigation.

Under the Administration's proposal, thrift institutions and their acquirers would be denied deductions for losses on covered assets that are reimbursed with tax-free FSLIC assistance. Deductions would be denied in the case of (i) losses recognized on the sale or other disposition of covered assets, and (ii) losses recognized in connection with the total or partial write-down of covered assets on an institution's books.

The proposal would apply to FSLIC assistance credited on or after March 4, 1991 with respect to (i) covered assets disposed of or written down in taxable years ending on or after that date; and (ii) covered assets disposed of or written down in taxable years ending before March 4, 1991, but only for the purpose of determining the amount of any net operating loss carryover to a taxable year ending on or after March 4, 1991.

We selected March 4, 1991 as the cut-off date for our proposal because it is the date of the Treasury Report that put institutions on notice of our view that reimbursed losses should not be deductible. We recognize that acquirers in the 1988/89 transactions will contend that this legislation is retroactive and a repudiation of the government's agreements. However, we believe the law to be to the contrary and that the costs to the government of the perverse incentives -- both in terms of financial outlays and public perception of the government's ability to manage the thrift failures -- outweigh whatever reliance value the acquirers may have had on informal advice given by government agencies or on private rulings issued to other taxpayers. We believe the March 4, 1991 date reasonably balances the interests of the government and the American taxpayer with the interests of those who acquired the insolvent institutions in the 1988/89 transactions.

Other Bills

Several members of this Committee have introduced or co-sponsored legislation that addresses the covered loss and other tax issues implicated by the 1988/89 transactions. These bills are H.R.s 1135, 1338, 1326 and 561. I would now like to briefly present the Administration's views on these bills.

H.R.s 1135, 1338 and 1326

Three of these bills -- H.R.s 1135, 1338 and 1326 -- are similar to the Administration's proposal, but there are some significant differences. The three bills require that FSLIC assistance payable "with respect to any loss of principal, capital, or similar amount upon the disposition of any asset" be taken into account as compensation for the loss and that assistance payable "with respect to any debt" be taken into account in determining worthlessness. Our proposal is more narrowly drawn to make clear that deductions are disallowed only for losses on assets covered by capital loss protection or similar arrangements. The Administration's proposal is limited to losses on covered assets because it is the potential deductibility of losses on those assets that creates the perverse incentives to maximize losses that were the subject of the Treasury Report.

Another significant difference is effective dates. H.R. 1135 applies to assistance paid with respect to assets disposed of on or after January 1, 1991. H.R. 1338 applies to assistance paid with respect to assets disposed of on or after January 1, 1981, and H.R. 1326 applies to taxable years that end on or after January 1, 1981. For the reason expressed above, we believe that March 4, 1991 is the more appropriate date. In addition, our proposal links the effective date to the date assistance is credited rather than to the date of the event giving rise to the right of reimbursement. This eliminates the incentive institutions might otherwise have to avoid the proposal by claiming write-downs in earlier years. It also minimizes uncertainties as to which losses are subject to the provision.

Another difference between the Administration's bill and the other bills relates to the provision of transitional relief. Under H.R. 1135 and H.R. 1338, thrift institutions that received private rulings or entered into closing agreements that expressly permitted deduction of losses on covered assets would be exempt from the statutory prohibition against deduction of reimbursed losses. The practical effect of this rule would be to provide relief to one acquirer involved in the 1988/89 transactions, the one that entered into a closing agreement with the Internal Revenue Service. Granting this transitional relief would not alter the revenue estimates for this proposal presented in the President's Budget, and we defer to the Congress to determine whether such relief is appropriate.

A final difference is that, in contrast to the other bills, H.R. 1326, by its terms, applies to reimbursed losses of banks as well as those of thrift institutions. Insolvent banks were eligible to receive excludable financial assistance with respect to acquisitions occurring after November 10, 1988 and before May

10, 1989. We are aware of only one assisted bank transaction in which reimbursements pursuant to a capital loss protection agreement continued after March 3, 1991, and we understand that the net reimbursements in that case are de minimis. Accordingly, we do not believe there is a need for clarifying legislation in the case of banks.

H.R. 561

H.R. 561 addresses concerns different from those addressed by the other bills before this Committee today. It would require a consolidated group of corporations that acquired an assisted thrift institution after November 10, 1988 and before January 1, 1989 to recapture the tax benefit the group derived from using losses of the thrift institution to offset income of other members of the group. This proposal would apply to taxable years ending after January 3, 1991, but only to thrift institutions that, after January 3, 1991, either became subject to the jurisdiction of a court in a Title 11 or similar case or received assistance in addition to that provided for under the original assistance agreement. H.R. 561 would also prevent financial assistance that is excluded from income from being included in earnings and profits for purposes of determining the amount of gain or loss recognized (or income included with respect to an excess loss account) by a member of a consolidated group on the disposition of stock of another member after January 3, 1991.

We oppose these provisions. The first provision does not appear necessary, as we are not aware of any thrift institution that is within the category described in the bill. We also note that any additional assistance paid pursuant to an agreement entered into after January 3, 1991 would be taxable under FIRREA. We oppose the second provision because we do not believe it would be appropriate to exclude tax-free Federal financial assistance from earnings and profits for only one of the purposes for which earnings and profits are taken into account under the Internal Revenue Code. For example, the regulations under section 56 of the Code provide that tax-free financial assistance is included in earnings and profits for purposes of determining the adjusted current earnings adjustment for alternative minimum tax purposes.

Conclusion

We urge the Congress to enact the Administration's proposal. Clarifying legislation will prevent costly litigation that may drag on for years and undermine efforts by the RTC to reduce the cost of the 1988/89 transactions.

I appreciate the opportunity to appear before your Committee today. This concludes my testimony, Mr. Chairman. I will be pleased to answer questions at this time.

Report on Tax Issues Relating to the 1988/89 Federal Savings and Loan Insurance Corporation Assisted Transactions

Department of the Treasury
March 1991

Report on Tax Issues Relating to the 1988/89 Federal Savings and Loan Insurance Corporation Assisted Transactions

On September 18, 1990, the Resolution Trust Corporation (RTC), in accordance with the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), issued a report to the Congress and the Oversight Board of the RTC on the 1988/89 Federal Savings and Loan Insurance Corporation (FSLIC) transactions.[1] The RTC Report recommended further study of certain tax issues relating to the 1988/89 FSLIC transactions. The Treasury Department has examined whether legislation or other action is appropriate to address the tax issues raised by the RTC Report. This report analyzes the tax issues raised by the RTC Report and provides the Treasury Department's views on those issues.

I. INTRODUCTION

Until it was abolished by FIRREA, FSLIC insured the deposits of its member savings and loan associations and was responsible for insolvent member institutions. During 1988 and 1989, FSLIC resolved 199 insolvent financial institutions in 96 assisted transactions. The assistance agreements with respect to the 1988/89 transactions obligated FSLIC to make ongoing assistance payments to the 91 institutions remaining after the restructuring of the insolvent financial institutions that were involved in those transactions.

FIRREA abolished FSLIC and established the FSLIC Resolution Fund (FRF) to assume all of the assets and liabilities of FSLIC (other than those expressly assumed by or transferred to RTC). FRF is administered exclusively by the Federal Deposit Insurance Corporation (FDIC). Thus, under FIRREA, the FDIC (through FRF) has assumed responsibility for FSLIC's obligations under the 1988/89 assistance agreements.

It is estimated that the cost of assistance with respect to the 1988/89 transactions will exceed $69 billion without considering the tax benefits involved in those transactions.[2] In structuring the 1988/89 assisted transactions, FSLIC increased its reliance on long-term assistance. As a result,

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[1] *See Report to the Oversight Board of the Resolution Trust Corporation and the Congress on the 1988/89 Federal Savings and Loan Insurance Corporation Assistance Agreements* (RTC Report).

[2] *See* RTC Report (vol. I) at 9 and 68.

only a portion of the total estimated assistance with respect to these transactions has been paid thus far (approximately $14.6 billion as of January 1, 1991).

The most significant forms of continuing assistance provided in the 1988/89 transactions are described below.[3]

1. Promissory notes. Promissory notes were provided to offset negative net worth and generally bear interest at a specified cost of funds index plus a spread.

2. Capital loss protection. In virtually all of the larger 1988/89 transactions, FSLIC agreed to pay acquirers assistance in an amount equal to the difference between the book value of "covered assets" and the proceeds received upon disposition of the assets. This type of assistance is designed to protect the acquirer from losses incurred with respect to covered assets. The assistance agreements generally grant FSLIC the right to purchase covered assets at market or book value. In addition, many of the assistance agreements permit FSLIC to order the assisted institution to write down the value of covered assets on their books to fair market value in exchange for a payment in the amount of the write-down. Some assistance agreements limit the amount of such a write-down to a percentage of book value or by other factors.

Typically, covered assets are assets that were owned by the acquired institution and that were classified as nonperforming or troubled at the time of the assisted transaction. In some cases, covered assets include assets that were expected to become troubled within a relatively short period of time. Some assistance agreements specifically identify the covered assets and others identify these assets by category. Covered assets usually include some combination of real estate, loans in various stages of default, delinquent loans (*i.e.*, usually loans at least 90 days past due), noninvestment grade securities, and investments in subsidiaries. Most agreements also permit or require the assisted institution to provide financing to facilitate the sale of a covered asset. In some cases the assistance agreements provide for these purchase money loans to become covered assets.

3. Guaranteed yield maintenance. FSLIC generally guaranteed the acquirer a minimum return or yield on the book value of covered assets. This type of assistance is designed to ensure that the acquirer would earn a minimum return over a base rate on covered assets. Any reduction in the amount of covered assets, whether by way of a write-down, purchase by FSLIC (now the FDIC), or other disposition, reduces the base on which yield maintenance payments are determined. In general, guaranteed yields exceed the amount of market yield that the institution could otherwise earn on the assets.

4. Indemnification and reimbursement from losses. The assistance agreements generally obligate FSLIC to reimburse acquiring institutions for amounts incurred and paid in connection with the satisfaction, settlement or compromise of certain claims and for reasonable costs and expenses related to such claims. These claims include unreserved claims, challenges to the transaction, and claims involving unassumed or undisclosed liabilities and nonexistent assets. The agreements also

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[3] For a more detailed discussion of the assistance provided in the 1988/89 transactions *see* RTC Report (vol. I) at 30-49.

require FSLIC to reimburse acquiring institutions for reasonable costs and expenses incurred by the institutions in pursuing related claims (*e.g.*, counterclaims) undertaken with FSLIC approval.

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The timing and structure of the 1988/89 assisted transactions can be attributed to two factors. First, FSLIC did not have the financial resources required to liquidate insolvent institutions even where liquidation would have minimized the cost of resolving the institutions. Consequently, in order to resolve insolvent institutions, FSLIC resorted to long-term assistance. Second, the special tax benefits provided to troubled financial institutions were due to expire on December 31, 1988. This resulted in an increase in the number of assisted transactions completed in 1988.[4] The Technical and Miscellaneous Revenue Act of 1988 (TAMRA) postponed the expiration of these special tax benefits, but significantly reduced the amount of tax benefits available to assisted transactions occurring after 1988.

II. OVERVIEW OF SPECIAL TAX BENEFITS AVAILABLE IN CONNECTION WITH THE 1988/89 ASSISTED TRANSACTIONS

Prior to their repeal by FIRREA, the following three provisions of the Internal Revenue Code (the Code) provided the special tax benefits available in the 1988/89 transactions:

- Under old section 597 of the Code, qualifying assistance payments to a financial institution acquired in an assisted transaction prior to January 1, 1989, are excluded from the institution's income, and the institution is not required to reduce the tax basis of its property or other tax attributes on account of the receipt of such assistance. In addition, the general rule disallowing deductions for expenses and interest relating to tax-exempt income (section 265) does not apply to deductions allocable to amounts excluded from gross income pursuant to old section 597. Generally, in the case of any assisted transaction after December 31, 1988, and before May 10, 1989 (the effective date of the repeal of tax benefits available to troubled financial institutions), the assisted institution is required to reduce its net operating losses, built-in losses, and interest expense deductions by 50 percent of any assistance paid to the institution.

- Under section 368(a)(3)(D) of the Code, the acquisition of a troubled financial institution in a FSLIC-assisted transaction could qualify as a tax-free transaction without regard to the generally applicable requirement that the shareholders of an acquired corporation have a meaningful ownership interest in the acquiring corporation for the acquisition to qualify for tax-free reorganization treatment.

- Under section 382(l)(5)(F) of the Code, a corporation could acquire a troubled financial institution in a tax-free reorganization under section 368(a)(3)(D) without triggering the limitations that would otherwise apply to the net operating losses, built-in losses, and excess credits of the troubled financial institution.

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[4] *See* RTC Report (vol. I) at 3-4.

Prior to the enactment of old section 597 in 1981[5], the tax treatment of a payment from FSLIC to a financial institution was unclear. The payment could be treated as gross income or as a contribution to the capital of the institution. If treated as a contribution to capital, the payment was not included in gross income, but the institution was required to reduce the basis of its property by the amount of the contribution. After the enactment of old section 597, however, financial assistance payments made by FSLIC to certain troubled financial institutions were not included in the gross income of the institutions, and the institutions were not required to reduce the tax basis of property on account of the receipt of those payments.

The tax benefits available in 1988/89 assisted transactions represent a significant portion of the total cost of those transactions to the fisc. FSLIC estimated in early 1989 that the tax benefits attributable to the 1988/89 assisted transactions would equal $8.5 billion. After reducing this amount by FSLIC's estimate of the portion of those tax benefits that will accrue to its benefit under tax sharing agreements, FSLIC's total estimated cost to the Treasury of the tax benefits attributable to the 1988/89 assisted transactions is $4.2 billion in foregone revenues.[6]

III. TAX ISSUES RAISED BY RTC REPORT

The special tax provisions that applied to assisted transactions prior to FIRREA raise numerous tax issues. While many of these tax issues are not free from doubt, the resolution of most of them has not been controversial. The RTC Report, however, identifies a select set of tax-related issues that, depending on how they are resolved, may materially affect the cost of the 1988/89 transactions, most importantly:

1. The extent to which an assisted institution should be allowed to deduct losses and expenses even though the FDIC compensates or reimburses the institution for the losses or expenses; and

2. The extent to which the earnings on assets covered by yield maintenance guarantees are exempt from tax.

The remainder of this report analyzes these issues and provides the Treasury Department's views thereon.[7]

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[5] Old section 597 was enacted pursuant to the Economic Recovery Tax Act of 1981.

[6] *See Report to the Congress: Thrift Resolutions*, United States General Accounting Office (September 1990). For a more detailed discussion of the tax rules applicable to troubled financial institutions *see* Staff of the Joint Committee on Taxation, *Current Tax Rules relating to Financially Troubled Savings and Loan Associations* (February 16, 1989).

[7] In the 1988/89 transactions, the assistance agreements generally require the assisted institutions to share a portion of their tax benefits with FSLIC. *See* RTC Report (vol. I), at 6, 47-49. Many assisted institutions that have entered into tax sharing arrangements with FSLIC are members of an affiliated group of corporations that files consolidated federal income tax returns. In many of those cases, the tax benefits that are subject to sharing are used by an affiliate of the assisted institution,

IV. DEDUCTIBILITY OF REIMBURSED LOSSES AND EXPENSES

The critical tax issue raised by the RTC Report is the extent to which financial institutions may deduct losses and expenses even though they receive assistance payments from the FDIC as compensation for those losses or expenses. In considering this issue, first this report provides an overview of the federal income tax considerations relating to the deductibility of covered losses and expenses, describing briefly the types of transactions in which covered losses and expenses arise. Second, the report considers the incentive effects of the deduction of covered losses and expenses on assisted institutions. Third, the report analyzes the arguments for and against the deductibility of covered losses and expenses. Finally, the report presents the Treasury Department's views on the appropriate response to this issue and considers potential legislative clarification.

A. Overview of Federal Income Tax Considerations

1. Sale or other disposition of covered assets

Generally, a taxpayer incurs a loss for tax purposes on the sale or other disposition of property to the extent that the taxpayer's adjusted basis for the property exceeds the amount realized on the disposition.[8] When an institution sells a covered asset, the question arises whether it is entitled to claim a tax loss to the extent the tax basis of the covered asset exceeds the proceeds from the sale even though it receives assistance payments to compensate for that loss. The following two types of transactions are at issue:

(i) Sale to third party. If an institution sells a covered asset to a third party, the question is whether it may claim a tax loss even though it receives tax-free assistance payments from the FDIC to compensate for that loss and therefore experiences no economic loss. Assume, for example, that an institution sells a covered asset with a book value and tax basis of $100 to a third party for $40. Under the 1988/89 assistance agreement, the FDIC pays the institution $60 in tax-free assistance as compensation for the loss. The institution might nonetheless claim a $60 loss for tax purposes. Although, as this report discusses in detail, the issue is not free of doubt, the IRS has issued one unpublished ruling allowing the tax loss. The rationale for allowing the loss is that, under the law applicable to the 1988/89 transactions, assistance payments are excluded from income. The allowance of tax losses in such cases, even though the institution has experienced no economic loss, produces unintended and disadvantageous effects, which are described in the next section.

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rather than by the institution itself. In some cases, the other members of the affiliated group are not reimbursing the assisted institution for their use of its tax benefits. The RTC Report expressed concerns regarding these tax sharing arrangements and recommended that the FDIC and the Office of Thrift Supervision review the tax sharing arrangements to ensure that they are consistent with sound banking practices. *See* RTC Report (vol. I), at 118-120. As this does not raise issues of tax policy, this report does not address the issue.

[8] *See* I.R.C. § 1001.

(ii) Sale to the FDIC. Because it may be argued that all payments made with respect to covered assets constitute "assistance" provided under the 1988/89 agreements, institutions may claim that they are entitled to a tax loss equal to the entire tax basis of the covered assets if they sell the assets to the FDIC for market value or their book value. Assume, for example, that an institution owns a covered asset with a fair market value of $90 and a book value and tax basis of $100, and that the FDIC purchases that asset from the institution for its $100 book value pursuant to one of the 1988/89 agreements. The institution may argue for a $100 tax loss even though the institution receives $100 from the FDIC for the asset. The rationale for this view is that the entire amount paid by the FDIC should be treated as federal financial assistance and therefore disregarded in determining the institution's tax loss from the transaction. If this argument prevails, the covered asset would be treated as having been sold for $0 and the institution would be entitled to a loss equal to its entire tax basis in the asset. Alternatively, the institution might claim a $10 loss, on the ground that it would claim a loss in this amount had it sold the asset to a third party for its $90 fair market value and received $10 in assistance payments from the FDIC. In most cases, the FDIC's contractual rights to repurchase covered assets are at fair market value ($90 in the example), but in some cases the FDIC has a contractual right to repurchase covered assets at book value.

2. *Write-down of covered assets*

When an institution is ordered to write down a covered asset, the FDIC is generally required to make an assistance payment to the institution in the amount of the write-down. If the covered asset is a loan ("covered loan"), the issue is whether the institution must take the assistance payment into account in applying its method of accounting for bad debts. If an institution uses the reserve method of accounting for bad debts and the assistance payment made on account of the write-down is ignored for tax purposes, the institution may be entitled to charge the write-down against its reserve as a bad debt loss, potentially increasing the institution's addition to its reserve for bad debts and the deduction it may claim therefor.[9] If an institution uses the specific charge-off method of accounting for bad debts and the assistance payment made on account of the write-down is ignored for tax purposes, the institution may be entitled to claim a bad debt deduction on the write-down of a covered loan.[10]

In the case of covered assets other than loans or covered loans with respect to which bad debt losses may not be claimed on the write-down, the issue is whether the assistance payment made in connection with the write-down must be taken into account in determining whether the institution is entitled to claim a loss on the subsequent disposition of the asset. As a result, in the case of an asset other than a loan, the tax considerations implicated by a write-down of the asset are similar to those raised above in cases where contemporaneous assistance payments are made to compensate for a loss on the sale or other disposition of a covered asset, although the legal analysis of the two transactions might diverge.

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[9] *See* I.R.C. § 593 and Treas. Reg. § 1.593-7(b)(2).

[10] *See* I.R.C. § 166.

3. *Reimbursed expenses*

There is also an argument that expenses incurred but reimbursed by the FDIC should be deductible for tax purposes. Assume, for example, that an institution incurs legal expenses of $100 in connection with defending a claim relating to a covered asset and that these expenses are reimbursed by the FDIC. The institution has not, in reality, borne any expense in connection with defending the claim, but may nevertheless claim a deduction for the legal expense if the reimbursement is ignored for tax purposes.

In terms of the potential cost to the government, the deductibility of losses on the disposition of covered assets is much more important than the deductibility of reimbursed expenses. The policy considerations raised by the two issues, however, are quite similar.

B. Incentives

To the extent that tax deductions are allowed for losses on covered assets that are compensated by FDIC payments, institutions have a perverse incentive to ***hold*** covered assets and to ***minimize*** their value when sold. In the typical case, as long as an institution holds a covered asset, the yield guarantee protects the institution from any loss of income and on disposition the institution is guaranteed to receive book value through a combination of sales proceeds and FDIC payments. The FDIC, and not the institution, bears the economic burden corresponding to any reduction in value. Indeed, the institution and its affiliated corporations will tend to benefit as tax losses are enhanced. The institution, therefore, has an incentive to minimize the value of covered assets in order to maximize its tax loss and the attendant tax savings. Similarly, to the extent that tax deductions are allowed for expenses that are reimbursed with FDIC payments, institutions have an incentive to maximize, rather than minimize, those expenses. Unless the tax rules are clarified to provide that covered losses and expenses are not deductible or such incentives effectively are reversed through renegotiations, only the exercise of the FDIC's contractual rights to repurchase covered assets can stop the potential waste.

C. Current Law: Arguments For and Against Deductibility

In the case of the sale or write-down of a covered asset, the assisted institution generally receives compensation from the FDIC for any loss. Similarly, the FDIC generally is required under the assistance agreements to reimburse institutions for a variety of expenses. The deductibility of these losses and expenses turns on the appropriate tax treatment of the financial assistance paid by the FDIC. However, the tax law is not clear.[11]

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[11] Many of the legal arguments discussed below are raised in one of the consultant's reports prepared and submitted to the RTC in connection with the preparation of the RTC Report. *See* RTC Report (vol. I), Appendix V. Contrary arguments have been presented by the law firms Skadden, Arps, Slate, Meagher & Flom and Johnson & Gibbs, which represent taxpayers who acquired thrift institutions in 1988. *See* letter dated November 6, 1990, from Skadden, Arps, Slate, Meagher & Flom to Kenneth W. Gideon, Assistant Secretary (Tax Policy); letter dated December 18, 1990, from Johnson & Gibbs to Michael J. Graetz, Deputy Assistant Secretary (Tax Policy).

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ation of tExplanation of the Economic Recovery Tax Act of 1981 151-3

The fundamental goal of the exclusion of income and the elimination of basis adjustments found in old section 597 was to ensure that FSLIC (and subsequently FDIC) assistance would not be reduced by the imposition of income taxes. There is no indication that Congress believed that the deductibility of covered losses and expenses was necessary either to fulfill this purpose or to facilitate the resolution of troubled financial institutions. Moreover, we suspect that Congress would have expressed a contrary view if it had explicitly considered the deductibility of covered losses and expenses and the perverse incentives associated with the deductibility of those losses and expenses. At the time of their enactment, old section 597 and the accompanying legislation to facilitate mergers and acquisitions of savings and loan institutions were estimated to produce an annual revenue loss of approximately $5 million. Old section 597 and its legislative background fail to provide conclusive authority for the deduction of covered losses and expenses.

Deductibility of Losses: The amount realized

Under current law, a taxpayer is generally required to overcome two hurdles in order to claim a deduction for a loss on the sale of an asset. The first hurdle requires the taxpayer to establish that a loss was realized on the sale. As a general rule, a taxpayer realizes a loss on the sale or other disposition of property to the extent that the taxpayer's adjusted basis for the property exceeds the amount realized on the sale or other disposition.[17] A taxpayer's adjusted basis for an asset is generally determined by the cost of the asset.[18] A taxpayer's amount realized from the sale or other disposition of an asset generally equals the amount of money received plus the fair market value of any other property received on the disposition.[19] Therefore, an assisted institution would not be entitled to claim a tax loss on the sale or other disposition of a covered asset if assistance payments made to the institution as compensation for that loss are included in the amount realized from the sale. This treatment arguably is the most reasonable as it characterizes the transaction for tax purposes in accordance with its economic substance by denying the selling institution a deduction for a loss that it does not bear economically.

Upon any acquisition of covered assets, the acquiring institution acquired both the asset and FSLIC's agreement to provide compensation for any loss on the disposition of those assets. Consequently, the right of an institution to receive assistance on the disposition of a covered asset may be considered an integral part of that asset. Indeed, this view is consistent with private rulings that the IRS has issued holding that the right to receive assistance with respect to covered assets is taken into account in valuing those assets for purposes of determining whether the built-in deduction limitation of the consolidated return regulations applies to those assets.[20]

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[17] I.R.C. § 1001.

[18] I.R.C. § 1012.

[19] I.R.C. § 1001(b).

[20] *See, e.g.*, private letter rulings 8914021 (December 29, 1988) and 8914020 (December 29, 1988). There is little doubt that a payment received from the FDIC to purchase a covered asset constitutes an amount realized on the sale of the asset, at a minimum to the extent of the fair market value of the asset. As noted previously, because all FDIC payments with respect to covered assets arguably

Old section 597 does not appear to prohibit the inclusion of assistance in amounts realized. By its terms, old section 597 only excludes from gross income amounts that would be gross income but for the exclusion. The amount realized on the sale of an asset is included in gross income only to the extent it exceeds the basis of the asset sold.[21] Therefore, old section 597 can reasonably be read to exclude only amounts of assistance that otherwise would produce taxable gain on the disposition of covered assets. In addition, the basis adjustment prohibition of old section 597 applies only to assistance that is excluded from gross income under old section 597. Thus, if assistance paid as compensation for a loss on the sale of a covered asset were treated as an amount realized on the sale, old section 597 would not apply to the assistance to the extent that it merely reduced the tax loss from the sale.

Perhaps the strongest argument of the proponents of deductibility is that disallowing a deduction for covered losses and expenses is tantamount to taxing the assistance, thereby denying the permanent exclusion that Congress intended. Under this argument, the basis adjustment prohibition of old section 597 is viewed as a prohibition of any reduction of tax attributes that would have the effect of taxing FSLIC assistance. Assume, for example, that an assisted institution sells an asset with a book value and an adjusted basis of $100 for $60, and that the FDIC pays the institution $40 of assistance to compensate for the loss. If a deduction for the $40 loss reimbursed by the FDIC is disallowed on account of the assistance payment, the institution is in the same position that it would have been in if it had realized $40 of taxable income from the assistance payment and recognized a $40 taxable loss on the sale of the property. Notwithstanding the superficial appeal of this argument, we do not believe that Congress intended the provisions of old section 597 to require deductibility of the reimbursed loss in such a case. It is quite reasonable to view that provision as prohibiting the reduction of FSLIC or FDIC assistance through taxation without, at the same time, reading the provision to create tax incentives for increasing losses and minimizing value in assisted transactions.

General principles governing the treatment of compensated losses and reimbursed expenses

If, contrary to the above analysis, assistance received from the FDIC as compensation for a covered loss is not treated as an amount realized, the selling institution will be treated as realizing a loss from the sale for tax purposes. The fact that the institution has realized a loss for tax purposes does not, however, necessarily mean that a deduction for the loss will be allowed. In order to claim a deduction, the institution must clear a second legal hurdle. Under section 165(a) of the Code, a deduction is allowed for any loss sustained during the year only if the loss is not

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constitute "assistance" for purposes of old section 597, institutions may take the position that they are entitled to claim a tax loss equal to the entire tax basis of a covered asset when they sell the asset to the FDIC. The portion of the payment that does not exceed the fair market value of the covered asset, however, clearly represents consideration paid for the asset and must be treated as an amount realized for tax purposes.

[21] Under section 61(a)(3) of the Code, gross income includes gains derived from dealings in property. Under section 1001(a) of the Code, a taxpayer recognizes gain on the sale or other disposition of property only to the extent that the amount realized from the sale exceeds the basis of the property sold.

compensated for by insurance or otherwise. In other contexts, this rule has been interpreted to bar a deduction for a loss that is compensated for by tax-free assistance.[22]

Similar principles apply to the deductibility of covered expenses. Generally, the Code allows taxpayers to claim a deduction for the ordinary and necessary expenses incurred in carrying on a trade or business.[23] It is well established, however, that ordinary and necessary business expenses are not deductible to the extent that they are reimbursed, even if the reimbursement payments are excludable, under specific provisions of the Code, from the recipient's income.[24] Amounts that are subject to reimbursement are in the nature of advances on the credit of the party responsible for making the reimbursement.[25]

Therefore, unless the provisions of old section 597 are interpreted to require that assistance payments be ignored in applying the principles that generally govern the deductibility of losses and expenses, the better view is that no deduction should be allowed for covered losses and expenses because those losses and expenses are compensated for or reimbursed with assistance payments. The proponents of deductibility, however, argue that assistance payments made with respect to covered losses do not represent compensation "by insurance or otherwise" within the meaning of section 165(a) of the Code because the assistance payments are not payments in the nature of insurance, but rather are part of an arm's length bargain that induced the acquirer to enter into the assisted transaction.[26]

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[22] *See* Rev. Rul. 76-144, 1976-1 C.B. 17 (disaster losses compensated for by tax-exempt disaster relief payments were not deductible). *See also Shanahan v. Commissioner*, 63 T.C. 21 (1974); Treas. Reg. § 1.165-1(d)(2)(i). In addition, *see* note 24, below, for analogous authority regarding the deductibility of reimbursed business expenses under section 162 of the Code.

[23] *See* I.R.C. § 162.

[24] *See, e.g., Manocchio v. Commissioner*, 710 F.2d 1400 (9th Cir. 1983) (flight training expenses were not deductible to the extent reimbursed by tax-free veterans assistance); Rev. Rul. 80-173, 1980-2 C.B. 60, 61 (similar facts, but stressing that in such a case a taxpayer "suffers no economic detriment and incurs no expense"); *Wolfers v. Commissioner*, 69 T.C. 975 (1978) (expenses for increased rent, moving costs and professional fees were not deductible to the extent reimbursed by tax-free relocation assistance); Rev. Rul. 78-388, 1978-2 C.B. 110 (moving expenses were not deductible where taxpayer had a fixed right to reimbursement with tax-free relocation assistance).

[25] *See, e.g., Manocchio, id.* at 1402, quoting *Glendinning, McLeish & Co. v. Commissioner*, 61 F.2d 950, 952 (2d Cir. 1932).

[26] This argument relies, in part, on *Idaho First National Bank v. Commissioner*, 95 T.C. 185 (1990), where the Tax Court stated that "[t]he FDIC insures depositors, not banks, and an FDIC assistance payment is not an insurance payment." Two points should be noted when considering the quoted passage. First, the passage appears in the opinion's findings of fact without any legal analysis and does not appear to be a finding that was required for the court to reach its decision. Second, the assisted transaction at issue in that case did not require the FDIC to reimburse or otherwise compensate the assisted institution for any losses incurred on the disposition of its assets. The FDIC

While it is indisputable that the capital loss coverage provided in many of the 1988/89 transactions was part of an agreed package of consideration, that fact is not dispositive. First, loss reimbursements paid by the FDIC may qualify as compensation for purposes of section 165(a) even if the payments are not in the nature of insurance.[27] Second, even if the payments must resemble insurance, the assistance that FSLIC agreed to pay under the 1988/89 assistance agreements with respect to covered losses shifted the risk of those losses to FSLIC and, as such, bears a striking resemblance to insurance.[28] If, as part of one of the 1988/89 transactions, FSLIC had agreed to pay a third party to insure the assisted institution against some risk, would the fact that the insurance represented part of the consideration provided in connection with the acquisition of the assisted institution cause the insurance to be characterized as something other than insurance for tax purposes? We think not and cannot readily distinguish such a fact pattern from the one at hand.

Other considerations

The only existing administrative guidance explicitly addressing the deductibility of covered losses and expenses is an IRS technical advice memorandum.[29] This memorandum concludes that the assisted institution may deduct losses and expenses that are reimbursed with assistance payments from FSLIC. A technical advice memorandum, however, generally is not considered authoritative guidance.[30] Nonetheless, this ruling provides some support for the position of those arguing that covered losses and expenses are deductible.

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assistance provided in that transaction took the form of a contribution to the assisted institution immediately prior to its acquisition. Under these circumstances, we do not believe that the Tax Court's decision in *Idaho First National Bank* should be accorded any precedential value with respect to the issue under consideration.

[27] *Compare Forward Communications Corp. v. United States*, 608 F.2d 485, 501 (Ct. Cl. 1979) (insurance is merely "one example" of the forms of compensation that will prohibit a deduction for a loss under section 165(a)) *with Shanahan v. Commissioner, supra* (the only form of compensation that will prohibit a section 165(a) deduction is compensation that is similar to insurance).

[28] The resemblance should be sufficient for capital loss coverage to be considered similar to insurance for purposes of section 165(a). *See, e.g., Estate of Bryan v. Commissioner*, 74 T.C. 725 (1980) (reimbursement of amounts embezzled from client out of trust fund maintained through annual contributions required of all practicing attorneys treated as compensation similar to insurance for purposes of the estate tax counterpart to section 165(a)).

[29] *See* technical advice memorandum 8637005 (May 30, 1986). We also understand that the deduction of reimbursed covered losses was permitted in one closing agreement entered into by a taxpayer and the IRS.

[30] Generally, a technical advice memorandum (or private ruling) is not precedent and may be relied upon only by the taxpayer to whom it is issued. *See* I.R.C. § 6110(j)(3); Treas. Reg. § 301.6110-7(b).

Assisted institutions may also argue that the deduction of covered losses and expenses is supported by legislation enacted subsequent to the enactment of old section 597. For example, Congress enacted legislation in 1986 providing that an otherwise allowable deduction would not be disallowed under section 265(a)(1) solely because it is allocable to income that is exempt from tax under old section 597.[31] Generally, section 265 of the Code disallows a deduction for any expense that is allocable to exempt income. The purpose of section 265 in disallowing deductions for expenses incurred to earn exempt income is to prevent taxpayers from deriving a double tax benefit from an exclusion from income.[32] It may be argued that the legislative decision to exclude assistance exempt under old section 597 from the ambit of section 265 represents a decision to approve a double benefit analogous to the allowance of a deduction for covered losses and expenses, and that this decision supports the conclusion that Congress had a similar result in mind when it enacted old section 597.

As a matter of statutory interpretation, however, the situations in which postenactment expressions of intent by a subsequent Congress are relevant in ascertaining the intent of a prior Congress are limited. We believe that, in this case, the actions or intent of the 99th Congress in enacting statutory provisions related to old section 597 should not be accorded any weight in assessing the intent of the 97th Congress, when it enacted old section 597, regarding the treatment of covered losses and expenses since the 99th Congress did not directly consider the treatment of those losses and expenses.

Similarly, in 1988, Congress amended old section 597 to reduce the tax benefits associated with the exclusion of assistance payments from income.[33] This legislation, in general, required that certain tax attributes of an assisted institution be reduced to the extent of 50 percent of any assistance that is received by the institution and is excluded from gross income under old section 597 (the "attribute reduction rule"). Proponents of the deductibility of covered losses assert that this legislation indicates that Congress believed that covered losses and expenses are deductible because otherwise the attribute reduction rule would have the effect of reducing an assisted institution's tax attributes for assistance payments that provided the institution with no tax benefits. This argument, of course, assumes that the attribute reduction rule would apply to reimbursements of covered losses and expenses. The rule would apply, however, only if those reimbursements represent gross income that is exempt from tax under old section 597. If those reimbursements are treated either as an amount realized on the sale of an asset or as compensation for a loss, they would not be treated as gross income that is subject to exemption under old section 597.

In sum, while the subsequent legislative developments involving old section 597 do provide some measure of support to those asserting the deductibility of covered losses and expenses, that support is not determinative because Congress, when it enacted the subsequent legislation, did not

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[31] *See* § 904(c)(2)(B) of the Tax Reform Act of 1986. Congress subsequently amended section 904(c)(2)(B) by striking out "Section 265(a)(1)" and inserting in its place "Section 265," thereby providing that the provision applied to all of section 265. *See* § 4012(c)(2) of TAMRA.

[32] *See, e.g.*, Rev. Rul. 83-3, 1983-1 C.B. 72, modified by Rev. Rul. 87-32, 1987-1 C.B. 131.

[33] *See* old section 597(c), as amended by TAMRA.

provide a specific and official expression of its intent regarding the treatment of covered losses and expenses. Furthermore, we are impelled, once again, to state that, in our view, it seems likely that if Congress had specifically considered the issue, it would have expressed a contrary view.

2. *Special considerations applicable to write down of covered assets*

When an institution is ordered to write down a covered asset, the FDIC is generally required to make an assistance payment to the institution in the amount of the write-down. If the covered asset is a loan (*i.e.*, a covered loan), the issue is whether the institution may claim a bad debt loss on the write-down of the loan.[34]

Under the Code, a taxpayer is allowed a deduction for any debt that has become wholly or, to the extent provided in regulations, partially worthless during the year.[35] It is likely that assisted institutions will argue that they are entitled to claim a bad debt loss when they are ordered to write down covered loans. Under Treasury regulations, loans made by a bank or other regulated financial institution are conclusively presumed to be worthless to the extent that they are written off on the institution's books in response to an order of the institution's supervisory authority.[36] Arguably, the order to write down a covered loan represents an order that triggers a conclusive presumption under Treasury regulations that the debt is worthless to the extent of the write-down.

It does not appear, however, that a write-down ordered pursuant to rights granted under an assistance agreement should trigger the conclusive presumption of worthlessness. The purpose of the conclusive presumption is to conform tax and regulatory standards to the extent possible.[37] When an institution is ordered to write down a covered loan in accordance with the requirements of an assistance agreement, the write-down does not reflect an exercise of regulatory standards by the institution's supervisory authority in its capacity as such. Rather, the write-down is a product of rights and obligations created pursuant to an arm's length transaction between the institution and FSLIC.

If the conclusive presumption of worthlessness does not apply, all "pertinent evidence," including the value of the collateral and the condition of the debtor, are taken into account in

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[34] In the case of covered assets other than loans or covered loans with respect to which bad debt losses may not be claimed on the write-down, the issue is whether the assistance payment made in connection with the write-down is taken into account in determining whether the institution is entitled to claim a loss on the subsequent disposition of the asset. Therefore, in those cases, the tax considerations implicated by a write-down of the asset are similar to those raised where contemporaneous assistance payments are made to compensate for a loss on the sale or other disposition of a covered asset.

[35] I.R.C. § 166.

[36] *See* Treas. Reg. § 1.166-2(d)(1).

[37] *See* Rev. Rul. 80-180, 1980-2 C.B. 66.

determining worthlessness.[38] A taxpayer is not entitled to claim a deduction for a bad debt loss if the taxpayer has a reasonable prospect of being made whole for the loss.[39] Accordingly, it is appropriate in valuing a covered loan to take into account the institution's right to receive assistance compensating it for any loss on the disposition or write-down of the loan.[40]

D. Clarifying the Tax Treatment of Reimbursed Losses and Expenses

The RTC Report identified the acceleration of covered asset dispositions as one of the best options available for reducing the overall cost of the 1988/89 transactions.[41] The RTC Report also recognized the severe adverse impact that the deduction of covered losses and expenses could have on the cost of the 1988/89 transactions, stating that clarification of this issue is "vital."[42]

From the point of view of sound tax and financial policy, taking into account both the costs to the government and the appropriate economic incentives for assisted institutions, it is clear that assisted institutions should not be allowed to deduct losses or expenses that are reimbursed by the FDIC. Unfortunately, as a legal matter, the deductibility of covered losses and expenses under existing law is less clear. Although the IRS has never taken a published position allowing these losses, it has issued at least one technical advice memorandum holding that the covered losses and expenses are deductible. In addition, IRS personnel apparently conveyed informally both to FSLIC and to potential acquirers that covered losses and expenses would be deductible. Material provided by FSLIC to prospective acquirers explicitly indicated that such losses would be deductible, although that same material indicated that the economic benefits of such deductions would flow to FSLIC and

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[38] *See* Treas. Reg. § 1.166-2(a).

[39] *See, e.g., Aerotron Grantor and Stockholder Trust v. Commissioner*, 56 T.C.M. 789 (1988); *Exxon Corporation v. United States*, 7 Cl. Ct. 347 (1985), *rev'd and remanded on other grounds*, 785 F.2d 277 (Fed. Cir. 1986). *See also* Treas. Reg. 1.166-2(b). *But see* Rev. Rul. 80-24, 1980-1 C.B. 47, 48 (which relies on *Zeeman v. United States*, 275 F.Supp. 235 (S.D.N.Y. 1967), *remanded on other grounds*, 395 F.2d 861 (2d Cir. 1968)), for the proposition that a creditor may deduct a bad debt loss on a note, regardless of whether the creditor has a reasonable prospect of succeeding in a suit against the seller of the note for rescission of the sales contract, where the rescission suit does not deal with "the debt owed by the debtor to the creditor or with collateral, guarantees or indemnity contracts directly related to the debt as such". The FDIC's obligation to reimburse an institution for any loss on a covered loan, however, effectively constitutes a guarantee of that loan and, as such, should be taken into account in determining whether the loan is worthless.

[40] The IRS has taken into account an institution's right to assistance in valuing covered assets for other purposes. *See* authority cited at note 20, above.

[41] *See* RTC Report (vol. I), at 72.

[42] *See* RTC Report (vol. I), at 117-118.

not the acquirers.[43] Under these circumstances, acquirers in the 1988/89 transactions regard the deductibility of covered losses as part of the consideration they received in connection with the acquisition of the troubled financial institutions involved in those transactions.[44] We are cognizant that denying institutions deductions for losses and expenses that are reimbursed by the FDIC will be perceived by some as a repudiation of the government's agreements.

Nonetheless, the Treasury Department has concluded that assisted institutions should not be allowed to deduct losses and expenses that are reimbursed by the FDIC. In reaching this conclusion, the Treasury Department has carefully weighed the costs to the government of allowing institutions to deduct reimbursed losses and expenses against the costs of creating a perception that the government is not adhering to its bargain. The costs to the government of allowing assisted institutions to deduct covered losses and expenses is considerable. The costs of the perverse incentives that would accompany the deductibility of covered losses and expenses would likely dwarf the cost of the tax benefits associated with those deductions. Such perverse incentives are not only financially costly, but they also create the perception that the government is incapable of soundly managing the savings and loan failures. That the government may be perceived as reneging on its deal is unfortunate, but the costs of avoiding that perception are unacceptable.

Under these circumstances, the Treasury Department does not and should not feel bound by one technical advice memorandum and informal advice conveyed to acquirers by government personnel. The acquirers in the 1988/89 transactions were generally represented by sophisticated counsel who know well that they are not entitled to rely on informal advice either from the IRS or other government agencies or on technical advice memorandums or on private letter rulings issued by the IRS to other taxpayers. The failure of acquirers, for whatever reason, to obtain private rulings or closing agreements confirming the deductibility of their covered losses and expenses represents an assumption of the risk that the government might someday challenge those deductions. The Treasury Department does not believe that the American people should bear the burden of exculpating those taxpayers from their assumption of this risk. The IRS is prepared to challenge and litigate, if necessary, the deductibility of covered losses and expenses.

While the Treasury Department has determined that assisted institutions should not be allowed to deduct covered losses and expenses reimbursed by the FDIC, our decision does not settle the issue. Our view will surely be challenged in the courts and that litigation could drag on for a number of years. The uncertainty that this environment creates will make it very difficult for the RTC to implement measures to reduce the cost of the 1988/89 transactions. Therefore, congressional clarification of this issue is extremely desirable, if not essential. We do not believe

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[43] *See Information and Instructions for the Preparation and Submission of Proposals for the Acquisition of one or more Savings Institutions in the Southwest* (prepared by the Federal Home Loan Bank Board and FSLIC).

[44] Acquirers of troubled thrifts also take comfort from a statement by the Joint Committee on Taxation suggesting that such losses are deductible, even though that statement was made in February 1989 and therefore obviously not relied upon by taxpayers. *See* Staff of the Joint Committee on Taxation, *Current Tax Rules Relating to Financially Troubled Savings and Loan Associations* 38-39 (February 16, 1989).

that Congress, when it enacted the special tax benefits that were available in the 1988/89 transactions, intended to sanction the deductibility of covered losses and expenses. But, if so, Congress should tell us now so we can avoid costly litigation. Otherwise, Congress should enact clarifying legislation disallowing deductions for covered losses and expenses.

V. TREATMENT OF YIELD MAINTENANCE

A. Overview

In the 1988/89 transactions, FSLIC generally guaranteed the acquirer a minimum return or yield on the book value of covered assets. FSLIC agreed to pay yield maintenance to induce acquirers to purchase the assets (and thereby avoid the burden of purchasing those assets itself) because it believed that the acquiring institutions were better positioned to manage the assets properly. The guaranteed yields are based on a specified base rate (*e.g.*, the Texas Cost of Funds) plus additional amounts ranging up to 275 basis points. In most transactions, the additional basis points decline over the term of the assistance agreement. The guaranteed yield was set so as to provide the acquiring institution with sufficient income to cover high funding and operating costs, including the costs of managing the covered asset portfolio. In most cases, the guaranteed yield is significantly higher than the yield the institution would receive on a market investment of an amount equal to the book value of the covered assets.[45]

B. Clarifying Tax Treatment of Yield Maintenance

Guaranteed yield maintenance has created incentives for institutions to engage in behavior that will tend to increase the costs to the government of the 1988/89 transactions.[46] First, yield maintenance gives the assisted institution an incentive to delay disposition of covered assets since the institution cannot readily replace the high tax-free guaranteed yields with comparable taxable yields. Second, the assisted institution has an incentive to minimize actual yield on these assets. This results in larger tax-free yield maintenance payments, thereby minimizing the taxable income of the institution or increasing tax losses that may be used to offset its other income or income of affiliated entities.[47] Apparently, the adverse incentives attributable to yield maintenance are being compounded by the fact that some assisted institutions are taking the position that actual yield on covered assets is not taxable to the assisted institutions, on the ground that these institutions collect actual yield as agents of the FDIC.[48] This view, which in substance treats actual yield as if it were tax-free assistance, is at odds with both the language and purpose of old section 597(a). That

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[45] *See* RTC Report (vol. I), at 33-34 and 72-73, for a more detailed discussion of yield maintenance.

[46] *See* RTC Report (vol. I), at 73-74.

[47] Although assistance agreements provide for a declining yield spread over time, this has not yet materially reduced yield maintenance payments, and, therefore, has not thus far tended to mitigate the adverse incentives. *See* RTC Report (vol. I), at 74.

[48] *See* RTC Report (vol. I), at 116-117.

provision defines assistance as amounts received from FSLIC (or the FDIC) pursuant to section 406(f) of the National Housing Act. The actual yield earned by an institution from its investments is not "received" from the FDIC and is therefore not received "pursuant to" section 406(f) of the National Housing Act.[49] The RTC Report recommends that appropriate authorities clarify that only the net difference between guaranteed and actual yield constitutes tax-free assistance income.[50] The Treasury Department will issue an administrative pronouncement holding that the actual yield on assets covered by a yield maintenance guarantee is taxable to the assisted institution. This result is sufficiently clear under present law that confirming legislation is not necessary.

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[49] *See, e.g.*, § 406(f)(1) and (2) of the National Housing Act, 12 U.S.C. § 1729(f)(1) and (2) (FSLIC is responsible for determining the terms and conditions of assistance received pursuant to section 406(f)).

[50] *See* RTC Report (vol. I), at 116-117.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

LIBRARY ROOM 5310
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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
February 11, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for $15,016 million of 3-year notes, Series N-1995, to be issued February 18, 1992 and to mature February 15, 1995 were accepted today (CUSIP: 912827E24).

The interest rate on the notes will be 5 1/2%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	5.51%	99.973
High	5.55%	99.864
Average	5.54%	99.891

Tenders at the high yield were allotted 32%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	24,665	24,660
New York	27,525,150	13,977,950
Philadelphia	25,695	25,695
Cleveland	44,375	44,375
Richmond	143,815	101,815
Atlanta	45,905	42,505
Chicago	807,935	433,335
St. Louis	49,310	43,940
Minneapolis	21,140	21,140
Kansas City	80,170	79,490
Dallas	18,085	18,085
San Francisco	504,015	68,195
Treasury	134,935	134,930
TOTALS	$29,425,195	$15,016,115

The $15,016 million of accepted tenders includes $839 million of noncompetitive tenders and $14,177 million of competitive tenders from the public.

In addition, $894 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,818 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-1664

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
February 11, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $21,600 million, to be issued February 20, 1992. This offering will provide about $ 925 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $20,684 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Tuesday, February 18, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $10,800 million, representing an additional amount of bills dated November 21, 1991 and to mature May 21, 1992 (CUSIP No. 912794 YP 3), currently outstanding in the amount of $10,266 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 10,800 million, to be dated February 20, 1992 and to mature August 20, 1992 (CUSIP No. 912794 ZH 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 February 20, 1992. 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 $ 878 million as agents for foreign and international monetary authorities, and $ 5,317 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).

NB-1665

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 11, 1991

FACT SHEET

The Enterprise for the Americas Initiative's
Multilateral Investment Fund

Today, the President hosted the signing of the Agreement creating the Multilateral Investment Fund (MIF). The MIF is a key element in the President's Enterprise for the Americas Initiative (EAI). It is designed to promote mutually beneficial growth by helping Latin American and Caribbean countries undertake investment reforms to stimulate private investment in the region.

Additional U.S. exports and jobs will be generated as investment in this region expands. Latin America represents the fastest growing regional market for U.S. exports, accounting for one of every seven dollars of U.S. exports. Exports to the region have doubled since 1986 to $62 billion. On average, every $1 billion increase in U.S. exports generates 20,000 export-related jobs for Americans.

The MIF will promote export-oriented growth through three types of activities:

I. Technical assistance, to identify and implement policy changes needed to transform the climate for investment in recipient economies;

II. Human resources support, for retraining displaced workers, and to strengthen the productive capacities of the work force; and,

III. Enterprise development support, to provide market-based financing and technical help for small enterprises.

The MIF will be administered by the Inter-American Development Bank. It will be capitalized by donors over a five-year period. The United States has expressed its intent to contribute $500 million over that period.

Secretary of the Treasury Nicholas Brady signed the Agreement on behalf of the United States. Twenty other countries also became signatories to the Agreement at today's event.

-more-

The MIF has wide multilateral support with $1.3 billion having been pledged toward the target capitalization of $1.5 billion. Japan intends to contribute $500 million, while Spain, Germany, Italy, France, Portugal, Canada and at least thirteen Latin American countries have also pledged to participate. Other countries are considering participating toward the $1.5 billion funding target for the MIF. Currently, pledges are estimated to total at least $1.3 billion.

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TREASURY NEWS

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

Embargoed Until Delivered
Expected at 10 a.m.
February 12, 1992

TESTIMONY OF NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

I am pleased to testify today on the economic proposals announced by the President in his State of the Union address and detailed in his Budget for FY 1993. The President's actions and proposals will accelerate economic recovery in the short term, stimulate the nation's long-term economic growth and increase the competitiveness of American goods and services in the world economy.

The President's comprehensive program for growth includes initiatives beyond those we shall discuss here today, for example: record federal investment in research and development; in Head Start and in children generally; in education; crime and drug abuse; and in preventive health. The President's program for Job Training 2000 will improve the delivery and effectiveness of job training and vocational education and his proposal to combine law enforcement and social services is designed to reinvigorate impoverished and embattled communities.

When enacted by the Congress, the President's plan will expand opportunity and enhance the nation's standard of living. The President's tax proposals are specifically addressed to the fundamental economic concerns of American families.

As you well know, Mr. Chairman, many factors have coalesced to make the economic recovery sluggish: We experienced a mideast crisis and a war, during which oil prices rose to over $40 a barrel. We have had two and a half years of restrictive, high interest rates that only recently have abated. The nation's businesses and its families and government borrowed too much. And, unfortunately, improving the climate for increased jobs and investment has not been a congressional priority.

NB-1666

Some Encouraging Signs

Nevertheless, there are some encouraging signs.

American corporations and families have moved to pay down their debt burden.

The spiral of rising prices has been halted so that American families need no longer fear that run-away inflation will rob them of their purchasing power. And American businesses do not have to worry that rapid price increases will render American products noncompetitive in world markets.[1] American exports are strong, and business inventories lean.

Interest rates are now the lowest in twenty years. The decline in interest rates could, in 1992, save American families as much as $25 billion in interest costs on mortgages, and other household debt. Lower interest rates also should mean a savings of about $10 billion for American corporations, and federal, state, and local governments will save another $10 billion.

And all of this has occurred against the backdrop of the end of the Cold War, an economic stimulus that none of us can now calculate, but which will be, over time, of enormous proportions.

The American People Want Action

But positive signals are only the beginning. The American people remain concerned about the strength of their nation's economy. People who have worked in industries or companies that have contracted want to be confident that they can find new jobs and if necessary shift careers. Families who own no home want to be sure that they will someday, and homeowners hope to see strength in the value of their house, their most valuable asset.

American families deserve to be confident about their children's future, the quality and safety of their children's schools, and their ability to afford the education necessary to raise their children and grandchildren's standard of living.

The public is entitled to assurance about the soundness of the financial institutions on which they have long depended for help and security. Witnessing the failure of a savings and loan or bank where you or your neighbors have saved and borrowed is extremely unsettling. The country worries that American

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[1]Graphs 1 and 2 show changes over time in consumer and producer prices, respectively.

banks, which for so long were dominant in the world, are now overshadowed by foreign banks. Small businesses and other investors have had difficulty obtaining loans they need to expand their businesses and create jobs. And the Congress so far has refused to modernize the legal framework governing banks that was designed decades ago for a totally different economic era.

The American people deserve to be certain of our ability to compete in the new global economy. They demand that we maintain our advantage of superior technology and our capacity for stunning innovation.

Economic Growth is the Engine of Progress

Mr. Chairman, there is only one response that we, the Congress and the President working together, can make to fulfill the hopes of the American people. We should embrace policies that foster economic growth. We should move at once to enact into law the President's proposals that will accelerate economic recovery. We must demonstrate an unwavering commitment to creating an environment for sustained growth over the long term.

Over time gains in family income depend upon improved national productivity. Only sustained economic growth can improve the incomes of wage-earning men and women; only sustained economic growth will provide the resources to feed and house the poor and guarantee health care to all Americans. And only sustained economic growth -- not higher tax rates -- will increase the resources of federal, state and local governments.

There should be no misunderstanding about this important point. A one percent decrease in real GDP growth in 1992 alone could decrease federal government receipts by nearly $80 billion and increase the federal deficit by more than $100 billion during the period FY 1992-1997. A one percent lower annual real GDP growth rate during each of the years from 1992 to 1997 would decrease the federal government's receipts by more than $260 billion and increase the deficit by nearly $350 billion during that period. The productive power of economic growth as a contributor to government revenues is not controversial.

If the collapse of communism and the disintegration of the Soviet Union this past year have taught us anything at all, it is that government policies that concentrate on managing how limited resources are distributed among the people are a poor substitute for concentrating on ensuring economic growth.

The President's Economic Growth Agenda

The President's economic growth agenda will accelerate economic recovery and job-creating investments, create opportunities for home ownership, foster a real estate recovery, and help families build for the future. The economic growth agenda set forth by the President is about jobs.

The plan calls for a new investment tax allowance, which would produce nearly $11 billion of tax savings in calendar 1992 for businesses that acquire new equipment, thereby increasing their cash flow and lowering their cost of capital. The President also recommends permanent adjustments to simplify and liberalize the alternative minimum tax to remove tax impediments for modernizing business plant and equipment. Both of these measures will provide manufacturers strong incentives to create new jobs.

Jobs and global competitiveness also demand that businesses carry on vigorous research and development. The President's plan would make permanent the credit for research and development and extend the rules for allocating R&D expenses to foreign and domestic income. Although, as the largest economy in the world, the United States continues to be the largest investor in R&D activities, the rate of growth of nondefense R&D has recently been much higher in West Germany and Japan, as Graph 3 demonstrates.

The President has increased funding for basic research by 29 percent since 1989 and continues to recommend record levels of federal funding for R&D. Each year since taking office, the President has proposed making the R&D tax credit permanent. This is the year for Congress to act.

The President also urges Congress to cut the capital gains tax rate, which will raise American living standards by unlocking job-creating investments, boosting productivity, and raising the value of productive assets. The President has proposed cutting the capital gains tax to 15.4 percent for taxpayers now subject to a 28 percent capital gains tax rate and to 8.25 percent for taxpayers now subject to a 15 percent capital gains tax rate.

Reducing the capital gains tax will be particularly helpful to America's new companies and small businesses in attracting start-up capital. Small businesses and start-up companies traditionally rely on equity capital -- they cannot float bonds, issue commercial paper or compete with big corporate rivals for bank loans. These firms continue to be the source of new jobs; businesses with 20 or fewer employees generate over two-thirds of all net new private-sector jobs.

Lowering the capital gains tax to create jobs and make America more productive is a bipartisan objective. At least 220 Democratic Members of Congress -- more than two thirds -- have sponsored or cosponsored legislation to reduce the capital gains tax.

The argument really is about what kind of capital gains tax to have. The President's proposal is broad in scope. It would reduce the burden of overtaxation of inflationary gains for all Americans. It would benefit the large number of middle-income people who realize capital gains and would unlock capital for more productive uses. A targeted capital gains tax cut could not serve each of these important purposes.

The President's economic growth plan also recognizes the importance of a healthy real estate sector in our economy and the critical need to ensure that businesses have access to credit. Real estate and construction represent more than 15 percent of our GDP, and employ almost 10 million people. More than half of all household net worth is in real estate.

That is why -- in addition to our ongoing efforts to keep interest rates down and increase credit availability -- the President has asked for a $5,000 tax credit for first-time homebuyers, modification of passive loss rules for real estate developers, opportunities for greater pension fund investments in real estate, deductibility of losses on the sale of personal residences, and an extension of mortgage revenue bond authority.

The President also proposes tax incentives for enterprise zones to stimulate jobs and investment in disadvantaged rural and urban areas, and an extension of both the targeted jobs tax credit and the low-income housing tax credit.

President Bush's plan will both hasten economic recovery and help American families -- with proposals that specifically address their most pressing concerns. These include an increase in the personal exemption for families with children; and a new flexible IRA that will allow families to begin saving, regardless of purpose, without any income-tax burden.

In combination with the other proposals I have mentioned, the President's $5,000 tax credit for first-time homebuyers will help middle-income families purchase their own homes and offer protection to current homeowners from declining property values.

In combination with the President's proposal to increase funding for Head Start by $600 million and the Administration's other education initiatives, the proposals to permit deduction of interest on qualifying student loans and penalty-free IRA withdrawals, will help families fulfill their educational goals.

The President's comprehensive health plan, which he presented last week, builds on the strengths of the existing market-based system. It will provide tax credits or deductions for the purchase of health insurance of up to $3,750 for poor and middle-class families. This will provide financial help for more than 90 million people.

These initiatives will provide stimulus in both the short and long term. They will make it possible for American families to buy homes, save for college, guard against major health expenses, and plan for retirement.

The President's plan is directed at the specific needs and aspirations of most Americans. For families attempting to buy a home, save for the future, finance educational loans, or purchase health insurance, the President's plan provides substantial tax savings.

Fairness

Issues of American justice arise in many contexts. But there can be no doubt that among them is the requirement that the burdens and benefits of government must be fairly distributed. The President's plan meets this test of fairness.

The current distribution of taxes and transfers is essentially fair, despite widespread claims to the contrary. As Graph 4 demonstrates, the net effect of federal tax and transfer programs is highly progressive. In 1990, households in the top 20 percent **paid** an average of over $22,000 to the federal government, households in the lowest twenty percent **received** an average of almost $8,800 from the federal government.

But I do not wish to dwell on statistics. Statistics can be used to show almost anything. For example, tax distribution tables depict only the burden of payroll taxes and leave out entirely the payment of social security and federal health insurance benefits. These social insurance programs which are highly progressive should be included in any fairness charts, but they are not. Comparisons of the tax burden alone, without the benefits, present a very distorted picture. However, even if viewed by itself, the federal income tax is also progressive.

The President's plan for economic growth is fair. The full array of the President's tax proposals, including the President's health plan, would dramatically decrease taxes for low- and middle-income families and would only slightly reduce taxes for those with higher incomes.

The Need for Fiscal Restraint

The President's program to accelerate the economy, provide jobs, and improve the climate for long-term growth is accomplished while maintaining the fiscal restraint of pay-as-you-go. We cannot achieve economic growth if federal spending is not controlled. Confident, stable financial markets live in the house of financial discipline, and interest rates and long term growth depend on adherence to this principle.

There Is No Silver Bullet

Creating an environment through this nation's tax, spending, and regulatory policies that invites and sustains long-term economic growth is no simple task. There is no silver bullet. However, we now have an opportunity to put some important building blocks in place.

The President in his State of the Union address requested congressional action by March 20 on seven proposals:

- The capital gains tax reduction;
- The investment tax allowance;
- The AMT enhancement and simplification;
- The easing of passive loss restrictions on real estate developers;
- The $5,000 credit for first-time homebuyers;
- The waiver of penalties on IRA withdrawals by first-time homebuyers; and
- The proposals to facilitate real estate investment by pension funds and others.

These proposals should be enacted immediately to accelerate economic recovery. The total cost of these proposals over the period FY 1992-1997 is just over $6.6 billion. The President's budget provides a variety of ways to cover this cost in a manner consistent with pay-as-you-go discipline. There is simply no reason why the President's economic growth proposals should not be financed through reductions in federal spending. The President would prefer prompt enactment of all of his program. But surely these few changes can be enacted now. It should be done promptly. And it must be paid for.

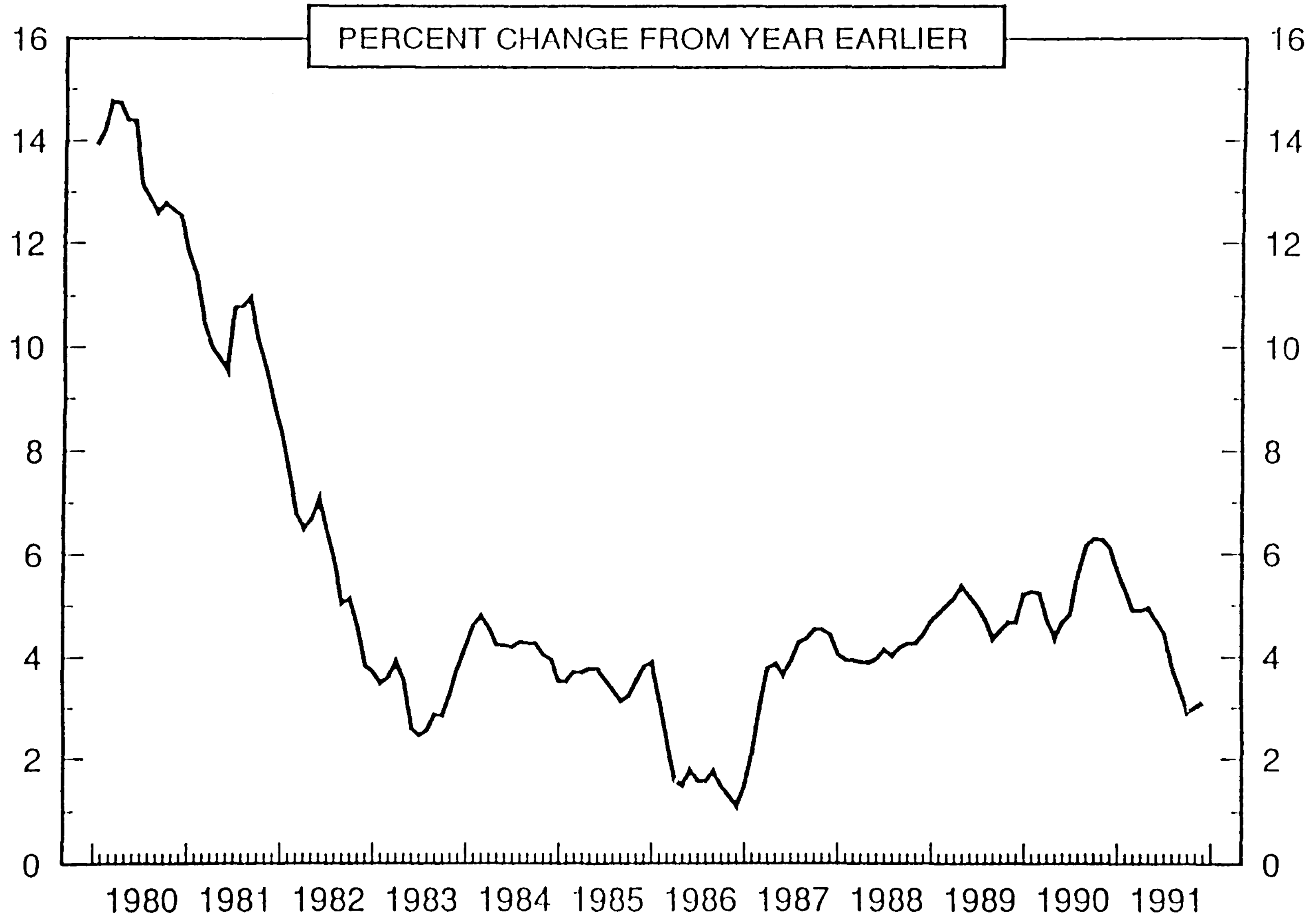
Conclusion

Today, this nation remains the world's preeminent economic force. The United States is the world's largest exporter of goods and services and the world's largest foreign investor.

No one should underestimate the energy and optimism of the American people, nor the resilience and fundamental strengths of the American economy. The government alone cannot make American products more competitive, but, in partnership, the President, the Congress, American businesses and workers can construct an environment to facilitate the nation's productive growth.

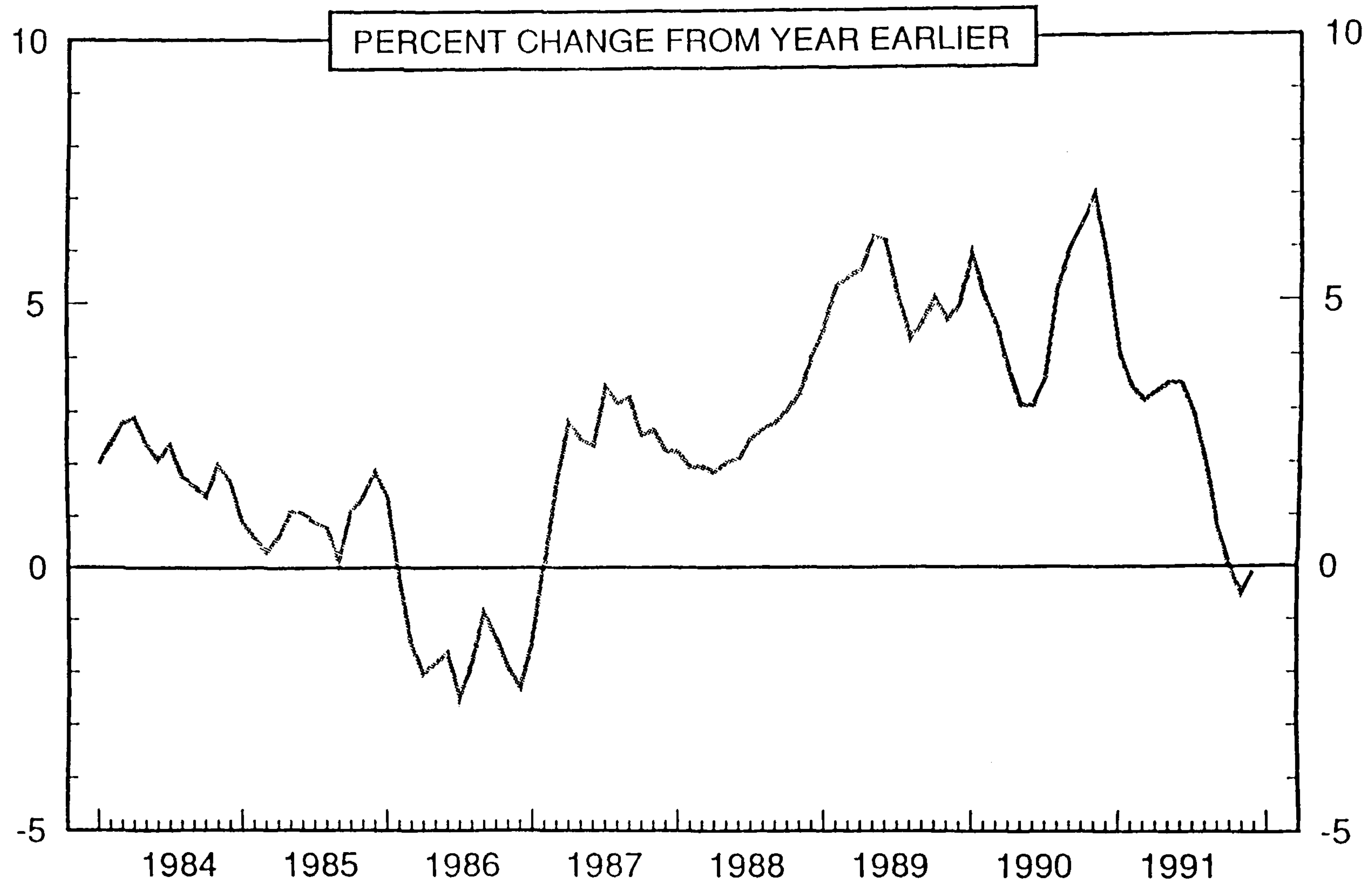
Graph 1

Consumer Price Index, All Items



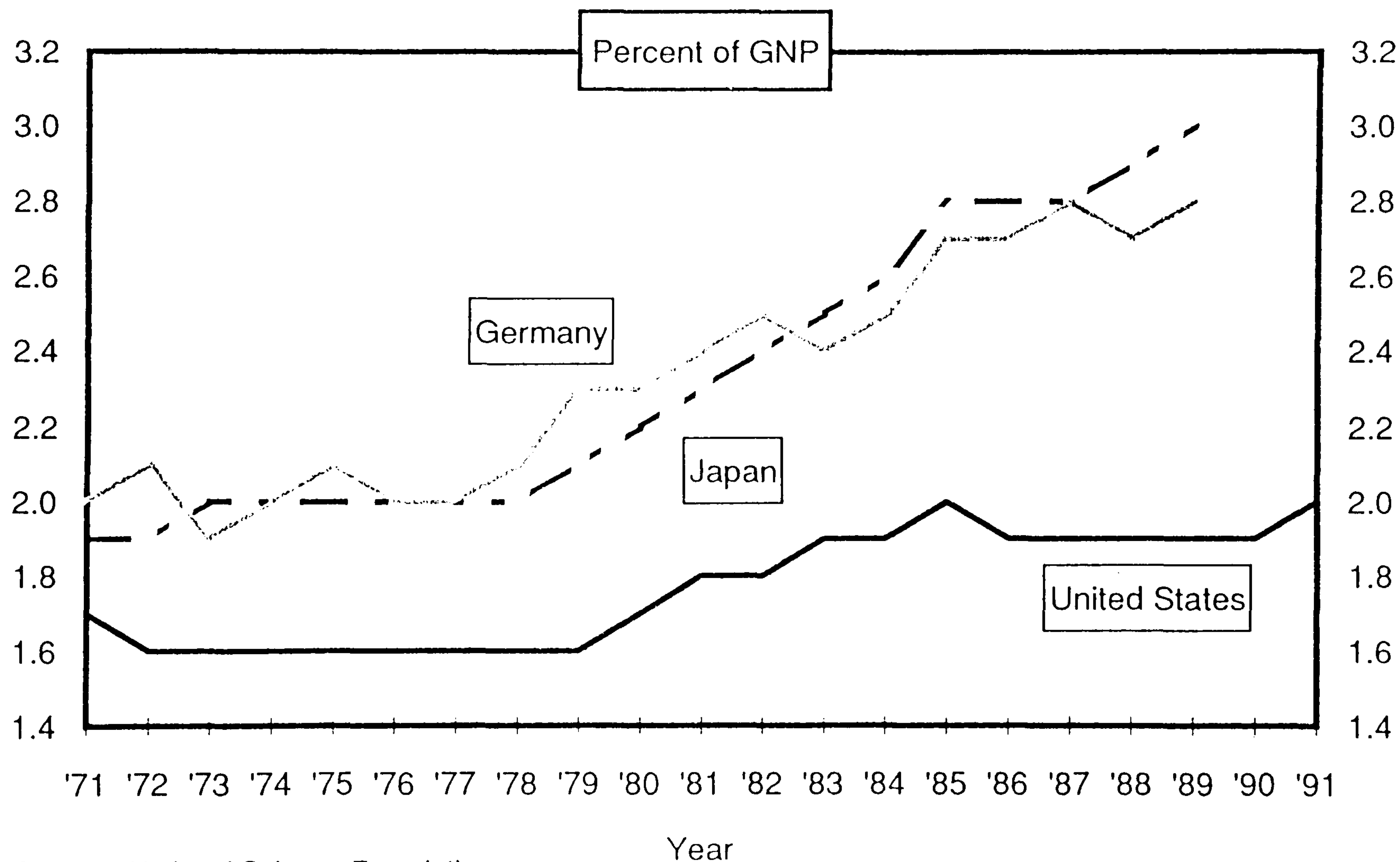
Graph 2

Producer Price Index for Finished Goods



Graph 3

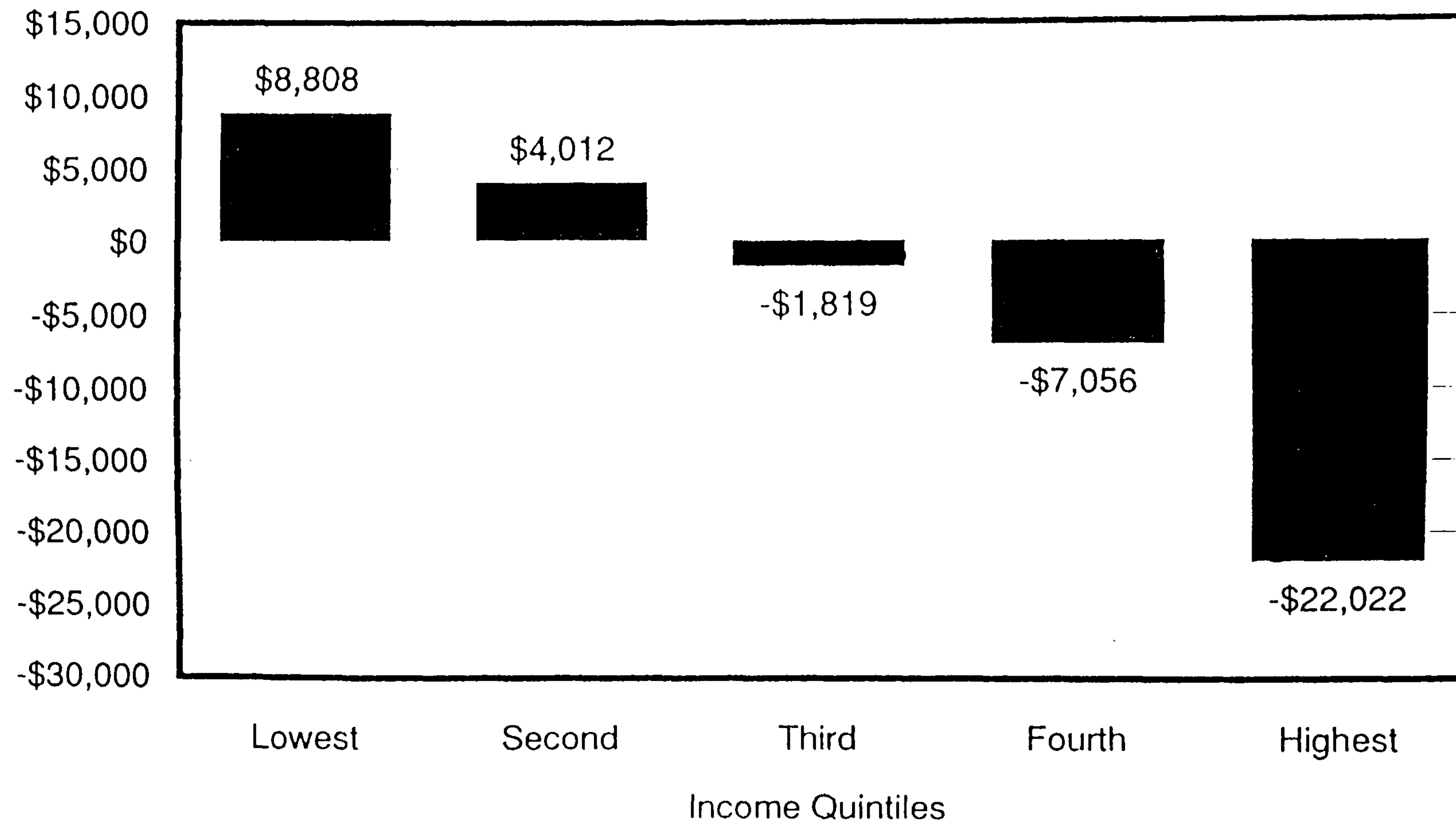
Non-Defense R&D Expenditures



Source: National Science Foundation
('90-'91 data not available for Japan, Germany)

Graph 4

Effects of Federal Tax and Transfers on Take-Home Income, 1990



Source: Bureau of the Census

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 12, 1992

Contact: Chris Hatcher
(202) 566-5252

CLIFFORD NORTHUP APPOINTED
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR LEGISLATIVE AFFAIRS (FINANCE)

Secretary of the Treasury Nicholas F. Brady today announced the appointment of Clifford Northup to serve as deputy assistant secretary of the Treasury for legislative affairs (finance). In this position, Mr. Northup will advise the assistant secretary for legislative affairs in all legislative matters concerning finance.

Mr. Northup joined the Treasury department in July of 1991 as legislative manager in the office of the assistant secretary for legislative affairs. In this position he worked on banking reform, laws governing the auction of federal securities, and legislation to establish capital standards for government-sponsored-enterprises.

From 1988 until 1991, Mr. Northup served as a vice-president of Charls E. Walker Associates, a legislative lobbying group. He was responsible for assisting clients in tax and the financial services areas. From 1985 until 1988, Mr. Northup served as the legislative assistant to U.S. Senator William Armstrong responsible for tax, banking, and securities matters before the Senate Committee on Finance and the Senate Committee on Banking, Housing, and Urban Affairs.

Prior to that, Mr. Northup worked as a legislative representative for the American Bankers Association. He also has represented two other financial trade associations.

Mr. Northup received an A.B. (1976) in government from the University of North Carolina at Chapel Hill. He resides in Falls Church, Virginia.

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NB-1667

TREASURY NEWS

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

DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
February 12, 1992

Contact: Chris Hatcher
(202) 566-5252

JOHN R. VOGT APPOINTED
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR LEGISLATIVE AFFAIRS (TAX AND BUDGET)

Secretary of the Treasury Nicholas F. Brady today announced the appointment of John R. Vogt to serve as the deputy assistant secretary of the Treasury for legislative affairs (tax and budget). In this position, Mr. Vogt will advise the assistant secretary for legislative affairs in all matters regarding taxes and the budget.

Mr. Vogt joined the Treasury Department in 1989 as a legislative manager in the office of legislative affairs. In that position, he worked on issues concerning taxes, the budget, and economic matters.

From 1983 through 1989, Mr. Vogt served as vice-president of Jack Ferguson Associates, a government relations consulting firm. In this position Mr. Vogt developed legislative strategies and represented client interests in connection with legislation affecting taxation, appropriations, labor, energy and the environment.

During 1983, Mr. Vogt was the director of research in the office of the associate deputy secretary of Commerce. Prior to that, Mr. Vogt held positions with congressional and national campaigns, with Georgetown University, and with U.S. Senator Howard Baker.

Mr. Vogt graduated from Georgetown University (1981) with a B.S. in international affairs. He resides with his wife, the former Lisa Richards, in Arlington, Virginia.

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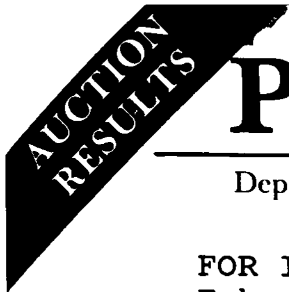
NB-1668



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 12, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 9-YEAR, 9-MONTH NOTES

Tenders for $11,033 million of 9-year, 9-month notes, Series D-2001, to be issued February 18, 1992 and to mature November 15, 2001 were accepted today (CUSIP: 912827D25).

The interest rate on the notes will be 7 1/2%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	7.29%	101.413
High	7.30%	101.344
Average	7.29%	101.413

Tenders at the high yield were allotted 38%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,612	21,602
New York	24,227,697	10,602,017
Philadelphia	11,769	11,769
Cleveland	46,007	30,507
Richmond	87,570	80,090
Atlanta	25,347	22,177
Chicago	531,873	138,273
St. Louis	24,441	20,441
Minneapolis	5,691	5,691
Kansas City	22,842	22,842
Dallas	5,231	5,231
San Francisco	391,247	48,842
Treasury	23,425	23,425
TOTALS	$25,424,752	$11,032,907

The $11,033 million of accepted tenders includes $652 million of noncompetitive tenders and $10,381 million of competitive tenders from the public.

In addition, $118 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $300 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

Also, accrued interest of $19.57418 per $1,000 of par must be paid for the period November 15, 1991 to February 18, 1992.

NB-1669

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 12, 1992

Contact: Desiree Tucker-Sorini
202-566-8191

Statement by
Nicholas F. Brady
Secretary of the Treasury

On January 28 the President announced a comprehensive, responsible economic growth agenda. He asked Congress -- at a minimum -- to pass by March 20th his short-term economic stimulus package to accelerate the economy and put Americans back to work.

But what did Congress do? Today, on a straight party line vote, the Ways and Means Democrats rejected the President's short-term economic stimulus program and passed the Gephardt bill that will increase the deficit by over $30 billion. The Democrats did not include the President's proposals for spending cuts or reforms.

Now, we hear the Democrats plan to meet in closed session this weekend and craft a bill to raise Americans' tax rates.

The President wants and the American people deserve immediate action on his economic package.

NFB-1670

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 13, 1992

Contact: Ellen Murphy
(202) 566-4743

SHIRLEY D. PETERSON
SWORN IN AS COMMISSIONER OF THE
INTERNAL REVENUE SERVICE

Shirley D. Peterson was sworn in February 3, 1992 to serve as the commissioner of the Internal Revenue Service. She was confirmed by the Senate on January 31, and was appointed by the President on February 3.

As commissioner of the Internal Revenue Service, Ms. Peterson will head one of the largest agencies in the federal government, with over 116,000 employees, an operating budget of $6.1 billion and total tax collections in 1991 exceeding $1 trillion.

Prior to this appointment, Ms. Peterson served as the assistant attorney general (tax division) at the Department of Justice. She has held that position since she was appointed by President Bush in May of 1989. In this position, Ms. Peterson was responsible for a caseload of approximately 35,000 tax cases in fiscal 1992. She worked closely with the 94 United States tax attorneys, the Internal Revenue Service, and the FBI.

Prior to joining the Justice Department, Ms. Peterson was a partner in the Washington, D.C. law firm of Steptoe & Johnson, where she practiced for twenty years. She was active in the management of the firm, and served as a manager of the firm's tax and corporate practice group.

Ms. Peterson also was active in the tax section of the American Bar Association and in the American College of Probate Counsel (now American College of Trust and Estate Counsel) and chaired major committees in both organizations.

Ms. Peterson is a graduate of Bryn Mawr College and New York University Law School, where she was an N.Y.U. Honor Scholar and a member of the Order of the Coif. Ms. Peterson and her husband Donald Peterson have two adult children.

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NB-1671

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 13, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 29-YEAR, 9-MONTH BONDS

Tenders for $10,005 million of 29-year, 9-month bonds to be issued February 18, 1992 and to mature November 15, 2021 were accepted today (CUSIP: 912810EL8).

The interest rate on the bonds will be 8 %. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	7.90%	101.101
High	7.93%	100.757
Average	7.91%	100.986

$324,000 was accepted at lower yields.
Tenders at the high yield were allotted 29%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	9,469	9,445
New York	19,670,136	9,701,296
Philadelphia	3,203	3,203
Cleveland	4,970	4,970
Richmond	57,936	57,936
Atlanta	12,587	12,585
Chicago	474,640	59,700
St. Louis	7,411	7,411
Minneapolis	4,113	4,113
Kansas City	11,356	11,356
Dallas	4,934	4,934
San Francisco	358,528	123,668
Treasury	4,528	4,528
TOTALS	$20,623,811	$10,005,145

The $10,005 million of accepted tenders includes $376 million of noncompetitive tenders and $9,629 million of competitive tenders from the public.

In addition, $150 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is $25,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of $20.87912 per $1,000 of par must be paid for the period November 15, 1991 to February 18, 1992.

NB-1672

TREASURY NEWS

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

LIBRARY ROOM 5310
FEB 20 1992
DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
February 14, 1992

Contact: Barbara Clay
(202) 566-5252

JOHN R. HAUGE APPOINTED
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
(EASTERN EUROPE AND FORMER SOVIET UNION)

Secretary of the Treasury Nicholas F. Brady today announced the appointment of John R. Hauge to serve as the deputy assistant secretary of the Treasury for international affairs (Eastern Europe and the former Soviet Union). In this position, Mr. Hauge will advise the assistant secretary and the under secretary for international affairs on all matters relating to these areas of the world.

Mr. Hauge joined the Treasury Department in 1989 as the special assistant to the under secretary for finance. In this position he served as the advisor and aide to the under secretary, working on the savings and loan clean-up, banking reform, securities/futures market reform, and government-sponsored enterprises, as well as the U.S./Japan Working Group on Financial Markets, EC 1992, and international debt restructuring issues.

From 1987 to 1989, Mr. Hauge was the legislative assistant to U.S. Senator John Chafee responsible for banking, thrift/FSLIC issues, third world debt, stock market reform, corporate finance, export controls, and other issues before the Senate Committee on Banking, Housing, and Urban Affairs.

From 1982 to 1986, Mr. Hauge was the chief financial officer and financial advisor for The GHK Companies, spearheading a $500 million restructuring. From 1981 to 1982, Mr. Hauge worked as manager, financial strategy development, for the GTE Corporation. Prior to that, he spent four years as an associate and then a vice-president of corporate finance for Lehman Brothers.

Mr. Hauge graduated with a B.A. in economics from Dartmouth College (1973). He received a M.A. in politics and economics from Oxford University (1975). Mr. Hauge went on to receive a M.B.A. from Harvard University (1977). He resides in Washington, D.C.

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NB-1673

PRESS RELEASE

THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD

1777 F STREET, N.W. WASHINGTON, D.C. 20232

FOR IMMEDIATE RELEASE
February 18, 1992
OB 92-10

CONTACT: Bonnie M. Limbach
(202) 786-9672

OVERSIGHT BOARD TO SEEK COMMENTS, HOLD HEARING ON EARLY RESOLUTION OF TROUBLED INSURED THRIFTS

The Thrift Depositor Protection Oversight Board today announced that it will solicit comment and hold a public hearing regarding early resolution of troubled insured thrifts.

Section 143 of the Federal Deposit Insurance Corporation Improvement Act of 1991 expressed the sense of the Congress that the Federal banking agencies should facilitate early resolution of troubled insured depository institutions whenever feasible if early resolution would have the least possible long-term cost to the deposit insurance fund. Congress also set out certain conditions and general principles to be observed in that regard.

The Oversight Board, working closely with the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC), and the Resolution Trust Corporation (RTC), recognizes that the issues involved are difficult and complex. Accordingly, the Board, with the cooperation of the OTS, FDIC, and RTC, will seek comment and the testimony of interested parties on the merits of such a program and how such a program may be implemented.

A public notice will be published outlining the issues to be addressed and giving details as to the submission of written comments and requests to participate in the hearing. The Oversight Board expects that the period during which written comments will be solicited will be brief and will be followed promptly by a hearing.

The Thrift Depositor Protection Oversight Board reviews overall strategies, policies, and goals of the RTC and approves, prior to implementation, RTC financial plans, budgets, and periodic financing requests.

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TREASURY NEWS

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DEPT. OF TREASURY

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

FOR RELEASE AT 2:30 P.M.
February 18, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $22,400 million, to be issued February 27, 1992. This offering will provide about $1,700 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $20,693 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, February 24, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $11,200 million, representing an additional amount of bills dated November 29, 1991, and to mature May 28, 1992 (CUSIP No. 912794 YQ 1), currently outstanding in the amount of $10,256 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $11,200 million, representing an additional amount of bills dated August 29, 1991, and to mature August 27, 1992 (CUSIP No. 912794 YX 6), currently outstanding in the amount of $12,600 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 February 27, 1992. 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 $1,592 million as agents for foreign and international monetary authorities, and $5,347 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).

NB-1674

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FEB 20 92 0 0 2 1 3 9

FOR IMMEDIATE RELEASE
February 18, 1992

CONTACT: Office of Financing
202-219-3350

DEPT. OF THE TREASURY

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,806 million of 13-week bills to be issued February 20, 1992 and to mature May 21, 1992 were accepted today (CUSIP: 912794YP3).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.81%	3.91%	99.037
High	3.84%	3.94%	99.029
Average	3.83%	3.93%	99.032

$1,050,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 30%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	34,085	34,085
New York	24,950,415	9,254,915
Philadelphia	13,780	13,780
Cleveland	39,585	39,585
Richmond	215,180	134,680
Atlanta	22,675	21,975
Chicago	1,619,130	272,130
St. Louis	53,880	13,880
Minneapolis	5,580	5,580
Kansas City	23,685	23,685
Dallas	18,325	18,325
San Francisco	505,620	80,620
Treasury	893,025	893,025
TOTALS	$28,394,965	$10,806,265
Type		
Competitive	$23,938,355	$6,349,655
Noncompetitive	1,479,305	1,479,305
Subtotal, Public	$25,417,660	$7,828,960
Federal Reserve	2,617,285	2,617,285
Foreign Official Institutions	360,020	360,020
TOTALS	$28,394,965	$10,806,265

An additional $227,680 thousand of bills will be issued to foreign official institutions for new cash.

NB-1675

AUCTION RESULTS

PUBLIC DEBT NEWS

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

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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
February 18, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,837 million of 26-week bills to be issued February 20, 1992 and to mature August 20, 1992 were accepted today (CUSIP: 912794ZH0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.92%	4.07%	98.018
High	3.94%	4.09%	98.008
Average	3.93%	4.08%	98.013

Tenders at the high discount rate were allotted 7%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,370	21,370
New York	27,394,360	9,763,800
Philadelphia	9,605	9,605
Cleveland	21,815	21,815
Richmond	50,690	41,390
Atlanta	21,880	20,950
Chicago	1,304,620	111,620
St. Louis	31,815	11,815
Minneapolis	5,975	5,975
Kansas City	26,530	26,530
Dallas	14,290	14,290
San Francisco	621,505	151,755
Treasury	636,025	636,025
TOTALS	$30,160,480	$10,836,940
Type		
Competitive	$25,923,330	$6,599,790
Noncompetitive	1,019,070	1,019,070
Subtotal, Public	$26,942,400	$7,618,860
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	518,080	518,080
TOTALS	$30,160,480	$10,836,940

An additional $338,720 thousand of bills will be issued to foreign official institutions for new cash.

NB-1676

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
February 19, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $24,000 MILLION

The Treasury will auction $14,250 million of 2-year notes and $9,750 million of 5-year notes to refund $10,928 million of securities maturing February 29, 1992, and to raise about $13,075 million new cash. The $10,928 million of maturing securities are those held by the public, including $911 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $24,000 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $913 million of the maturing securities that may be refunded by issuing additional amounts of the new securities at the average prices of accepted competitive tenders.

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

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Attachment

NB-1677

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED MARCH 2, 1992

February 19, 1992

<u>Amount Offered to the Public</u> ...	$14,250 million	$9,750 million
<u>Description of Security</u>:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series W-1994 (CUSIP No. 912827 E4 0)	Series J-1997 (CUSIP No. 912827 E5 7)
Maturity date	February 28, 1994	February 28, 1997
Interest rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	August 31 and February 28	The last calendar day of August and February through February 28, 1997
Minimum denomination available .	$5,000	$1,000
<u>Terms of Sale</u>:		
Method of sale	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $5,000,000	Accepted in full at the average price up to $5,000,000
Accrued interest payable by investor	None	None
<u>Key Dates</u>:		
Receipt of tenders	Tuesday, February 25, 1992	Wednesday, February 26, 1992
a) noncompetitive	prior to 12:00 noon, EST	prior to 12:00 noon, EST
b) competitive	prior to 1:00 p.m., EST	prior to 1:00 p.m., EST
Settlement (final payment due from institutions):		
a) funds immediately available to the Treasury ...	Monday, March 2, 1992	Monday, March 2, 1992
b) readily-collectible check ...	Thursday, February 27, 1992	Thursday, February 27, 1992

TREASURY NEWS

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FOR IMMEDIATE RELEASE February 20, 1992

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of January 1992.

As indicated in this table, U.S. reserve assets amounted to $75,868 million at the end of January 1992, down from $77,719 million in December 1991.

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/
1991					
December	77,719	11,057	11,240	45,934	9,488
1992					
January	75,868	11,058	10,980	44,717	9,113

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-1678

TREASURY NEWS

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

For Release Upon Delivery
Expected at 9:30 A.M.
February 21, 1992

STATEMENT OF
FRED T. GOLDBERG, JR.
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON PRIVATE RETIREMENT PLANS
AND OVERSIGHT OF THE IRS
COMMITTEE ON FINANCE
UNITED STATES SENATE

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Administration on the Subcommittee's proposals to supplement the taxpayer bill of rights legislation enacted in 1988. Before responding to the specific proposals contained in the Bill, I would like to reaffirm that the Administration is committed to administering the tax laws in a fair manner and to safeguarding the rights of taxpayers. We recognize that the Internal Revenue Service (IRS) is vested with significant authority which, if improperly exercised, can result in treatment that is unreasonable or unfair to particular taxpayers. We also recognize that, in an agency as large as IRS, mistakes inevitably occur.

Because mistakes inevitably occur, even statutory changes will not prevent instances in which taxpayers with sympathetic circumstances are treated inappropriately. It is important to bear in mind that in the vast majority of cases, IRS employees administer the tax laws fairly. We must guard against developing excessive bureaucratic layers of procedural requirements that will substantially increase administrative costs and processing delays, yet still prove ineffective in preventing isolated cases where mistakes are made.

We must strike a balance between taxpayer protections and the public's right to be assured that all taxpayers pay their fair share. If the imposition of additional administrative requirements on the IRS hinders its ability to collect taxes from those who rightfully owe them, the taxpayers who comply will eventually be forced to make up the difference. It is also important to bear in mind that increasing governmental costs, without commensurately increasing benefits to taxpayers, violates each taxpayer's right to a government that does not unnecessarily spend the taxpayers' dollars.

We all agree that under our system of voluntary compliance it is extremely important for taxpayers to perceive the tax system as fair. The Administration believes the best way to

foster confidence in the fairness and integrity of the tax system is through the simplification of our tax laws. When laws are simple and easy to understand, compliance improves and unnecessary disputes are avoided. By better assuring the uniform interpretation and administration of our tax laws, simplification improves taxpayer morale.

IRS modernization is an equally important way to improve the tax system. The current modernization initiative will enable the IRS to eliminate sources of frustration taxpayers encounter in dealing with the IRS.

The Administration supports proposals for procedural changes that are well-defined and that demonstrably improve the tax system. In my capacity as Commissioner of the IRS, I presented six such proposals in my September 25, 1991 testimony before the House Subcommittee on Oversight. The Administration continues to support those proposals and is pleased to see them reflected in this Subcommittee's current proposals. We also believe a number of other provisions under consideration by this Subcommittee would demonstrably improve the tax system. The Administration is prepared to support those provisions as well, subject to further refinement in some cases.

However, we believe that some of the proposed provisions strike the wrong balance, and would adversely affect the administration of the tax laws without demonstrably improving the tax system. Moreover, some of the provisions would reward non-compliant taxpayers at the expense of those taxpayers that do comply. Our reasons for opposing those provisions are set forth below. There are also a number of proposals that would only serve to codify current IRS procedures. Codification of procedural rules is undesirable because it hampers the ability of the IRS to respond to taxpayers' changed circumstances. Moreover, in general we believe it is undesirable to codify procedural rules because doing so provides little or no tangible benefit to the majority of taxpayers, but at the same time encourages litigation by a minority of taxpayers as a delaying tactic. The costs of the delays as well as the litigation expenses the government incurs must be borne generally by all taxpayers. We also caution that, however worthwhile particular proposals may be, the pay-as-you-go provisions of the budget agreement must be satisfied by the package of proposals ultimately adopted.

The remainder of this testimony comments on the specific provisions of the Senate Bill. We have not commented on the effective dates of particular provisions because we believe it more useful for the IRS to comment on those items. We note, however, that because of the limitations of the existing computer systems, the IRS would require a significant amount of time to

implement the proposed changes. Our comments below follow the order of the provisions contained in the Bill.

Title I - Taxpayer Advocate

1. Section 101 - Establishment of Position of Taxpayer Advocate Within Internal Revenue Service

Current law. The Ombudsman is appointed by and reports to the IRS Commissioner. In situations in which a taxpayer otherwise will suffer significant hardship as a result of the manner in which the IRS is administering the tax laws, the Ombudsman is authorized to issue a Taxpayer Assistance Order that requires the IRS to release property of the taxpayer levied upon by the IRS or that requires the IRS to cease action or refrain from taking action against the taxpayer. The Ombudsman is also responsible for recommending IRS systems changes that will improve the administration of the tax laws.

Proposal. The Ombudsman would be replaced by the Taxpayer Advocate, who would head a new office within the IRS that reports directly to the Commissioner. The Taxpayer Advocate would be appointed by the President, subject to Senate confirmation, and would assume responsibility for issuing Taxpayer Assistance Orders. The Taxpayer Advocate would be required to report to Congress annually with full and substantive analysis, on a number of different matters, including initiatives the Taxpayer Advocate has taken on improving taxpayer services and IRS responsiveness, on recommendations of Problem Resolution Officers flowing from the field, and on at least 20 problems encountered by taxpayers. The Taxpayer Advocate would also be required to report on how each of these items was handled. As part of the proposal, the IRS would be obligated to establish procedures requiring a formal response to all recommendations submitted to the Commissioner by the Taxpayer Advocate.

Administration position. The Administration opposes this provision as counterproductive. The Office of the Ombudsman functions smoothly within the IRS and has been very successful in carrying out the directives of the Taxpayer Bill of Rights. We are unaware of any criticisms stemming from the current method of appointing the Ombudsman. Requiring Presidential appointment and Senate confirmation of the Ombudsman would unnecessarily politicize the Ombudsman function and serve to isolate the Office of the Ombudsman from the Agency it is supposed to monitor. This would diminish the Ombudsman's effectiveness in discharging his responsibilities, because the Ombudsman has to work within and understand the IRS in order to make effective recommendations concerning system changes.

The Administration also fails to see what purpose would be furthered by passing legislation to require annual reports to the Congress or the institution of a tracking system by the IRS. The Ombudsman already reports to Congress on the quality of services to taxpayers. In addition, the IRS already has begun to institute a tracking system to assure that the agency responds to the Ombudsman's recommendations.

2. Section 102 - Expansion of Authority to Issue Taxpayer Assistance Orders

Current law. Taxpayer Assistance Orders include the power to release taxpayer property levied upon by the IRS and to require the IRS "to cease any action, or refrain from taking any action" against a taxpayer that will otherwise suffer "significant hardship" as a result of the manner in which the IRS is administering the tax laws. A Taxpayer Assistance Order may be modified or rescinded by the Ombudsman, a district director, a service center director, a compliance center director, a regional director of appeals or any of their superiors.

Proposal. Taxpayer Assistance Orders would be available to assist taxpayers that otherwise would suffer "hardship," without regard to whether the hardship was significant. In addition, Taxpayer Assistance Orders would be expanded to include the power to require IRS to affirmatively "take any action" with respect to taxpayers who would otherwise suffer a hardship as a result of the manner in which the IRS is administering the tax laws. Finally, only the Taxpayer Advocate and the Commissioner of the IRS would have the authority to modify or rescind Taxpayer Assistance Orders.

Administration position. The Administration opposes this proposal. Eliminating the requirement that the taxpayer's hardship be significant would make the special relief provided by Taxpayer Assistance Orders effectively available to all taxpayers -- other than the very small group of taxpayers to whom the timely payment of tax liabilities does not pose any hardship. Such broad relief could also have adverse revenue consequences. The expansion of Taxpayer Assistance Orders to require the IRS to affirmatively "take any action" is unnecessary. The Ombudsman's internal procedures already allow him to initiate on behalf of taxpayers those affirmative actions that we understand to be of concern to Congress, including abating assessments, expediting refunds, and staying collection activity. Therefore, the proposed amendment is unnecessary. Further, the proposed delegation of authority to "take any action" is unduly broad and could lead to the inappropriate use of Taxpayer Assistance Orders. For example, it could be construed to require the IRS to retract a notice of deficiency based on the Ombudsman's interpretation of the underlying law.

Finally, we see no reason to further limit the IRS officials who may rescind or modify Taxpayer Assistance Orders. We are not aware of any circumstances in which an IRS official authorized to review Taxpayer Assistance Orders has inappropriately modified or rescinded a Taxpayer Assistance Order. Moreover, under existing law, Taxpayer Assistance Orders are reviewed by IRS officials charged with the responsibility for supervising IRS actions with respect to the taxpayer. By rescinding the authority of these officials, the proposed provision would necessitate the establishment of a new bureaucracy within the Commissioner's office, which would ultimately delay the processing of requests for Taxpayer Assistance Orders. The taxpaying public would be saddled with the government's costs for the new bureaucracy.

Title II - Modifications to Installment Agreement Provisions

3. Section 201 - Taxpayer's Right to Installment Agreement

Current law. The IRS is authorized to enter into installment agreements with taxpayers under certain circumstances. The IRS routinely enters into an installment agreement with individual taxpayers who are unable to pay the full amount of tax due.

Proposal. An individual taxpayer with a tax liability of less than $10,000 would be entitled to an installment agreement if the taxpayer had not been delinquent in paying its income taxes for the preceding three years.

Administration position. The Administration opposes this provision. While the Administration recognizes that installment agreements may be warranted in cases in which a taxpayer is unable to pay a tax liability in full, we oppose any requirement that installment payments be permitted as a matter of right regardless of a taxpayer's ability to pay. Taxpayers able to satisfy their full tax liability should not be entitled to enter into installment agreements as a matter of right. Under the Bill, wealthy taxpayers with liquid assets well in excess of $10,000 would be entitled to pay their tax in installments if they owed less than $10,000 at the time payment was due and had not entered into an installment obligation in the preceding three years.

Providing installment agreements as a matter of right would violate a fundamental principle of our system of tax administration: taxpayers should arrange their affairs so that they can pay their taxes when due. Any deviation from this notion would cause inequity and erode voluntary compliance. The IRS accounts receivable inventory would balloon from its current -- unacceptable -- level of more than $100 billion to

many times that amount. The need for intrusive, after-the-fact enforcement efforts by the IRS would increase dramatically, at substantial cost to affected taxpayers and the public at large.

The IRS is currently reforming its installment procedures to assure that they are administered fairly and responsively in light of taxpayer needs and expectations. These changes are important and, we believe, are overdue. But they are the right way to go. We urge the subcommittee to use the oversight process to assure that they are properly implemented and achieve their intended objectives.

In contrast, the proposal the subcommittee is contemplating would undermine the fabric of our system and cause substantial revenue loss. To put this in perspective, if only 10 percent of all taxpayers took advantage of this "right" each year, and deferred an average of only $2,000, delayed collections to the government would be $20 billion dollars per year, or close to $60 billion over three years. If only five percent of that amount became uncollectible, the permanent loss of revenue to the government would average $1 billion a year.

4. Section 202 - Notification of Reasons for Termination of Installment Agreements

Current law. The IRS is authorized to enter into written installment agreements with taxpayers to facilitate the collection of tax liabilities. In general, the IRS has the right to terminate (or in some instances, alter or modify) such agreements if the taxpayer provided inaccurate or incomplete information before the agreement was entered into, if the taxpayer fails to make a timely payment of an installment or another tax liability, if the taxpayer fails to provide the IRS with a requested update of financial condition, if the IRS determines that the financial condition of the taxpayer has changed significantly, or if the IRS believes collection of the tax liability is in jeopardy. If the IRS determines that the financial condition of a taxpayer that has entered into an installment agreement has changed significantly, the IRS must provide the taxpayer with a written notice that explains the IRS determination at least 30 days before altering, modifying or terminating the installment agreement.

Proposal. The 30-day notification and explanation requirement would be extended to all cases in which the IRS may alter, modify or terminate an installment agreement, other than cases in which the IRS believes the collection of the tax to which the installment agreement relates is in jeopardy.

Administration position. The IRS has adopted, and is in the process of fully implementing, procedures requiring it to notify

taxpayers 30 days prior to terminating an installment agreement for any reason, unless doing so would jeopardize collection. Accordingly, the Administration opposes this provision as unnecessary. The Administration is also concerned that adoption of this proposal would increase the potential for controversy over whether the IRS was justified in its belief that collection would be jeopardized.

5. Section 203 - Administrative Review of Denial of Request for, or Termination of, Installment Agreement

Current law. Under current IRS practice, a taxpayer whose request for an installment agreement is denied, or whose installment agreement is terminated, has the right to appeal to successively higher levels of management, including the District Director. The IRS is in the process of implementing a one-year pilot appellate process program that uses Appeals personnel for deciding appeals of many collection procedures, including installment agreements.

Proposal. The IRS would be required to establish an administrative review procedure with respect to requests for installment agreements that are denied and for installment agreements that are terminated.

Administration position. The Administration opposes this provision. The IRS is currently examining the feasibility of expanding the availability of appellate review for installment agreements. In light of this study, legislatively mandating an administrative review procedure would be undesirable because it would create additional administrative costs and burdens with no evidence of a corresponding benefit to taxpayers. A statutory administrative review procedure would encourage taxpayers to appeal the denial or termination of installment agreements as a matter of course, thereby delaying and potentially jeopardizing the collection of tax to the detriment of taxpayers who pay their taxes on time. In addition, to the extent the proposed statutory expansion of the appellate procedure increases the amount of tax deferred pursuant to installment agreements, it will result in a revenue loss for purposes of the budget agreement.

The IRS is presently engaged in a substantial revision of its internal guidelines for granting and terminating installment payments and would welcome any suggestions the Subcommittee might make to assist in this endeavor. An appellate review process, whether adopted administratively or legislatively, will not result in fair and consistent treatment of taxpayers unless appropriate guidelines are developed.

6. Section 204 - Running of Failure to Pay Penalty Suspended During Period Installment Agreement in Effect

Current law. A taxpayer is liable for a penalty (an "addition to tax") on late payments of tax. The addition to tax is imposed on the unpaid tax at the rate of .5 percent per month (up to a maximum of 25 percent). The penalty applies to unpaid amounts without regard to whether the taxpayer is making payments pursuant to an installment agreement.

Proposal. No monthly penalty would be imposed for periods during which an installment agreement is in effect.

Administration position. We agree that it is desirable to provide an incentive to taxpayers who promptly enter into an installment agreement and comply with its terms. However, we are concerned that the proposed provision would also encourage taxpayers who could otherwise pay their taxes on time to seek installment payment arrangements. For many taxpayers, the statutory interest rate on unpaid tax liabilities is much lower than the rate they would be required to pay if they obtained a commercial loan in order to pay their taxes. Perhaps a balance between the interests of taxpayers who pay on time and those who cannot pay could be achieved by providing a lower cap -- perhaps 10 percent -- for taxpayers who promptly enter into and comply with the terms of an installment agreement. Although we oppose this provision as drafted, we would be interested in exploring an intermediate approach with the Subcommittee, provided appropriate revenue offsets could be found.

Title III - Interest

7. Section 301 - Expansion of Authority to Abate Interest

Current law. The IRS has the authority to abate interest assessed with respect to a deficiency or payment that is attributable to the error or delay of an IRS employee in performing a ministerial act.

Proposal. The IRS would be required to refund or abate interest attributable to all unreasonable IRS errors and delays.

Administration position. The Administration opposes this provision. We believe the proposed provision is unduly broad, and thus would have substantial revenue consequences. We are concerned that this standard would prompt taxpayers, particularly large taxpayers with large amounts of interest at stake, to seek relief from interest assessments as a matter of course, thereby imposing significant administrative costs, as well as controversy related costs, on the IRS which would ultimately be borne by all taxpayers. It is important to bear in mind that, even during

periods of delay attributable to IRS error, taxpayers have the use of government money. Since interest (unlike a penalty) is simply compensation for the use of money, the proposed abatement of interest would in many cases represent a windfall to large taxpayers. We are also concerned that, due to the vagueness of the proposed standard for relief, similarly situated taxpayers would inevitably receive inconsistent treatment, which would undermine taxpayer confidence in the fairness of the tax system.

8. Section 302 - Extension of Interest-Free Period for Payment of Tax After Notice and Demand

Current law. In general, a taxpayer must pay interest on late payments of tax. However, a 10-day "interest-free period" is provided to taxpayers who pay the tax due within 10 days of notice and demand.

Proposal. The 10-day interest-free period would be extended to 21 days for tax liabilities (including interest and penalties) of less than $100,000. The shorter 10-day period would continue to apply to amounts of $100,000 or more.

Administration position. The Administration supports this provision. It would alleviate the frustration of many taxpayers who find themselves unable to comply with an unrealistically short deadline. It would also allow better use of taxpayer dollars by avoiding the administrative costs associated with recomputing interest for taxpayers who fail to meet the deadline and responding to taxpayer complaints about the impracticality of the deadline.

9. Section 303 - Equalization of Interest Rates

Current law. In general, the government charges taxpayers interest on underpayments of tax at a rate that is one percentage point higher than the rate at which the government pays interest on overpayments of tax.

Proposal. The interest rate paid by the government on overpayments of tax would be increased by one percentage point to the same rate the government charges on underpayments of tax.

Administration position. The Administration opposes this provision. Increasing the interest rate on overpayments will decrease revenues. We also note that the current one percent interest differential is not inherently unfair. The government is not a voluntary creditor, and is therefore forced to lend the funds of the American public without having the opportunity to first evaluate the credit-worthiness of the debtor.

Title IV - Joint Returns

10. Section 401 - Requirement of Separate Deficiency Notices in Certain Cases

Current law. Under current law, the IRS may send a single notice of deficiency with respect to a joint return unless a spouse has notified the IRS that separate residences have been established, in which case the IRS must send a copy of the notice to each spouse at his or her last known address.

Proposal. The IRS would also be required to send each spouse a copy of the notice of deficiency if the spouses have not filed a joint return for the most recent taxable year for which the IRS's master files have been updated.

Administration position. We oppose this provision. The IRS is already required to send a copy of a deficiency notice to a separated or divorced spouse when notified of the separation or divorce by the taxpayer. However, given the capabilities of the existing computer system, it would impose substantial costs on the IRS to require it to search its files each time a notice of deficiency is issued to spouses who have filed a joint return to determine whether the spouses have subsequently filed under separate addresses. These costs would be borne by all taxpayers. Further, if such notification is mandated by statute, it would provide a basis for invalidating deficiency notices, to the potential detriment of the spouse who receives notice and would consequently become the sole source of payment. Because it is in the interest of IRS to notify both parties to a joint return of a deficiency notice wherever feasible, the IRS will begin providing notice to both parties as soon as modernization of its computer system makes it feasible to do so.

11. Section 402 - Disclosure of Collection Activities

Current law. Under sections 6103(e)(1)(B) and (e)(7), IRS may disclose "return information" to either spouse that has joined in filing a joint return, even if the spouses are divorced or separated at the time of disclosure. Return information includes information concerning collection of tax liabilities.

Proposal. If IRS has assessed a deficiency for a joint return, the IRS would have the discretionary authority, upon the written request of one of the spouses (or former spouses), to disclose whether the IRS had attempted to collect the assessed deficiency from the other spouse (or former spouse), the general nature of any such collection activities and the amount of the deficiency collected from the other spouse (or former spouse).

Administration position. The Administration supports this provision. Although we believe such disclosure already is authorized under current law, this proposal will make explicit the IRS's disclosure authority in cases relating to separated or divorced spouses. We also are in the process of reviewing our procedures with respect to such disclosure to ensure that the procedures are adequate and are being followed correctly.

12. Section 403 - Joint Return May Be Made After Separate Returns Without Full Payment of Tax

Current Law. Married taxpayers who file separate returns for a taxable year in which they are entitled to file a joint return may elect to file a joint return after the time for filing the original return has expired. The election to refile on a joint basis may be made only if the entire amount of tax shown as due on the joint return is paid in full by the time the joint return is filed.

Proposal. The requirement that the tax be paid in full by the time the subsequent joint return is filed would be repealed.

Administration position. The Administration supports this provision. Not all taxpayers are able to pay the full amount owed on their returns by the filing deadline. In such circumstances, the IRS encourages the taxpayer to pay the tax as soon as possible or enter into an installment agreement with the Collection Division. However, taxpayers who file separate returns and subsequently determine that their tax liability would have been less if they had filed a joint return are precluded from reducing their tax liability by filing jointly if they are unable to pay the entire amount of the joint return liability. This restriction is unfair to taxpayers experiencing financial difficulties, particularly because there generally is a 10-year period for the collection of taxes, while the election to file an amended return must be made within three years of the due date for filing the original tax return.

13. Section 404 - Representation of Absent, Divorced or Separated Spouse by Other Spouse

Current law. A taxpayer that has joined in the filing of a joint return may represent the taxpayer's spouse with respect to a deficiency assessed for the taxable year to which the return applies. Nonetheless, current IRS procedures allow each spouse to separately appeal the statutory notice of deficiency.

Proposal. A taxpayer would not be able to represent a separated or former spouse in an audit of a joint tax return

without first obtaining the written authorization of the separated or divorced spouse.

Administration position. The Administration does not oppose this provision, subject to modification. The provision would need to provide appropriate safeguards, including for example a requirement that the IRS be notified in writing that the spouses have separated or divorced. The provision also should preclude a spouse from delaying or obstructing an audit by withholding consent and should provide that a lack of consent would not invalidate a deficiency notice.

Title V - Collection Activities

14. Section 501 - Notice of Proposed Deficiency

Current law. The IRS generally issues a notice of proposed deficiency prior to issuing a notice of deficiency. The notice of proposed deficiency, commonly referred to as the "30-day letter," offers a taxpayer the opportunity for review of the case by the IRS Appeals Office. The IRS is not required to issue a 30-day letter, but generally does unless the statute of limitations on assessment will expire within six months. If a 30-day letter is not issued and the taxpayer files a petition in the Tax Court, the taxpayer is permitted to have the case reviewed by Appeals after it is docketed.

Proposal. The IRS would be required to issue a notice of proposed deficiency in every case (other than jeopardy assessment cases) unless the statute of limitations on assessment would expire within six months. If the statute of limitation would expire within six months, the IRS would not be required to issue a notice of proposed deficiency unless the taxpayer extends the statute of limitations.

Administration position. We oppose this provision. We believe that the current system offers taxpayers ample opportunity for administrative and judicial review of a tax case. Although the proposal would generally reflect current IRS policy, codifying this policy would allow taxpayers to challenge -- and potentially invalidate -- otherwise valid deficiency notices, and the general taxpaying public would bear the resulting burden. We do not believe that the validity of a deficiency notice should depend on the issuance of a 30-day letter.

15. Section 502 - Modifications to Lien and Levy Provisions

Current law. To protect the priority of a tax lien, the IRS must file a notice of lien in the public record. The IRS has discretion in filing such a notice, but may withdraw a filed

notice only if the notice (and the underlying lien) was erroneously filed or if the underlying lien has been paid, bonded or become unenforceable. The IRS is authorized to return levied-upon property to a taxpayer only when the taxpayer has overpaid its liability for tax, interest and penalty. In any event, certain property of a taxpayer is exempt from levy. The exempted property includes personal property with a value of up to $1,650 and books and tools necessary for the taxpayer's trade, business or profession with a value of up to $1,100.

Proposal. The IRS would have the authority to withdraw a notice of federal tax lien if (1) the filing of the notice was premature or was not in accordance with the administrative procedures of the IRS; (2) the taxpayer has entered into an installment agreement for the payment of tax liability with respect to the tax on which the underlying lien is imposed; (3) the withdrawal of the notice will facilitate the collection of the tax liability; or (4) the withdrawal of the notice would be in the best interest of the government and the taxpayer. If the taxpayer so requests in writing, the IRS would be required to notify credit reporting bureaus and financial institutions that the notice has been withdrawn. In addition, the IRS would be required to return levied-upon property to the taxpayer in the same four circumstances. Finally the exemption amounts under the levy rules would be increased to $1,700 for personal property and $1,200 for books and tools. Both these amounts would be indexed for inflation commencing with calendar year 1994.

Administration position. The Administration supports this provision, with certain modifications. First, the proposal should be modified to require only that the IRS provide the taxpayer with a notice of withdrawal in a form suitable for the taxpayer to provide to credit reporting bureaus and other financial institutions. It would unnecessarily increase administrative costs if the IRS were required to send the notice to multiple creditors. Second, the IRS should not be required to determine independently whether providing the notice of withdrawal is "in the best interest of the taxpayer and the United States." Because the notice would only be provided at the request of the taxpayer, the request should suffice to establish that provision of the notice is in the taxpayer's interest. Moreover, in many instances withdrawal of a notice will not be in the best interest of the government; it simply will be fair to taxpayers and consistent with good tax policy.

With respect to the proposed expansion of the IRS's ability to return levied-upon property to the taxpayer, we believe the proposed expansion should be limited to the three situations most troublesome to taxpayers so as to provide a more administrable standard and to reduce the adverse revenue consequences. One situation is a bank's surrender of levied-upon funds to the IRS

prior to the expiration of a mandatory 21-day waiting period after the issuance of an IRS levy. In cases in which the 21-day period has not expired or the taxpayer has initiated a proceeding to stay the levy, the IRS should be able to return the funds to the bank. A second situation is an erroneous jeopardy levy. The third situation is a payment received pursuant to a levy that is issued in violation of an installment agreement. Although levied-upon property should in all fairness be returned in these situations, the IRS is statutorily precluded from doing so in the absence of an overpayment because the IRS immediately applies funds received pursuant to a levy to the outstanding liabilities of the taxpayer. The IRS immediately applies these funds for both policy (principally cash management) and practical reasons (the impracticality of immediately matching payments received with specific levies made).

Finally, subject to revenue constraints, the Administration supports the proposed increase in the amount of personal and business property exempt from levy. The intent of these provisions is to enable a taxpayer to retain personal and business essentials so as to avoid becoming destitute. It is important to protect the value of these exemptions from being eroded by inflation.

16. Section 503 - Offers-in-Compromise

Current law. The IRS can compromise any assessed tax that is due and owing, but if the unpaid amount of tax pursuant to the compromise is $500 or more, a written opinion of the Chief Counsel is required. In addition, return information relating to accepted offers is available to the general public.

Proposal. The IRS would be authorized to compromise an assessed tax that is due and owing if doing so would be in the best interest of the government. A written supporting opinion of the Chief Counsel and public disclosure would be required only if the unpaid amount were $50,000 or more. The IRS would be required to subject these offers-in-compromise to continuing IRS quality review.

Administration position. The Administration supports this provision, with a modification. The IRS has begun simplifying the offers-in-compromise process to make it more accessible and comprehensible. An expanded offers-in-compromise program benefits taxpayers by making it possible to liquidate a debt that otherwise could never be repaid. Eliminating the requirement for an opinion of the Chief Counsel and for public disclosure of return information relating to a compromise will eliminate the two significant impediments under current law to the use of compromises by taxpayers. However, we believe the provision also should specify that it may be in the best interest of the

government to compromise a tax when there is doubt as to the liability or its collectibility.

17. Section 504 - Notification of Examination

Current law. In general, the IRS notifies taxpayers in writing prior to commencing an examination and encloses a copy of Publication 1, "Your Rights as a Taxpayer," with the notice.

Proposal. The IRS would be required to notify a taxpayer in writing prior to commencing an examination and would be required to provide the taxpayer with an explanation of the examination process.

Administration position. The Administration generally does not oppose this provision. However, an exception should be provided for criminal investigations and the provision should specify that failure to comply with the provision does not provide a basis for invalidating a deficiency notice.

18. Section 505 - Removal of Certain Limits on Recovery of Civil Damages for Unauthorized Collection Activities

Current law. A taxpayer may sue the United States for up to $100,000 of damages caused by an officer or employee of the IRS who recklessly or intentionally disregards provisions of the Internal Revenue Code or the Treasury regulations promulgated thereunder.

Proposal. The threshold for recovery by a taxpayer would be lowered to a negligence standard and the $100,000 "cap" would be eliminated.

Administration position. The Administration opposes this provision. Lowering the existing standard to a negligence standard would encourage taxpayers -- particularly tax protesters -- to routinely press claims against the United States, which could result in adverse revenue consequences and which in any event would require the IRS to devote significant monetary and personnel resources to defending itself against a flood of claims. In addition, we believe the existing $100,000 cap should be retained for revenue reasons and so the provision does not disproportionately benefit large taxpayers.

19. Section 506 - Safeguards Relating to Designated Summons

Current law. In general, if the IRS issues a "designated summons" to a corporation at least 60 days prior to the expiration of the statute of limitations for the assessment of

tax, the statute of limitations is suspended either until a court determines that compliance is not required or until 120 days after the corporation complies with the summons pursuant to a court's determination.

Proposal. A designated summons could only be issued in situations in which the determination of tax could not be made accurately before the expiration of the statute of limitations for the assessment of tax (determined with regard to extensions) as a result of the delay or other action by the taxpayer. Furthermore, the statute of limitations would be extended by a designated summons only (a) if the IRS has not had at least three years to complete the audit; (b) if the taxpayer has refused to extend the statute of limitations for at least two years; or (c) with respect to information for which the IRS previously made a written request the person to be summoned (i) had sufficient time to respond to the written request for information before the issuance of the designated summons; and (ii) failed substantially to comply with the information request. In addition, a taxpayer that receives a notice of a designated summons would be entitled to a conference with the IRS within 15 days of receiving the notice, and to file a petition in the District Court within 10 days of receiving the designated summons, to quash or modify the summons or seek a court determination that the statute of limitations would not be suspended. Before issuing a designated summons, the IRS would be required to notify the taxpayer in writing and explain in the notice why the taxpayer's prior responses to information requests were unsatisfactory, as well as the taxpayer's right to a conference with the IRS within 15 days.

Administration position. We oppose this provision. It would unduly hinder examinations of both U.S. and foreign multinational corporations suspected of shifting income to low-tax jurisdictions through manipulation of their transfer prices in violation of section 482. Congress created the designated summons mechanism in 1990 to enable the IRS to obtain adequate information during its examinations of large multinational corporations that are dilatory in responding to informal written document requests, particularly in connection with intercompany pricing disputes under section 482. Congress was concerned that such corporations could obstruct examinations by declining to respond to the IRS's informal document requests. The IRS's administrative practice is to employ the designated summons mechanism only after informal written document requests have proven unsuccessful because the corporate taxpayer has been uncooperative in the hope that the statute of limitations will expire before the corporation is obliged to turn over the requested documents.

There already are extensive safeguards that address the concerns underlying the proposal. The IRS's internal guidelines

provide that the use of designated summons is to be confined to examinations in the Large Case Program and (subject to the approval of the IRS's National Office) certain other large cases, must be reviewed by District Counsel and Deputy Regional Counsel (General Litigation) prior to issuance, and must be referred to the Justice Department for enforcement. Thus, a designated summons generally is issued only to sophisticated, uncooperative taxpayers after extensive review within the IRS, and does not operate to suspend the statute of limitations unless the Justice Department brings an enforcement action following its review of the matter. In addition, the summoned party is entitled to resist enforcement of summons in District Court. Therefore, the proposed provisions are not needed to protect taxpayers against potential abuses of the designated summons. On the other hand, by affording large multinational corporations the right to a hearing and requiring the IRS to justify its use of the designated summons procedure, the proposal would enable such corporations to further delay, or even evade, legitimate document production requests.

In addition, the proposal could have unintended adverse consequences. In some cases and subject to the safeguards described above, a designated summons may be issued to any person in connection with the examination of a corporate taxpayer, such as a third-party recordkeeper or a person designated as a foreign corporation's agent under section 6038A. The proposal as drafted would appear to permit the taxpayer to dispute a designated summons issued to those parties and to demand a hearing with respect to the summons. However, in many cases the corporate taxpayer will not be in a position to dispute the summons, since it may not know what information the third party possesses, and it may not know why the third party did not comply with previous informal requests. Thus, in these instances the provision would serve only to delay the taxpayer's document production.

Title VI - Information Returns

20. Section 601 - Phone Number of Person Providing Payee Statements Required to be Shown on Such Statement

Current law. Information returns issued to recipients of payments must contain the name and address of the payor.

Proposal. Information returns would also be required to contain the payor's phone number.

Administration position. We do not oppose this provision.

21. Section 602 - Civil Damages for Fraudulent Filing of Information Returns

Current law. There is no cause of action under federal law if a taxpayer suffers damages because a false or fraudulent information return filed with the IRS asserts that payments have been made to the taxpayer. State law may provide a cause of action for damages suffered by reason of a false or fraudulent information return.

Proposal. If any person willfully files a false or fraudulent return with respect to payments purported to have been made to another person, the other person would be entitled to recover damages from the person who filed the return. Recoverable damages are the greater of $5,000 or the amount of actual damages. A six year statute of limitations would apply to the proposed cause of action.

Administration Position. The Administration opposes this provision. We do not believe it is appropriate to create a private federal cause of action for damages resulting from the filing of false or fraudulent returns when section 7206(1) makes the willful filing of false or fraudulent information returns a felony punishable by fines of up to $100,000 and imprisonment of up to five years. Moreover, some remedies already exist under state law. We are also concerned that a private cause of action for persons who are the subject of false information returns could lead to the harassment of payors, particularly in view of the proposed $5,000 "floor" on damages.

22. Section 603 - Requirement to Conduct Reasonable Investigation of Information Returns

Current law. Deficiencies determined by the IRS are generally afforded a presumption of correctness. In Portillo v. Commissioner, 932 F. 2d 1128 (5th Cir. 1991), the Court of Appeals for the Fifth Circuit held that a deficiency had been arbitrarily determined and was invalid because it was based solely upon an information return reporting a payment to the taxpayer in excess of the amount he included on his income tax return. In that case, the information return was received by the taxpayer after his return had been filed, and the taxpayer disputed the accuracy of the information return. The IRS contacted the payor, who claimed that the payments were in cash but did not have records substantiating the payments. The IRS issued a notice of deficiency, relying on the presumption of correctness. The taxpayer presented evidence that the information return was incorrect. The court held that "the presumption of correctness does not apply when the government's

assessment falls within a narrow but important category of a 'naked' assessment without any foundation whatsoever."

Proposal. If a taxpayer asserted a reasonable dispute with respect to any item of income reported to the IRS on an information return, the IRS, and not the taxpayer, would bear the burden of proof with respect to the item of income, unless the IRS established that it had conducted a reasonable investigation to corroborate the accuracy of the information return. In order to establish a reasonable investigation, the IRS would be required to have physically examined the underlying tax return. Otherwise, it would not be entitled to a presumption of correctness.

Administration position. We oppose this provision. The proposed provision would eviscerate the IRS's matching program by eliminating the IRS presumption of correctness if the IRS failed to physically examine the underlying return. Under the present computerized matching program, the IRS matches information returns against return information contained in the IRS data base. After receiving a notice of deficiency, the taxpayer is required to present credible evidence that the information return is inaccurate. In the absence of the IRS presumption of correctness, the taxpayer could simply dispute an information return and without presenting any supporting evidence whatsoever, obligate the IRS to investigate further. In effect, the IRS would have to conduct an investigation before generating a notice of deficiency pursuant to its matching program because taxpayers would quickly learn that they have only to dispute an information return in order to place this investigation burden on the IRS. This burden would force the IRS to substantially curtail its existing matching program.

The proposed provision would invalidate a deficiency notice based on an information return, regardless of the accuracy of the information, if the IRS's investigation of an inaccuracy asserted by the taxpayer is subsequently determined to be inadequate. Accordingly, it would create an incentive for taxpayers to challenge and litigate the adequacy of the IRS's investigation as a matter of course, and thereby would increase the IRS's controversy costs and create yet another litigation hazard that would force the IRS to settle for reduced amounts of taxes. The resulting loss in tax revenues would be borne by all other taxpayers and would undermine the integrity of the tax system.

The Administration agrees that IRS should investigate the accuracy of information returns that are disputed by taxpayers, and IRS is in the process of strengthening its procedures for investigating taxpayer claims that information returns received by them are inaccurate. However, we believe that the proper balance is achieved under existing law standards. The IRS's presumption of correctness does not outweigh credible evidence

presented by the taxpayer. To prevail, the IRS must counter the taxpayer's evidence with credible evidence establishing the accuracy of the return.

We have strong reservations about any statutory change that deters IRS from asserting deficiencies on the basis of information returns. The biggest component of the tax gap is unreported income. The only practicable way to reduce that component is through computerized matching of information returns. Legislation of this nature would undermine that process and result in substantial revenue loss.

Title VII - Modifications to Penalty for Failure to Collect and Pay Over Tax

23. Section 701 - Trust Fund Taxes

Current law. A "responsible person" is subject to a penalty equal to the amount of trust fund taxes that are not collected or paid to the government on a timely basis. An individual the IRS has identified as a responsible person is permitted an administrative appeal on the question of responsibility.

Proposal. The IRS would be required to issue a notice to an individual the IRS had determined to be a responsible person with respect to unpaid trust fund taxes at least 60 days prior to issuing a notice and demand for the penalty. After exhausting the administrative remedies available within the IRS, the recipient would be entitled to seek a declaratory judgment from the Tax Court prior to assessment. Under the proposed provision, the statute of limitations for the collection of the penalty would be suspended during periods that these rules precluded the IRS from collecting the penalty. In addition the proposed rules would not apply to jeopardy collections.

Administration position. It is current IRS practice to provide advance written notice to responsible persons, and we would not oppose codifying this requirement. However, we oppose providing the Tax Court with jurisdiction to issue declaratory judgments concerning trust fund taxes. If an action is brought in District Court, the IRS is able to join all potentially responsible parties together in one proceeding, thus allowing a more efficient and fair exposition and resolution of the relevant issues. (Under existing IRS practice, a responsible person may bring an action in the District Court by paying a modest jurisdictional amount -- the trust fund liability for one individual for the quarter -- and the policy of the IRS is to forebear collection during the pendency of such litigation absent jeopardy.) The Tax Court does not currently have the requisite jurisdiction to permit the joining of all potential responsible persons without their consent. In addition, discovery is more

limited in the Tax Court than in District Court, which would hinder the IRS's ability to determine the appropriate responsible person since trust fund cases are fact-intensive. Finally, a declaratory judgment action is not appropriate in a responsible person case. The purpose of a declaratory judgment action is to decide questions of law, not of fact, and the question of whether someone is a responsible person is predominantly a question of fact.

24. Section 702 - Disclosure of Certain Information Where More Than One Person Subject to Penalty

Current law. The IRS is precluded from disclosing to a responsible person the IRS's efforts to collect unpaid taxes from other responsible persons.

Proposal. If requested in writing by a responsible person, the IRS would be authorized to disclose in writing to that person the name of any other person the IRS has determined to be a responsible person with respect to the tax in question. The IRS would also be authorized to disclose in writing the general nature of those collection activities.

Administration position. The Administration does not oppose this provision. In situations where more than one person is liable for the same tax, confidence in the fairness of the tax system can be undermined if a taxpayer is not informed of the efforts IRS has made to collect the tax in question from the other responsible parties. In light of the IRS's need to preserve confidentiality in some contexts, however, disclosure should be limited to the status of collection efforts and the person to whom the information is provided should be precluded from disseminating the information. In addition, the provision should more explicitly provide that the disclosure of any information about other responsible persons is entirely within the discretion of the IRS.

25. Section 703 - No Penalty if Prompt Notification of the Secretary

Current law. A "responsible person" is subject to a penalty equal to the amount of trust fund taxes that are not collected or paid to the government on a timely basis.

Proposal. A responsible person (other than a 5-percent owner) would not be liable for this penalty if the person notifies the IRS within ten days of the failure to pay the tax liability. This exception would not apply if the IRS had previously notified any person of the failure to pay the tax.

Administration position. While we believe this proposal may, with certain modifications, have merit and are prepared to explore it further, we are concerned that the revenue costs could be substantial. In any event, the exception for 5-percent owners should be expanded to include highly-compensated employees.

26. Section 704 - Penalties Under Section 6672

Current law. A "responsible person" is subject to a penalty equal to the amount of trust fund taxes that are not collected or paid to the government on a timely basis.

Proposal. The IRS would be required to take appropriate action to ensure that employees are made aware of their responsibilities with respect to trust fund taxes, the circumstances under which they may be liable for the responsible person penalty, and the responsibility to promptly report failures in payments to the IRS. The provision also would provide that the penalty would not be imposed on unpaid volunteer Board members of charitable organizations to the extent the members do not participate in the day-to-day or financial operations of the organization. Finally, the provision would require the IRS to develop and disseminate educational materials relating to the responsibilities charitable organizations have with respect to trust fund taxes.

Administration position. We do not oppose this provision, subject to modification. We would add as requirements for relief under the proposed provision that the Board member serve solely in an honorary capacity and neither be involved in the administrative operations of the organization, nor have benefitted from, nor participated in, the decision to not make the tax payment. Also, we recommend that any such provision require that there be at least one responsible person in all cases. As for the provisions relating to the development and dissemination of related educational materials, we believe it more useful for the IRS to comment.

Title VIII - Awarding of Costs and Certain Fees

27. Section 801 - Definition of Prevailing Party

Current law. A taxpayer that successfully challenges a determination of deficiency by the IRS may recover attorneys' fees and other administrative and litigation costs if the taxpayer qualifies as a "prevailing party." A taxpayer qualifies as a prevailing party if it (i) establishes that the position of the United States was not substantially justified; (ii) substantially prevails with respect to the amount in controversy or with respect to the most significant issue or set of issues

presented; and (iii) meets certain net worth and (if the taxpayer is a business) size requirements.

Proposal. As we understand the proposal, it would shift the burden of proof as to whether the government's position was substantially justified. Thus, a prevailing party would be entitled to recovery from the United States, unless the government established that the position of the United States was substantially justified.

Administration position. The Administration opposes this provision. We believe the taxpayer should properly bear the burden of establishing that the government's position was not substantially justified. This proposal would encourage taxpayers to pursue the recovery of attorneys' fees and other costs in essentially all instances in which they prevailed against the IRS. This would increase the costs of tax administration borne by all taxpayers, and would deter the IRS from pursuing meritorious cases against taxpayers.

28. Section 802 - Commencement Date of Reasonable Administrative Costs

Current law. A taxpayer that successfully challenges a determination of deficiency by the IRS may recover attorneys' fees and other administrative and litigation costs if the taxpayer qualifies as a "prevailing party." These costs are recoverable to the extent incurred on or after the earlier of (i) the date of the receipt by the taxpayer of the notice of decision of the IRS Office of Appeals, or (ii) the date of the notice of deficiency.

Proposal. Attorneys' fees and other administrative costs also would be recoverable to the extent incurred after the date of the notice of proposed deficiency.

Administration position. The Administration opposes this provision. The appeals process presently resolves through a relatively informal process many of the issues raised by IRS field agents. The provision would encourage taxpayers whose issues were satisfactorily resolved in appeals to routinely seek recovery of attorneys' fees and other administrative costs. Accordingly, the proposal would undermine the effectiveness of the appeals process by making IRS appeals officers reluctant to settle cases. Furthermore, since one of the functions of the appeals function is to provide taxpayers with an informal forum for resolving issues of questionable merit raised by field examiners, the provision would have adverse revenue consequences.

29. Section 803 - Increased Limit on Attorney Fees

Current law. Attorneys' fees recoverable by prevailing parties as litigation or administrative costs are limited to a maximum of $75 per hour.

Proposal. The maximum recoverable rate for attorneys' fees would be increased to $150 per hour and would be indexed for inflation commencing in 1994.

Administration position. Consistent with the Administration's position with respect to the Access to Justice Act of 1992, we oppose increasing the maximum recoverable rate for attorneys' fees to $150 per hour, but do not oppose indexing the current $75 rate for inflation.

30. Section 804 - Failure to Agree to Extension Not Taken Into Account

Current law. To qualify for an award of attorneys' fees and other administrative and litigation costs, a taxpayer that is a "prevailing party" with respect to a determination of deficiency by the IRS must have exhausted the administrative remedies available to the taxpayer within the IRS. Treasury regulations provide that a taxpayer who does not consent to an extension of the statute of limitations on assessment may be treated as failing to exhaust the appropriate administrative remedies. In Minahan v. Commissioner, 88 T.C. 492 (1987), the Tax Court held the regulation invalid insofar as it provides that a taxpayer's refusal to consent to extend the statute of limitations is to be taken into account in determining whether the taxpayer has exhausted administrative remedies available to the taxpayer. A concurring opinion reasoned that in circumstances in which the IRS has a reasonable need to request an extension of the statute of limitations, a taxpayer's refusal to consent to the extension should constitute a failure to exhaust administrative remedies. 88 T.C. at 509, (Simpson, J., concurring).

Proposal. A taxpayer that qualifies as a prevailing party would not be required to consent to extend the statute of limitations in order to exhaust the taxpayer's administrative remedies for purposes of recovering attorneys' fees and other administrative and litigation costs.

Administration position. We do not oppose a codification of the Minahan decision, and intend to implement it by regulation. However, as presently drafted, the provision is unduly broad. Consistent with the Minahan decision, the provision should not apply to taxpayers who fail to fully respond to IRS requests for

information on a timely basis, or in circumstances in which it is reasonable for the IRS to request that a taxpayer consent to extend the statute of limitations. One example of a reasonable circumstance for requesting an extension would be a complex case involving numerous legal or factual issues.

Title IX - Other Provisions

31. Section 901 - Required Content of Certain Notices

Current law. Tax deficiency and similar notices are required to "describe the basis for and identify" the amounts of tax, interest, additions to tax and penalties. An inadequate description does not invalidate the notice.

Proposal. Tax deficiency and similar notices would be required instead to "set forth the adjustments which are the basis for, and identify" the amounts of tax, interest, additions to tax and penalties. As is the case presently, an inadequate description would not invalidate the notice.

Administration position. The Administration opposes this provision on the ground that it is unnecessary. The IRS has a significant effort underway to clarify its notices to taxpayers. To the extent the Subcommittee is aware of problems with existing deficiency notices, it would be productive for the Subcommittee to alert the IRS as to those problems and to thereby assist the IRS in its continuing effort to clarify its notices.

32. Sections 902 and 903 - Protection for Taxpayers Who Rely on Certain Guidance of the Internal Revenue Service and Relief From Retroactive Application of Treasury Department Regulations

Current law. A taxpayer may rely on Treasury regulations and revenue rulings that accord with the taxpayer's particular facts. In addition, penalties are abated for taxpayers who rely on other written guidance of the IRS. Treasury regulations and revenue rulings may be issued with retroactive effect, but in practice, prospective mandatory effective dates are provided.

Proposal. If a taxpayer takes any position in reasonable reliance on guidance published by the IRS in the form of a press release, information release or revenue ruling, any later guidance by the IRS which is inconsistent with the earlier guidance would not apply to the detriment of the taxpayer prior to the date the subsequent guidance is published. Final, temporary and proposed regulations would generally be required to have an effective date no earlier than the date of publication in the Federal Register.

Administration position. The Administration opposes this provision on revenue and policy grounds. The decision whether to apply rules retroactively is perhaps the most difficult issue confronting us in administering the tax laws. The decision is never an easy one.

We all agree that rules should not be applied retroactively in a way that disrupts taxpayers' justified expectations or that disrupts the filing process for large numbers of small, unsophisticated taxpayers. However, in some cases it becomes apparent during the rule-making process that it is necessary to make certain rules retroactive to implement the intent of Congress. Sometimes taxpayers seek retroactive application of favorable new rules. In other cases, certain classes of taxpayers would benefit by the retroactive application of new rules and others would be disadvantaged. In these cases, we are often called upon to make new rules retroactive electively. Therefore, to provide relief to taxpayers in appropriate circumstances, it is desirable for the IRS to be able to issue rules with retroactive effect.

Allowing taxpayers to rely on IRS press releases and information releases is undesirable. The IRS issues press releases and information releases to provide informal guidance to taxpayers on issues for which immediate guidance is needed. The press releases and information releases are general in nature. They are not used to provide comprehensive rules and are not subjected to full IRS and Treasury review. Allowing taxpayers to rely on these materials in the proposed manner would necessitate a more deliberate and comprehensive review of these items by the IRS and Treasury prior to issuance. This would delay their issuance and inevitably subject taxpayers to inconsistent treatment because of the absence of standards for examiners to apply in auditing returns.

We also oppose the adoption of the "reasonable reliance" standard, because it would erode voluntary compliance and increase the potential for litigation. Some sophisticated taxpayers take reporting positions based on formalistic readings of published guidance when they are well aware that the substance of their transactions is inconsistent with the purpose of the underlying ruling or other guidance. The reporting position may be supported by an opinion of counsel that states only that the position has a "reasonable basis," "substantial authority," or a "realistic possibility of being sustained on the merits." These taxpayers may argue that they are entitled to "reasonably" rely on the published guidance, as interpreted in the opinion of counsel. However, such opinions do not counsel the taxpayer that the reporting position is "more likely than not" to succeed on the merits if the position is challenged on audit. Accordingly, the IRS should not be foreclosed from asserting a position and

litigating the merits of the position to determine whether tax is rightfully owed.

If the IRS is precluded from asserting positions retroactively in cases where taxpayers have taken questionable positions, the tax system will lose an implicit restraint. As a consequence, sophisticated taxpayers will tend to take more aggressive positions and revenue will be lost. This revenue ultimately may have to be made up by wage-earning taxpayers whose income and deductions are reported on information returns and who have little opportunity to play the audit lottery by asserting questionable positions.

The IRS refrains from making regulations retroactive where retroactive application would upset the justified expectations of taxpayers. Where it has made mistakes in this regard, the IRS has corrected them. However, the government should not be foreclosed from issuing retroactive regulations in situations in which sophisticated taxpayers have engaged in questionable transactions with the knowledge that they are subverting the Congressional purpose in enacting a statutory provision.

Eliminating the long-held authority of the IRS to issue retroactive regulations represents a fundamental change in our tax system. We believe it will be detrimental to the equitable administration of the tax system if IRS's authority to issue rules retroactively is restrained or removed.

33. Section 904 - Required Notice of Certain Payments

Current law. The IRS deposits taxpayer payments within 24 hours of receipt and credits the payments to the taxpayer's account.

Proposal. The IRS would be required to make reasonable efforts to notify a taxpayer within 60 days of the IRS's receipt of a payment from the taxpayer that the IRS cannot associate with an outstanding tax liability of the taxpayer.

Administration position. We oppose this provision as unnecessary. When the IRS receives a payment from a taxpayer that cannot be properly credited, the IRS attempts to contact the taxpayer by telephone. If unable to reach the taxpayer by telephone, the IRS sends the taxpayer a notice requesting further information. These contacts occur within 60 days of the IRS's receipt of the payment, unless the IRS is unable to determine the telephone number or address of the taxpayer making the payment.

34. <u>Section 905 - Certain Costs of Preparing Tax Returns Fully Deductible</u>

<u>Current law</u>. Miscellaneous itemized deductions are allowed only to the extent they exceed two percent of a taxpayer's adjusted gross income.

<u>Proposal</u>. Fees incurred by sole proprietors and farmers for the preparation of Schedules C, E or F would not be subject to the two percent floor.

<u>Administration position</u>. The Administration does not oppose this provision. We believe tax return preparation fees incurred by unincorporated businesses and farms should be deductible. We are pursuing administrative clarification of this point.

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

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 21, 1992

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Statement of Secretary Brady on Democrat Tax Plan

For the last week, the Democrats have been concocting a plan to raise taxes on the American people. Three times the plan has changed, but each has stayed true to one principle: higher taxes. It seems that just about the only permanent thing in the Democrats package is a tax increase.

The latest rendition of the Democrats' plan will not only raise individual taxes, it will stunt small business growth. Almost two-thirds of the taxpayers whose rates will increase under the newest plan are small businessmen and women and entrepreneurs. And some 60 percent of the new jobs created each year are created by small businesses. It doesn't take much to figure out who will be hurt by the Democrats plan -- working Americans.

The President has proposed a sound economic growth package that will create jobs in the short run and promote long-term growth -- without raising taxes. I urge Congress to act by March 20th to take responsible action that won't increase the tax burden on the American people.

oOo

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Secretary Nicholas F. Brady
GOP Southern Leadership Conference
Charleston, South Carolina
February 22, 1992

Thank you, Strom (Senator Thurmond). It is a pleasure to join so many of the South's great Republican leaders. This part of the country -- which for decades was a Democratic stronghold-- now plays a critical role in making sure we have a Republican in the White House and strong Republicans in the Congress.

As Republicans, we share a philosophy that some might label old-fashioned. When I served in the Senate in the early 1980's, the National Journal stated that I had the most conservative voting record in Congress on economic issues. The silver medal went to Barry Goldwater, who I nosed out by one point for that honor. I have to admit, my grandchildren might even call me an old conservative, but economic conservativism is anything but old-fashioned. Those who say otherwise are actually the ones who are out of touch, because ours is a philosophy that has made this country great and has made the South one of its fastest growing regions.

Economic growth and prosperity have changed the South, but they have not changed conservative Southern values. Republicans believe in independence and family values, not government omniscience; we believe in the people, not in bureaucracy. I am talking about traditions like hard work, family, and the entrepreneurial spirit.

We Republicans believe that government's job is to protect and defend, whether at home or abroad; to enable people to go safely to their schools and about their work; and to create the economic climate for success. We believe in an America that is, indeed, a land of opportunity -- a place where American men and women can fulfill their unparalleled capability for innovation and enterprise.

These are the values upon which our nation was built and has become strong. When we fail to strengthen them, we jeopardize our future.

Now the election season has begun. And we must make no mistake about the nature of the challenge before us. In our battle with the Democrats for the White House and for Congress, we are engaged in nothing less than a fundamental clash of values -- a clash of values that has not only led us to the policy stalemate you see in Washington, but which also is responsible for the sluggish growth of our nation's economy and may threaten the recovery.

Democrats believe in big government and ever-increasing bureaucracy. Should they determine the size of government and then tax the American people to fund their prescription for a larger government and more spending? NO. Republicans believe that we must efficiently manage what we have -- not ask for more -- while Democrats insist that government should simply take whatever it wants.

The liberals believe that politicians in Washington, not free markets, should allocate this nation's resources. They believe in guiding the redistribution of limited economic output, which is far more important to them than encouraging economic growth and expanding opportunities for all Americans. And Democrats believe that they are the ones who should determine the size and shape of each slice of the economic pie.

As Republicans, we will fight for what we believe in. The clash of values is real and will make a difference to Americans' standard of living.

President Bush has put forward a solid economic package that will accelerate economic recovery in the short term, free the economy to reach its maximum economic growth in the long term, and increase the competitiveness of American goods and services in the world economy. The President's plan is about jobs. It is about families and America's future.

The President's plan is directed at the specific needs and aspirations of the American people: It will assist families to buy a home, to save for the future, to finance education, to purchase health insurance, and to plan for retirement. And these initiatives will provide stimulus in both the short and long term.

The President has challenged Congress to pass a growth-oriented plan by March 20. It will encourage investments by both businesses and individuals and it will allow people to purchase their first homes. It will help small businesses -- which are the major source of new jobs -- to obtain funding to expand.

This package costs less than $7 billion over the next 5 years and is paid for with spending cuts and reforms. We do not need to increase anyone's taxes to get the economy moving.

This bill can be enacted immediately. And, if it is, the President will sign it immediately. It will spur the economic recovery, put people back to work, and protect others from losing jobs. More than that, it's enactment would demonstrate that Congress can act in a way that benefits the American people. If the Democrats really cared about jobs -- if they really cared about being fair to the American people -- they would pass it now and save their debating points about tax increases for the political campaign. There is nothing more unfair than someone without a job.

The President also has proposed an increase in the personal exemption for every family with children. The personal exemption is badly out of date and we need to begin to restore its value. We should begin with the children. That's only fair. But here's the critical difference -- we will not pay for it with tax increases.

The President's program is a series of building-blocks. We must accelerate economic growth, but we cannot and will not do it the Democrats' way -- by increasing income tax rates and spending.

Only sustained economic growth can improve the incomes of wage-earning men and women; only sustained economic growth will provide the resources to feed and house the poor and guarantee affordable access to health care to all Americans. And only sustained economic growth -- not higher tax rates -- will increase the resources of federal, state and local governments.

The clash of values has never been more apparent than this week, when the Democrats put together their alternative to the President's growth plan. Rather than attempting to work with the President to accelerate economic growth and create jobs, they have devised a partisan plan that is fiscally irresponsible -- a plan that they know the President will not sign. They are simply playing politics at a price the American people should not have to pay.

In the course of creating a political manifesto, the Democrats have latched onto some of the President's initiatives. They have now endorsed six of the President's seven short-term growth initiatives:

1) Creating an investment tax allowance that will inject billions into the economy by encouraging more businesses to invest;

2) Reforming of the alternative minimum tax to create new jobs by removing tax impediments for business investment;

3) Easing passive loss restrictions to help the real estate market compete on an even playing field with other businesses;

4) Allowing penalty-free IRA withdrawals to help more Americans to buy their first homes; and

5) Making possible pension fund investments in real estate to get more money into the real estate market.

And yes, the Democrats have come to recognize that we are overtaxing capital gains in this country and have finally endorsed a capital gains tax reduction. Unfortunately, consistent with their "Government knows best" philosophy, they have limited this incentive to certain specified kinds of investments.

But, the country will only prosper when economic decisions are made by the people in the market place, not in the Congress. And the Democrats have not yet come to understand that a broad-based capital gains tax reduction -- as the President has proposed -- can unlock funds to stimulate American entrepreneurship and job-creating investments.

But at least the debate is now about what kind of capital gains cut to have. Finally, Democrats now agree we must have one.

It would not surprise me if, before they're done, they decide to include the only one of the President's short-term growth incentives that they have completely left out -- the $5,000 tax credit for first time home buyers.

And they have also embraced some of the President's longer-term initiatives -- tax relief for student loans and a permanent R&D tax credit, something the President has called for in every budget he has put forward since taking office.

But that's where the similarity ends. Republicans know that an economic stimulus like capital gains stands on its own feet. Democrats would negate the economic stimulus of a cut in capital gains taxes and other growth proposals by imposing higher income tax rates at the same time. The Democrats are obsessed by the politics of division; Republicans embrace the politics of growth.

When it comes to paying for these and other new initiatives, of course, the last place Democrats will look is to spending cuts. The tax and spend philosophy of the Democrats is in full bloom. In both houses they have reached the conclusion that the government -- rather than the American people -- should spend the peace dividend. Indeed, their taste for raising taxes is so great that the House Democrats have endorsed nearly $95 billion

in tax increases over the budget period to finance less than $80 billion in tax reductions. And this they claim is being done in the name of "fairness." Talk about false advertising.

The Democrats' plan uses one of the world's oldest cons -- the politician's version of "bait and switch." Here's how it works -- or rather, how it doesn't work: The Democrats' plan includes a permanent tax increase on Americans earning over $85,000 to pay for a temporary, two-year, dollar-a-day tax cut for others. A tax increase on the so-called wealthy -- that's the bait.

But this "temporary" tax cut will never expire. Senate Majority Leader Mitchell has already let the cat out of the bag-- he would make the tax cut permanent now. And to do that, the Democrats will have to expand the new 35 percent tax bracket to include single Americans making over $36,000 and families earning over $72,000. If Democrats decide not to pay for it, they will just allow the deficit to soar -- raising interest rates on all Americans. That is the switch.

And that is just part of the con. The latest rendition of their tax bill is nothing less than an attack on the most effective job creating enterprises in the United States -- this nation's small businesses. Their tax increase targeting the so-called "rich" hits right at the heart of small farms and business proprietorships, partnerships and Subchapter S corporations. Almost two-thirds of the taxpayers who would be subject to higher tax rates are owners of small businesses -- the very people who create the majority of jobs in this country. It is not hard to figure out who will be hurt -- more than a million of this nation's small businesses -- working Americans. The Democrats plan is a job killer, not a job creator.

It is a con game for sure; a game in which the American people will be the losers. Dealing with the Democrats is like paying the cannibals to eat you last.

But Americans won't be fooled. They want fiscal responsibility, and they don't want and don't need any increases in tax rates. At least some Democrats know it. Their current front runner -- Paul Tsongas -- has already said he would veto the bill. That should tell you something.

Each year the Democrats decry the President's budget proposals, and then quickly proceed to fund their own pork barrel projects. Let us remember something the Democrats never mention and the press seems to forget. When Democrats go home, they talk like Republicans, but when the plane lands in Washington, they vote like liberals -- for increased taxes and increased spending.

But to keep American growing, we need to live within our means and provide incentives to hard-working Americans to build a better future. You cannot lift the wage earner up by pulling the wage payer down.

Let us not forget where the good ideas come from. The Salk vaccine was not discovered on Capitol Hill. The cotton gin was not invented on Pennsylvania Avenue. The energy that drives our country comes from American workers and American businesses, not from Washington D.C.

That is why President Bush set the deadline for enactment of seven-point plan. And it must be enacted soon to be effective. There were a lot of unhappy faces among the Democrats about that deadline, but let me quote the President:

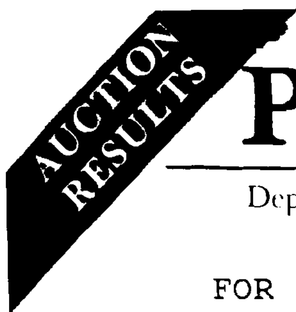
> "They say the deadline is arbitrary. They say the deadline is too early. They say the deadline is unfair... And I say: the deadline is March 20, and we're going to hold their feet to the fire."

It's election time in the United States. The philosophical differences between our parties are stark. In this clash of values, we will prevail.

Recent events are just one part of the battle we find ourselves in with the opposition every day. And, for three years, President Bush has been there to veto the bad and encourage the good, to fight for the values that will keep America on top.

It has been said that, in Washington, you have three choices: make things happen, watch things happen, or wonder what happened. With your help, President Bush will make things happen. With your efforts to put more Republicans in Congress, the American people will be glad to watch what happens. And with your continuing support this year, the Democrats will wake up in November and say, "I wonder what happened."

Thank you.



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 24, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,255 million of 13-week bills to be issued February 27, 1992 and to mature May 28, 1992 were accepted today (CUSIP: 912794YQ1).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.94%	4.05%	99.004
High	3.97%	4.08%	98.996
Average	3.96%	4.07%	98.999

Tenders at the high discount rate were allotted 8%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

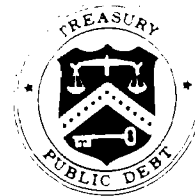
Location	Received	Accepted
Boston	32,915	32,915
New York	30,875,355	9,686,755
Philadelphia	12,560	12,560
Cleveland	40,970	40,970
Richmond	259,525	108,325
Atlanta	26,370	26,370
Chicago	1,355,940	291,940
St. Louis	51,840	11,840
Minneapolis	9,180	9,180
Kansas City	33,080	32,160
Dallas	26,650	26,650
San Francisco	515,470	92,470
Treasury	882,770	882,770
TOTALS	$34,122,625	$11,254,905
Type		
Competitive	$29,514,815	$6,647,095
Noncompetitive	1,464,510	1,464,510
Subtotal, Public	$30,979,325	$8,111,605
Federal Reserve	2,746,600	2,746,600
Foreign Official Institutions	396,700	396,700
TOTALS	$34,122,625	$11,254,905

NB-1682

AUCTION RESULTS

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE
February 24, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,223 million of 26-week bills to be issued February 27, 1992 and to mature August 27, 1992 were accepted today (CUSIP: 912794YX6).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.07%	4.23%	97.942
High	4.09%	4.25%	97.932
Average	4.08%	4.24%	97.937

$1,010,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 24%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	22,835	22,835
New York	25,565,810	10,029,810
Philadelphia	10,075	10,075
Cleveland	51,495	51,495
Richmond	40,480	36,680
Atlanta	25,520	25,520
Chicago	1,651,145	254,145
St. Louis	33,615	13,615
Minneapolis	5,740	5,740
Kansas City	31,855	30,095
Dallas	15,860	15,860
San Francisco	606,640	142,040
Treasury	584,615	584,615
TOTALS	$28,645,685	$11,222,525
Type		
Competitive	$24,186,915	$6,763,755
Noncompetitive	996,070	996,070
Subtotal, Public	$25,182,985	$7,759,825
Federal Reserve	2,600,000	2,600,000
Foreign Official Institutions	862,700	862,700
TOTALS	$28,645,685	$11,222,525

NB-1683

Secretary Nicholas F. Brady
GOP Southern Leadership Conference
Charleston, South Carolina
February 22, 1992

Thank you, Strom (Senator Thurmond). It is a pleasure to join so many of the South's great Republican leaders. This part of the country -- which for decades was a Democratic stronghold-- now plays a critical role in making sure we have a Republican in the White House and strong Republicans in the Congress.

As Republicans, we share a philosophy that some might label old-fashioned. When I served in the Senate in the early 1980's, the National Journal stated that I had the most conservative voting record in Congress on economic issues. The silver medal went to Barry Goldwater, who I nosed out by one point for that honor. I have to admit, my grandchildren might even call me an old conservative, but economic conservativism is anything but old-fashioned. Those who say otherwise are actually the ones who are out of touch, because ours is a philosophy that has made this country great and has made the South one of its fastest growing regions.

Economic growth and prosperity have changed the South, but they have not changed conservative Southern values. Republicans believe in independence and family values, not government omniscience; we believe in the people, not in bureaucracy. I am talking about traditions like hard work, family, and the entrepreneurial spirit.

We Republicans believe that government's job is to protect and defend, whether at home or abroad; to enable people to go safely to their schools and about their work; and to create the economic climate for success. We believe in an America that is, indeed, a land of opportunity -- a place where American men and women can fulfill their unparalleled capability for innovation and enterprise.

These are the values upon which our nation was built and has become strong. When we fail to strengthen them, we jeopardize our future.

Now the election season has begun. And we must make no mistake about the nature of the challenge before us. In our battle with the Democrats for the White House and for Congress, we are engaged in nothing less than a fundamental clash of values -- a clash of values that has not only led us to the policy stalemate you see in Washington, but which also is responsible for the sluggish growth of our nation's economy and may threaten the recovery.

Democrats believe in big government and ever-increasing bureaucracy. Should they determine the size of government and then tax the American people to fund their prescription for a larger government and more spending? NO. Republicans believe that we must efficiently manage what we have -- not ask for more -- while Democrats insist that government should simply take whatever it wants.

The liberals believe that politicians in Washington, not free markets, should allocate this nation's resources. They believe in guiding the redistribution of limited economic output, which is far more important to them than encouraging economic growth and expanding opportunities for all Americans. And Democrats believe that they are the ones who should determine the size and shape of each slice of the economic pie.

As Republicans, we will fight for what we believe in. The clash of values is real and will make a difference to Americans' standard of living.

President Bush has put forward a solid economic package that will accelerate economic recovery in the short term, free the economy to reach its maximum economic growth in the long term, and increase the competitiveness of American goods and services in the world economy. The President's plan is about jobs. It is about families and America's future.

The President's plan is directed at the specific needs and aspirations of the American people: It will assist families to buy a home, to save for the future, to finance education, to purchase health insurance, and to plan for retirement. And these initiatives will provide stimulus in both the short and long term.

The President has challenged Congress to pass a growth-oriented plan by March 20. It will encourage investments by both businesses and individuals and it will allow people to purchase their first homes. It will help small businesses -- which are the major source of new jobs -- to obtain funding to expand.

This package costs less than $7 billion over the next 5 years and is paid for with spending cuts and reforms. We do not need to increase anyone's taxes to get the economy moving.

This bill can be enacted immediately. And, if it is, the President will sign it immediately. It will spur the economic recovery, put people back to work, and protect others from losing jobs. More than that, it's enactment would demonstrate that Congress can act in a way that benefits the American people. If the Democrats really cared about jobs -- if they really cared about being fair to the American people -- they would pass it now and save their debating points about tax increases for the political campaign. There is nothing more unfair than someone without a job.

The President also has proposed an increase in the personal exemption for every family with children. The personal exemption is badly out of date and we need to begin to restore its value. We should begin with the children. That's only fair. But here's the critical difference -- we will not pay for it with tax increases.

The President's program is a series of building-blocks. We must accelerate economic growth, but we cannot and will not do it the Democrats' way -- by increasing income tax rates and spending.

Only sustained economic growth can improve the incomes of wage-earning men and women; only sustained economic growth will provide the resources to feed and house the poor and guarantee affordable access to health care to all Americans. And only sustained economic growth -- not higher tax rates -- will increase the resources of federal, state and local governments.

The clash of values has never been more apparent than this week, when the Democrats put together their alternative to the President's growth plan. Rather than attempting to work with the President to accelerate economic growth and create jobs, they have devised a partisan plan that is fiscally irresponsible -- a plan that they know the President will not sign. They are simply playing politics at a price the American people should not have to pay.

In the course of creating a political manifesto, the Democrats have latched onto some of the President's initiatives. They have now endorsed six of the President's seven short-term growth initiatives:

1) Creating an investment tax allowance that will inject billions into the economy by encouraging more businesses to invest;

2) Reforming of the alternative minimum tax to create new jobs by removing tax impediments for business investment;

3) Easing passive loss restrictions to help the real estate market compete on an even playing field with other businesses;

4) Allowing penalty-free IRA withdrawals to help more Americans to buy their first homes; and

5) Making possible pension fund investments in real estate to get more money into the real estate market.

And yes, the Democrats have come to recognize that we are overtaxing capital gains in this country and have finally endorsed a capital gains tax reduction. Unfortunately, consistent with their "Government knows best" philosophy, they have limited this incentive to certain specified kinds of investments.

But, the country will only prosper when economic decisions are made by the people in the market place, not in the Congress. And the Democrats have not yet come to understand that a broad-based capital gains tax reduction -- as the President has proposed -- can unlock funds to stimulate American entrepreneurship and job-creating investments.

But at least the debate is now about what kind of capital gains cut to have. Finally, Democrats now agree we must have one.

It would not surprise me if, before they're done, they decide to include the only one of the President's short-term growth incentives that they have completely left out -- the $5,000 tax credit for first time home buyers.

And they have also embraced some of the President's longer-term initiatives -- tax relief for student loans and a permanent R&D tax credit, something the President has called for in every budget he has put forward since taking office.

But that's where the similarity ends. Republicans know that an economic stimulus like capital gains stands on its own feet. Democrats would negate the economic stimulus of a cut in capital gains taxes and other growth proposals by imposing higher income tax rates at the same time. The Democrats are obsessed by the politics of division; Republicans embrace the politics of growth.

When it comes to paying for these and other new initiatives, of course, the last place Democrats will look is to spending cuts. The tax and spend philosophy of the Democrats is in full bloom. In both houses they have reached the conclusion that the government -- rather than the American people -- should spend the peace dividend. Indeed, their taste for raising taxes is so great that the House Democrats have endorsed nearly $95 billion

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But this "temporary" tax cut will never expire. Senate Majority Leader Mitchell has already let the cat out of the bag-- he would make the tax cut permanent now. And to do that, the Democrats will have to expand the new 35 percent tax bracket to include single Americans making over $36,000 and families earning over $72,000. If Democrats decide not to pay for it, they will just allow the deficit to soar -- raising interest rates on all Americans. That is the switch.

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Thank you.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 25, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $14,305 million of 2-year notes, Series W-1994, to be issued March 2, 1992 and to mature February 28, 1994 were accepted today (CUSIP: 912827E40).

The interest rate on the notes will be 5 3/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	5.39%	99.972
High	5.41%	99.935
Average	5.40%	99.953

Tenders at the high yield were allotted 41%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,735	30,735
New York	33,565,335	13,240,595
Philadelphia	20,755	20,755
Cleveland	113,960	99,210
Richmond	160,590	81,090
Atlanta	44,155	36,205
Chicago	1,829,495	320,345
St. Louis	63,770	60,590
Minneapolis	34,980	27,030
Kansas City	94,890	94,830
Dallas	15,670	15,670
San Francisco	513,040	77,140
Treasury	201,040	201,040
TOTALS	$36,688,415	$14,305,235

The $14,305 million of accepted tenders includes $988 million of noncompetitive tenders and $13,317 million of competitive tenders from the public.

In addition, $838 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $763 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-1684

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
February 25, 1992

CONTACT: Office of Financing
(202) 219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $22,800 million, to be issued March 5, 1992. This offering will provide about $1,575 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $21,237 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, March 2, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $11,400 million, representing an additional amount of bills dated June 6, 1991, and to mature June 4, 1992 (CUSIP No. 912794 YR 9), currently outstanding in the amount of $23,121 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $11,400 million, to be dated March 5, 1992, and to mature September 3, 1992 (CUSIP No. 912794 ZJ 6).

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 March 5, 1992. 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 $1,391 million as agents for foreign and international monetary authorities, and $5,200 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).

NB-1685

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
February 25, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY OFFERS $14,000 MILLION
OF 57-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $14,000 million of 57-day Treasury bills to be issued March 4, 1992, representing an additional amount of bills dated October 31, 1991, maturing April 30, 1992 (CUSIP No. 912794 YL 2).

Competitive tenders will be received at all Federal Reserve Banks and Branches prior to 1:00 p.m., Eastern time, Thursday, February 27, 1992. Each bid for the issue must be for a minimum amount of $1,000,000. Bids over $1,000,000 must be in multiples of $1,000,000. Bids must show the rate desired, expressed on a bank discount rate basis with two decimals, e.g., 7.10%. Fractions must not be used.

Noncompetitive bids will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, D. C.

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 amount 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.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account. An institution submitting a bid for customers must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount bid at each rate. Customer bids may not be aggregated by rate on the customer list. All bids submitted on behalf of trust estates must provide, for each trust estate, the name or title of the trustee(s), a reference to the document creating the trust with the date of execution, and the employer identification number of the trust.

A single bidder must report its net long position if the total of all its bids for the security being offered and its position in the security equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the security being auctioned, in "when issued" trading,

and in futures and forward contracts, as well as holdings of outstanding bills with the same maturity date and CUSIP number as the new offering. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit.

Public announcement will be made by the Department of the Treasury of the amount and range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection of their bids. The Secretary of the Treasury expressly reserves the right to accept or reject any or all bids, 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.

Notice of awards will be provided by a Federal Reserve Bank or Branch to bidders who have accepted bids, whether for their own account or for the account of customers. No later than 12:00 noon local time on the day following the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities must furnish, no later than 10:00 a.m. local time on the day following the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. A depository institution or government securities broker/dealer submitting a bid for a customer is responsible for notifying its customer of this requirement if the customer is awarded $500 million or more as a result of bids submitted by the depository institution or the broker/dealer.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's Single Bidder Guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies may be obtained from any Federal Reserve Bank or Branch.

oOo

This was read by the Secretary following his remarks @ the JW Marriott to the Nat'l Association of Business Economists

2/26/92

We are engaged in nothing less than a fundamental clash of values -- a clash of values which has not only led us to the policy stalemate you see in Washington, but which also threatens economic recovery and is responsible for the sluggish growth of our nation's economy.

Democrats believe in big government and ever-increasing bureaucracy. Democrats believe that they should determine the size of government and then tax the American people to fund their prescription for larger government and more government spending. While Republicans demand that government manage better what it has, Democrats insist that government should simply take whatever it wants. Democrats believe that politicians in Washington, not free market, should allocate this nation's resources. They believe that they should guide the redistribution of limited economic output and that this is far more important than encouraging economic growth to expand opportunities for all Americans. And they believe that they are the ones who should determine the size and shape of each slice of the economic pie.

TREASURY NEWS

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

EMBARGOED UNTIL DELIVERED
EXPECTED AT 1:30 PM
FEBRUARY 26, 1992

STATEMENT OF NICHOLAS F. BRADY, CHAIRMAN
THE THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
BEFORE THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
534 DIRKSEN SENATE OFFICE BUILDING
FEBRUARY 26, 1992

Mr. Chairman and Members of the Committee:

I am pleased to testify today with the members of the new Thrift Depositor Protection Oversight Board established by the RTC Refinancing Act passed last November.

Accompanying me today are Board members Albert V. Casey, President and CEO of the RTC; Alan Greenspan, Chairman of the Federal Reserve Board; Philip Jackson, Adjunct Professor at Birmingham Southern College; Timothy Ryan, Director of the Office of Thrift Supervision; and William Taylor, Chairman of the Federal Deposit Insurance Corporation. Robert Larson, Chairman of the Taubman Realty Group, is unable to attend because of a previous commitment. Also accompanying me is Peter Monroe, President of the Board.

The Refinancing Act created a single Board for oversight, removed the FDIC as the RTC's manager, established a strong CEO to run the RTC, and clarified the powers of the Board and the RTC.

These changes in structure and powers will be helpful. The addition of the leaders of the RTC, FDIC and OTS to the Board has improved communication and coordination among the principal agencies with front-line responsibilities in the thrift cleanup.

The Act gives broad authority to manage and direct RTC's operations to President Casey of the RTC, who was confirmed by the Senate on January 31, thanks to prompt action by this Committee. He has taken over complete responsibility for RTC operations.

The functional distinction between the RTC and the Board is retained by the Act. The RTC is responsible for the initiation of policies, strategies, and goals for the thrift cleanup. But because so many taxpayer dollars must be committed to this effort, the Act charges the Board with an independent oversight function and gives it the power to review and modify RTC's major decisions, approve its budgets, and monitor its performance.

The Refinancing Act also created a new role for the Secretary of Housing and Urban Development, Jack Kemp. He becomes Chairman of a new National Housing Advisory Board, the purpose of which is to provide advice to this Board on affordable housing policy.

Let me now turn to the RTC financing matters that are of primary concern to the Board. President Casey will then deal with operational and other matters.

Financing Provided by the 1991 Refinancing Act

When the Oversight Board testified before this Committee last June 26, it requested that Congress authorize an additional $80 billion for the thrift cleanup. This request was contained in draft legislation transmitted to the Speaker of the House and President of the Senate on September 24, and subsequently introduced as S. 1896. Deputy Secretary of the Treasury Robson, appearing before the Consumer and Regulatory Affairs Subcommittee on October 23, again stated our request. It was repeated in letters dated November 6 and November 19.

Congress instead voted $25 billion for use by the RTC from the date of enactment on December 12 last year, until April 1, the cut-off date established in the Act.

Of this amount, the RTC has indicated it can use only about $8 billion. Some have expressed surprise that RTC cannot spend more of the funds provided before the April 1 spending cut-off. President Casey can explain in greater detail, but the fundamental reason is that the RTC is able to market and resolve a given number of institutions in any one calendar quarter.

The April 1 cut-off also means that unless Congress votes more funds by mid-March, the RTC will once again have to cease its resolution activity and that, once again, taxpayers will suffer additional unnecessary costs as bankrupt thrifts that should have been closed, continue to operate in the red.

Effect of Stop and Start Funding

Mr. Chairman, when the Board appeared before this Committee in January last year it requested that Congress vote sufficient funds to permit RTC to complete the savings and loan cleanup without delay. I said then that "I am afraid that if Congress imposes on itself the burden of repeated votes on funding, the result will be a start and stop cleanup process that produces further delays, substantial additional costs to taxpayers, and confusion and fear in the minds of depositors."

I regret that this fear has been realized. This is the third time Congress must vote to provide more loss funds in just over a year. It is the fourth time a funding vote is necessary in the 18 months since October 1990.

Each time there has been a delay in RTC's closing of defunct thrifts and each time that delay has increased the cost of the cleanup. And delay has meant a stretch-out of the time RTC needs to do the task assigned it by Congress.

Delay in the resolution process is costly because the operating expenses of conservatorships are eliminated at resolution. In particular, before an institution is closed, its negative net worth and assets are funded at the institution's cost of funds. After resolution, negative net worth and remaining assets are funded at government's cost of funds. While downsizing during conservatorship, and high cost funds replacement, lower a conservatorship's cost of funds, they cannot completely eliminate the government cost of funds advantage. In addition to lowering funding costs, resolution eliminates expenses associated with gathering deposits, such as branch employee salaries, and marketing.

RTC estimates that the aggregate cost of previous funding delays - the slowdown beginning in October 1990 which continued through March, 1991, and the delay resulting from the lack of new funds last fall - has been $400-500 million.

If the RTC does not receive additional funds by mid-March, costly delays will once again begin to occur. The RTC estimates that a one quarter delay would result in unrecoverable costs of approximately $200 million to $250 million. These estimates exclude factors such as the deterioration of franchise values of institutions that remain in conservatorship longer than would otherwise be necessary, and their adverse competitive effects on marginally solvent institutions.

These estimates are explained in greater detail in a letter from President Casey to Senator Domenici and Congressman Gradison, which appears in Attachment I.

Request for Additional Funds

Mr. Chairman and members of the Committee, the extra cost of stop and start funding would have been avoided had permanent sufficient funding been voted. Further unnecessary costs will be avoided if the Administration's funding bill, S. 2212, which was transmitted on January 22 and introduced by the Chairman and Senator Garn by request on February 6, is promptly passed.

S. 2212 would lift the April 1 cut-off, permitting the balance of the $25 billion voted in November to be spent, and would authorize an additional $55 billion. We estimate it would provide sufficient funds to close the 92 thrifts remaining in conservatorship, the 54 thrifts in the Office of Thrift Supervision's Group IV, and thrifts in Group III that OTS might ultimately transfer to the RTC. It would also provide for additional losses should loss estimates on assets in receivership be adjusted upward due to swings in interest rates or real estate values.

Total Cost of the Cleanup

If it proves necessary to spend the full additional amount we request, the total cost of the cleanup in budget dollars would be $160 billion. This is consistent with our past estimates of the $110 billion to $160 billion range of the cost of this effort. If the full $160 billion proves not to be needed, it certainly will not be spent.

But we must again warn that there are conditions beyond our control under which even our conservative estimate of $160 billion will not hold, because as we have said repeatedly, the final cost of this unprecedented effort will depend on many unpredictable variables including the level of interest rates, and the state of the economy and of regional real estate markets.

We believe the cleanup can be completed with the additional funds we request. The best way to avoid further stops and starts and costly delays, would be to vote the full funding we request in S. 2212.

Working Capital Needs

As the Committee knows, there are two types of funds necessary to operate the cleanup: loss funds, which we have just discussed, and working capital.

Working capital is provided from proceeds from asset sales and borrowings from the Federal Financing Bank. It is used to finance the acquisition of the assets of closed institutions until the RTC can sell them. All these FFB borrowings will be repaid from proceeds of asset sales.

Last year, former FDIC Chairman Seidman conservatively estimated that RTC might need as much as $130 to $170 billion of working capital borrowings, and in our funding request last year we asked that the $125 billion statutory cap on those borrowings be increased to $160 billion.

Today we can report that our earlier estimate of total working capital needs appears to have been high. The reason is that the slowdown in resolutions caused by insufficient loss funds has meant that assets continued to be sold while very little working capital was being expended to fund the acquisition of new assets. In addition, the RTC has been able to sell assets more quickly than anticipated. Lower interest rates have helped by encouraging a faster rate of prepayment of mortgages held by RTC.

On January 31 of this year, the RTC's FFB borrowings totalled $54 billion. RTC currently estimates its peak FY 1992 borrowing needs will be about $74 billion. Therefore we do not now request any change in current law regarding working capital.

Accomplishments to Date

Mr. Chairman and Committee members, the savings and loan cleanup task is of unprecedented scope, more massive and more complex than anyone expected. In FIRREA we collectively faced the problem and all its financial and political pain. Since its enactment only about two and a half years ago, there have been substantial gains made in the clean up, and in restoring the private thrift industry to profitability.

Even with periodic funding delays, great progress has been made in meeting the goals set out by President Bush for the cleanup.

First, protect depositor savings:

By the end of January 1992, RTC had saved 19.3 million depositor accounts with funds you voted to honor our government's deposit insurance pledge. The average size of these accounts has been $9,700. Millions of Americans in all parts of this country have been protected from the failures of hundreds of S&Ls, and a collapse of confidence has been avoided.

In New York over 1.2 million depositor savings accounts have been made whole by RTC action and approximately 165,000 remain in conservatorship. In Florida, more than 1.3 million accounts have been made whole and another 60,000 accounts are now in conservatorship waiting to be resolved. In Texas, approximately 2.7 million accounts have been made whole and more than 410,000 additional accounts are in thrifts in conservatorship awaiting resolution.

As an example, funds you voted have saved nearly 85,000 depositors' accounts in Capital Federal Savings and Loan Association in Aurora, Colorado. The average balance of these accounts was $8,000. About 120,000 depositors' accounts averaging only $4,000 were saved at City Federal Savings and Loan Association in Birmingham, Alabama.

Nationwide, there are about 4 million depositors with accounts in thrifts under RTC conservatorship, waiting to be made whole.

Second, clean up failed S&Ls at least cost:

By the end of January RTC had seized 681 thrifts and closed 589 of them. It had another 92 in conservatorship under its management, awaiting closure, or resolution. By the end of September, 1992, the RTC estimates that, given the funds and assuming timely transfer of thrifts to it by OTS, it will have resolved about 740 failed S&Ls. Some troubled thrifts may be closed in the accelerated resolution program, thus avoiding conservatorship.

In the process of protecting depositors and closing thrifts the RTC has acquired an enormous amount of assets - about $370 billion through December 31, 1991. Of this amount it had sold about $240 billion (book value), yielding cash receipts of about $228 billion or about 95 cents on the dollar. RTC thus held an inventory of about $130 billion at December 31.

An example of success in asset disposition is securitization. Through January, the RTC had sold $11.6 billion of single family and multi-family mortgages through the securitization program, resulting in over $650 million in savings to taxpayers.

The RTC expects to soon close its first deal backed by commercial mortgages. Securitization of commercial mortgages could greatly expand the investor base for and the return on these hard-to-sell assets. It will help establish a secondary market for the hundreds of billions of dollars of commercial mortgages held by financial institutions.

Asset sales have been stimulated by lower interest rates and will be further enhanced as credit availability increases. It has been proposed that the Director of OTS be given discretion to permit certain thrifts to temporarily defer deducting from capital their investments in real estate subsidiaries. This would relieve the pressure on thrifts to deduct or divest their real estate subsidiaries at fire sale prices by allowing them more time to restructure their existing investments in these subsidiaries.

This narrow amendment would help alleviate the credit crunch in real estate without undermining thrift capital standards. But we would prefer that, in order to obtain quick passage of the refunding bill, this and other amendments unrelated to refunding be included in separate legislation.

Third, prosecute S&L criminals:

Gains have also been made in investigating and prosecuting S&L criminals. This effort is undertaken by the Justice Department, by the RTC, and by the OTS.

Criminal prosecutions are of course pursued by the Justice Department, partly acting on cases referred to it as criminal by the RTC and OTS. Civil actions are pursued by the RTC, OTS, FDIC, and Department of Justice.

Justice Department data for the period October 1, 1988 through December 31, 1991, showed that of 992 individuals charged in major S&L prosecutions, 723 had been convicted, and only 7% acquitted. In that period, 461 had been sentenced to prison, 155 were awaiting sentencing, and 118 had been sentenced without imprisonment. In that period, $403 million in restitutions had been ordered and about $13.6 million in fines had been imposed. Among those convicted were 226 CEO's, Board Chairmen, Presidents, Directors and other officers of S&Ls. I ask that a summary of the Justice Department's activity in this area be included in the record, Mr. Chairman. President Casey will discuss the RTC's civil cases against S&L crooks. The Director of the OTS and Chairman of the FDIC can respond to any questions about their agencies' activities.

Fourth, restore S&L industry to profitability:

After experiencing years of losses, the private thrift industry, based on preliminary data through December 31, in aggregate returned to profitability in 1991. In September 1991, private S&Ls reported a nine-month net income of nearly $1.2 billion. Eighty-six percent of private sector thrifts are operating profitably. The industry's tangible capital also has increased, from about one percent in 1986 to almost five percent today.

Removing unsound thrifts from the industry has permitted the well-managed institutions to compete on a rational, level playing field.

Challenges Ahead

RTC has made significant progress in achieving the goals of the cleanup. But challenges remain. The Board, in exercising its oversight responsibilities, is monitoring the areas of asset sales, information systems, financial management and internal controls, and contracting. The Board is also concerned about the issue of least cost resolutions.

With regard to asset sales, RTC should be commended for its success in disposing of an enormous quantity of assets. Much of the remaining assets consist of commercial mortgages, non-performing mortgages, and real estate, all of which are less marketable and difficult to sell.

Based on his organization's experience to date, we have asked President Casey to give us a comprehensive asset disposition strategy that will produce the best overall return for the taxpayer.

The Board has been concerned with the development of RTC's management information systems, as we have explained in previous testimony. Improving management information is an RTC priority and is one that the Board is monitoring.

Financial management and internal controls are also a matter of great concern both to the Board and the RTC. When we appeared here last June, I described the efforts of a working group on internal controls that was led by the Deputy Secretary of the Treasury, John Robson, and the Deputy Secretary of HUD, Alfred DelliBovi. This group focused on two important areas - auditability of RTC financial statements and internal controls. We believe the work of that group has contributed to the financial statement auditability goal.

Extensive contracting is required by FIRREA, which directs the RTC to include the private sector in the management and disposition of assets to the greatest extent possible. The Board is concerned, as is the RTC, with RTC's potential exposure to abuse in the process of letting and managing contracts, and, along with the RTC's Inspector General, is monitoring this area as well.

Mr. Chairman I ask that an account of the Board's interactions with the Inspector General and GAO in relation to the RTC's operations be included in the record of this hearing.

With regard to least cost resolutions, Mr. Chairman, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) contains a Sense of the Congress declaration urging bank and thrift regulators to proceed with early resolution of troubled depository institutions wherever possible, following certain general principles.

Because of the significance and complexity of the issues raised by implementing such a policy, and the Board's duty to ensure the efficient use of taxpayer funds, the Board has called public hearings at which the views of representatives of the financial and academic communities are solicited. The Board also welcomes the views of Members of Congress on this important matter. It will of course consult closely with the Committee on the results of the hearing.

Conclusion

This concludes our statement. Attachment II responds to the information requirements set forth in FIRREA for this appearance.

The RTC is making substantial progress in meeting its statutory objectives. It has protected millions of depositors, it has closed hundreds of failed thrifts, and it has disposed of several hundred billion dollars in assets. But the Board's overriding message today is that, as Congress knew when it passed the funding Act last November, the RTC needs additional funds. The Board believes that the full amount of its request of $55 billion in addition to the remainder of the $25 billion already voted, should be made available to RTC to permit it to get this job done. We look forward to working with the Committee to obtain passage of this important legislation as soon as possible.

RTC Staff Analysis

Delay in the resolution process is costly because some, although not all, of the operating expenses of conservatorships are lowered or eliminated at resolution. In particular, before an institution is closed, its negative net worth and assets are funded at the institution's cost of funds. After resolution, negative net worth and remaining assets are funded at a government cost of funds. While downsizing during conservatorship and high cost funds replacement serve to lower a conservatorship's cost of funds, they cannot completely eliminate the government cost of funds advantage.

The cost of funds differential between conservatorships and one-year Treasury borrowings at year-end 1991 was approximately 180 basis points. Compared to historical differences, this is a high differential. The reason for this high differential is that short-term interest rates dropped rapidly toward the end of 1991 while deposits repriced much more slowly. However, even during the third quarter of calendar year 1991, when interest rates did not decline as rapidly as they declined during the fourth quarter, the differential was approximately 115 basis points. Assuming a 115-basis-point differential, that approximately 20 percent of a conservatorship's liabilities can be replaced with lower-cost funds, and that the replaced funds cost an average of 150 basis points above the institution's average cost of funds, resolution lowers funding cost by approximately 50 basis points.

In addition to lowering funding costs, resolution eliminates non-interest expenses associated with gathering liabilities such as branch employee salaries, marketing, etc. According to Functional Cost Analysis data, compiled by the Federal Reserve Board, non-interest expenses associated with gathering liabilities at thrifts comes to approximately 1.15 percent of assets.

Combining the government's cost of funds advantage with the non-interest expenses that are eliminated at resolution yields a quarterly cost of delay of .38 percent of assets, or $3.8 million for each quarter that the resolution of a billion dollars of assets is delayed.

Based on the information the RTC currently has from the Office of Thrift Supervision regarding its 1992 caseload, if the RTC were to receive uninterrupted loss funding, it would resolve institutions with assets of approximately $33 billion, $45 billion, and $27 billion, respectively, during the last three quarters of calendar year 1992. If funding were delayed one quarter, the resolution of institutions scheduled to be closed during the second quarter of the calendar year--institutions holding approximately $33 billion in assets--would be delayed. However, the RTC could not flood the market and make up the entire $33 billion in delayed resolutions in one quarter.

Rather, since $45 billion of resolutions are already anticipated for the third calendar quarter, it might make up one-third, or $11 billion, in the third quarter of the calendar year, and the remaining $22 billion in the fourth quarter. Under such circumstances, the one quarter delay in funding would cause $11 billion in assets to be delayed one quarter and $22 billion to be delayed two quarters. At a cost of $3.8 million for each quarter that the resolution of $1 billion of assets is delayed, this translates into a cost of delay of slightly over $200 million. If, for some reason--perhaps because the actual caseload during the last quarter of calendar year 1992 turns out to be higher than currently anticipated--the $33 billion in delayed resolutions is spread out evenly over three quarters, the total cost of delay would come to approximately $250 million.

If funding were delayed two quarters, the RTC would have fallen behind by $88 billion in resolutions by the time funding is authorized. Depending on the RTC's caseload during calendar year 1993, it is likely to take two to four quarters to completely make up for such a delay. At a cost of $3.8 million for each quarter that the resolution of $1 billion of assets is delayed, this would translate to a total cost of delay of $600 million to $900 million.

Attachment I

February 20, 1992

Honorable Pete V. Domenici
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator Domenici:

Thank you for your co-signed letter asking for further explanation of the cost to the American taxpayer of delaying funding for the Resolution Trust Corporation.

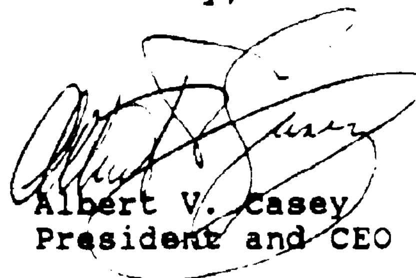
Since the Fall of 1990, the RTC has had to postpone almost two quarters of resolution activity due to inadequate funding. We estimate that, in the aggregate, the cost of this delay was $400 million to $500 million. Last November, Congress provided the RTC with $25 billion in loss funds, but the availability of these funds expires on April 1, 1992. If Congress does not provide the RTC with additional loss funds by mid-March 1992--when the RTC would normally begin marketing institutions for resolution during the second quarter of the calendar year--losses due to inadequate funding will once again begin to mount up.

We estimate that a one quarter delay would result in unrecoverable costs of approximately $200 million to $250 million, while two quarters of consecutive delay would result in unrecoverable costs of approximately $600 million to $900 million. The cost of two quarters of consecutive delay is more than twice the cost of one quarter's delay because the longer the period of delay, the longer it takes to catch up. These estimates exclude nonquantifiable factors such as the deterioration of franchise values of institutions that remain longer in conservatorship than would otherwise be necessary, and their adverse competitive effects on marginally solvent institutions. Enclosed is a more detailed explanation of these costs prepared by my staff.

As the enclosed analysis indicates, delaying the resolution process, even for only a short period of time, is quite costly. I urge you to provide the RTC with sufficient appropriations to carry out its mission by no later than mid-March so that unnecessary costs do not begin to mount. Additional funds will eventually have to be appropriated in order to fulfill the government's obligation to insured depositors. Delay only worsens the situation and in no way serves any purpose.

I appreciate your interest and look forward to working with you. If you have any questions, please let me know.

Sincerely,



Albert V. Casey
President and CEO

Enclosure

Attachment II

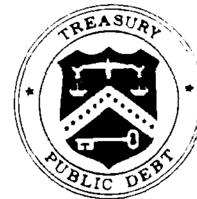
Requirements Established in FIRREA for Semi-Annual Appearances	Comments
I. Report on the progress made during the 6-month period covered by the semi-annual report in resolving cases through institutions insured by the FSLIC prior to FIRREA, and for which conservator or receiver has been appointed (from 1/89 to 9/93). These institutions are referenced below as those described in subsection (b)(3)(A).	During the six month period, the RTC resolved 89 institutions with $52 billion of assets. On September 30, 1991 there were 97 conservatorships with $54 billion of assets waiting resolution. During the six month period, conservatorship and receivership assets decreased $14.4 billion in book value.
II. Provide an estimate of the short-term and long-term cost to the United States Government of obligations issued or incurred during such period.	We interpret this requirment to address RTC short-term borrowings from the Federal Financing Bank ("FFB") and long-term borrowings from Resolution Funding Corporation ("REFCORP").
	During the reporting period, the RTC increased issued and outstanding obligations from $59 to $64 billion in the form of short-term working capital borrowings from the FFB. Approximately, $1.8 billion in interest expenses were incurred in connection with the issuance of these obligations during such period. Repayment of these obligations will come from currently appropriated loss funds and RTC recoveries from receiverships. We expect that the U.S. government ultimately will not incur any further cost in connection with these short-term obligations
	As of January 1991, REFCORP had outstanding the full $30 billion of obligations authorized by FIRREA, with average maturities of 33 years and average yield of 8.76%. Total interest on REFCORP obligations is expected to be a nominal $87.9 billion. The Treasury share of this interest is expected to be a nominal $78 billion.
III. Report on the progess made during such period in selling assets of institutions described in subsection (b)(3)(A) and the impact such sales are having on the local markets in which such assets are located.	As of September 30, 1991, the RTC had sold and collected approximately $211 billion (book value) of assets which was 60% of assets seized by that date. The proceeds from these asset reductions totaled $201 billion. To date, there is no evidence that RTC sales have had have had an adverse impact on local real estate markets. The RTC's National Advisory Board reports that the sale of RTC assets has not adversely affected real estate markets to date and this observation is consistent with independent reports. The RTC will continue, however, to monitor the impact of its sales activity in local markets through the input of its Regional Advisory Boards.

Requirements Established in FIRREA for Semi-Annual Appearances	Comments
Describe the costs incurred by the Corporation in issuing obligations, managing and selling assets acquired by the Corporation.	We have interpreted this requirement to address the assets of receiverships and conservatorships which are under the management of the RTC. Costs of approximately $12.9 million in direct issuance costs were incurred during the period in connection with the securitization program. The total amount paid to private contractors during the April-Sept period was $701 million, of which $636 million represents fees paid under receivership asset management contracts. After the appointment of RTC as conservator, association employees continue to perform asset managment functions under the supervision of the RTC Managing Agent. These staff are already supplemented by outside contractors hired and paid for by the institution for services for which the institution would typically contract in the normal course of business. Accordingly, we have excluded such costs for the purposes of this calculation.
Provide and estimate of income of the Corporation from assets acquired by the Corporation	In its corporation capacity, the RTC's only substantial source of "income" is interest on advances made by the Corporation to conservatorships and receiverships. The RTC accrued $656 million of interest income on advances and loans to conservatorships and receiverships in the six months ended September 30, 1991. Dividends are not included in income because they are a reduction in RTC's claims against the assets of the receiverships, thus a return of capital, and not income. However, dividends received by the RTC during the period totalled $5.5 billion.
Provide an assessment of any potential source of additional funds for the Corporation.	The only remaining sources of additional funds to the Corporation are the secured borrowings for working capital from the FFB and the $5 billion line of credit from the Treasury provided in FIRREA. There are no other funds currently available to the RTC.
Provide an estimate of the remaining exposure of the United States Government in connection with institutions described in subsection (b)(3)(A) which, in the Oversight Board's estimation, will require assistance or liquidation after the end of such period.	The estimate of the total resolution cost to be borne by the RTC in connection with those institutions described in subsection (b)(3)(A) is projected to be in the range of $90 to $130 billion in 1989 dollars or $110 to $160 billion in budget dollars. The RTC recognized approximately $77 billion for estimated losses from inception through December 31, 1991.

AUCTION RESULTS

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE
February 26, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $9,762 million of 5-year notes, Series J-1997, to be issued March 2, 1992 and to mature February 28, 1997 were accepted today (CUSIP: 912827E57).

The interest rate on the notes will be 6 3/4%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.74%	100.042
High	6.75%	100.000
Average	6.75%	100.000

$10,000 was accepted at lower yields.
Tenders at the high yield were allotted 72%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	27,574	27,574
New York	29,773,774	9,234,338
Philadelphia	12,502	12,502
Cleveland	35,533	35,533
Richmond	156,089	81,089
Atlanta	29,535	26,695
Chicago	946,522	80,762
St. Louis	31,462	27,182
Minneapolis	13,886	13,886
Kansas City	48,810	47,810
Dallas	13,487	13,487
San Francisco	662,266	125,259
Treasury	35,477	35,467
TOTALS	$31,786,917	$9,761,584

The $9,762 million of accepted tenders includes $684 million of noncompetitive tenders and $9,078 million of competitive tenders from the public.

In addition, $150 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 26, 1992

Contact: Claire Buchan
(202)566-8773

Statement of Secretary Brady
on House Democratic Tax Vote

The Gephardt package put forward today by the House Democrats was not the President's proposal. It was a Democratic version that busts the budget and ignores many of the President's long-term growth initiatives.

It's time the House Democrats dropped the political shenanigans and got on with the business of getting our economy moving.

The President has proposed a sound economic growth and jobs creation plan. He has asked Congress to approve by March 20th seven items that will reinvigorate economic activity, create jobs and increase consumer confidence. I urge the House of Representatives to pass the President's plan, not to turn its back on economic growth.

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NB-1689

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 27, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 57-DAY BILLS

Tenders for $14,081 million of 57-day bills to be issued March 4, 1992 and to mature April 30, 1992 were accepted today (CUSIP: 912794YL2).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.97%	4.05%	99.371
High	3.97%	4.05%	99.371
Average	3.97%	4.05%	99.371

Tenders at the high discount rate were allotted 92%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	0	0
New York	45,823,000	13,731,000
Philadelphia	0	0
Cleveland	1,000	0
Richmond	70,000	0
Atlanta	0	0
Chicago	1,830,000	257,600
St. Louis	0	0
Minneapolis	10,000	0
Kansas City	0	0
Dallas	0	0
San Francisco	700,000	92,000
Treasury	0	0
TOTALS	$48,434,000	$14,080,600
Type		
Competitive	$48,434,000	$14,080,600
Noncompetitive	0	0
Subtotal, Public	$48,434,000	$14,080,600
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$48,434,000	$14,080,600

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 27, 1992

Contact: Anne Kelly Williams
(202) 566-2041

TREASURY ANNOUNCES PENALTY AGAINST RANDOLPH AND CLARK CURRENCY EXCHANGE, INC.

The Department of the Treasury announced today that Randolph and Clark Currency Exchange, Inc. of Chicago, Illinois, has agreed to a settlement which requires it to pay a civil penalty of $18,000 because it failed to report to the Internal Revenue Service two (2) currency transactions as required by the Bank Secrecy Act ("BSA"). Each violation involved purchases of money orders with currency in excess of $10,000, by one person, at one time, in a single day.

Peter K. Nunez, Assistant Secretary for Enforcement, who announced the penalty, said the penalty represented a complete settlement of Randolph and Clark's civil liability for these violations. This case was developed through a Bank Secrecy Act compliance examination conducted by the Internal Revenue Service.

The assessment of a civil penalty for Bank Secrecy Act violations against Randolph and Clark Currency Exchange, Inc. reflects Treasury's continuing and enhanced effort to enforce Bank Secrecy Act compliance by nonbank financial institutions such as currency exchangers and dealers, check cashers, issuers and redeemers of money orders and traveler's checks, and transmitters of funds.

The Bank Secrecy Act requires banks and other designated financial institutions to keep certain records, to file currency transaction reports with the Treasury on all cash transactions by or through the financial institution in excess of $10,000, and, under some circumstances, to file reports on the international transportation of currency, traveler's checks, and other monetary instruments in bearer form or the equivalent. The purpose of the reports and records required under the Bank Secrecy Act is to assist the government's efforts in criminal, tax and regulatory investigations and proceedings.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
February 27, 1992

Contact: Claire Buchan
202/566-8773

Statement of Secretary of the Treasury
Nicholas F. Brady
on Passage of Democratic Tax Bill

The Democrat-controlled House of Representatives today deserted the American taxpayers in favor of election year politics. They cast aside President Bush's growth package, that would create jobs without increasing tax rates. Instead, they passed the Democratic alternative which increases taxes and will blunt economic recovery.

It is the entrepreneurs, innovators and ultimately middle income families of this country that will have their taxes increased, but that is not what the Democrats are telling the American people.

Americans want jobs, not less than a dollar a day tax cut for two years for some and a permanent tax increase on others.

I urge the Senate to quickly pass the President's pro-growth, pro-job and pro-family growth package.

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

FOR IMMEDIATE RELEASE FEBRUARY 28, 1992

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of January 1992.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $183.1 billion on January 31, 1992, posting a decrease of $2.5 billion from the level on December 31, 1991. This net change was the result of decreases in holdings of agency debt of $2,354.4 million, in holdings of agency assets of $0.3 million, and in holdings of agency-guaranteed loans of $123.2 million. FFB made 15 disbursements in January.

Attached to this release are tables presenting FFB January loan activity and FFB holdings as of January 31, 1992.

NB-1693

FEDERAL FINANCING BANK

JANUARY 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
AGENCY DEBT					
FEDERAL DEPOSIT INSURANCE CORPORATION					
Note No. FDIC 0004					
Advance #1	1/2	$10,619,954,180.82	4/1/92	4.088%	
Advance #2	1/29	851,000,000.00	4/1/92	4.057%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
+Note #589	1/17	5,000,000.00	2/18/92	4.015%	
Note #590	1/28	2,000,000.00	2/18/92	4.034%	
RESOLUTION TRUST CORPORATION					
Note No. 0013					
Advance #1	1/2	53,518,561,222.43	4/1/92	4.088%	
Advance #2	1/17	300,000,000.00	4/1/92	4.015%	
GOVERNMENT - GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
Foley Square Courthouse	1/15	2,309,699.55	12/11/95	6.055%	
U.S. Trust Company of New York					
Advance #27	1/22	184,085.19	11/16/92	4.179%	
RURAL ELECTRIFICATION ADMINISTRATION					
Meade County Elec. #356	1/7	540,000.00	3/31/94	4.972%	4.941% qtr.
W. Farmer Electric #196A	1/7	927,000.00	12/31/15	7.114%	7.052% qtr.
Withlacoochee River Elec. #353	1/24	11,800,000.00	12/31/25	7.523%	7.454% qtr.
Wolverine Power #349	1/28	700,000.00	3/31/94	5.349%	5.314% qtr.
Adams Electric #354	1/30	2,300,000.00	12/31/25	7.734%	7.661% qtr.
Buckeye Power #358	1/30	15,050,000.00	12/31/15	7.379%	7.312% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-92-6	1/31	381,383,600.12	4/30/92	4.088%	

+rollover

FEDERAL FINANCING BANK
(in millions)

Program	January 31, 1992	December 31, 1991	Net Change 1/1/92-1/31/92	FY '92 Net Change 10/1/91-1/31/92
Agency Debt:				
Export-Import Bank	$ 9,802.7	$ 9,802.7	$ -0-	$ -1,458.3
Federal Deposit Insurance Corporation	11,471.0	10,620.0	851.0	3,175.0
NCUA-Central Liquidity Fund	10.2	8.2	2.0	-103.3
Resolution Trust Corporation	53,818.6	57,026.0	-3,207.4	-9,063.8
Tennessee Valley Authority	10,725.0	10,725.0	-0-	-1,150.0
U.S. Postal Service	8,200.6	8,200.6	-0-	-0-
sub-total*	94,028.1	96,382.5	-2,354.4	-8,600.4
Agency Assets:				
Farmers Home Administration	48,534.0	48,534.0	-0-	-2,160.0
DHHS-Health Maintenance Org.	61.2	61.2	-0-	-0-
DHHS-Medical Facilities	75.8	75.8	-0-	-0-
Rural Electrification Admin.-CBO	4,663.9	4,663.9	-0-	-0-
Small Business Administration	5.4	5.7	-0.3	-0.8
sub-total*	53,340.3	53,340.6	-0.3	-2,160.8
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,522.1	4,541.5	-19.4	-77.9
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	-0-	-30.0
DHUD-Community Dev. Block Grant	197.6	199.3	-1.7	-7.0
DHUD-Public Housing Notes +	1,853.2	1,853.2	-0-	-50.2
General Services Administration +	676.6	674.1	2.5	16.0
DOI-Guam Power Authority	28.4	28.4	-0-	-0-
DOI-Virgin Islands	23.9	24.5	-0.6	-0.6
NASA-Space Communications Co. +	-0-	-0-	-0-	-32.7
DON-Ship Lease Financing	1,576.2	1,624.4	-48.3	-48.3
Rural Electrification Administration	18,533.7	18,562.2	-28.5	-63.2
SBA-Small Business Investment Cos.	211.4	215.0	-3.6	-33.6
SBA-State/Local Development Cos.	668.6	673.7	-5.1	-19.7
TVA-Seven States Energy Corp.	2,420.0	2,438.6	-18.6	-27.1
DOT-Section 511	20.7	20.7	-0-	-0.6
DOT-WMATA	177.0	177.0	-0-	-0-
sub-total*	35,729.4	35,852.6	-123.2	-374.8
grand total*	$ 183,097.8	$ 185,575.8	$ -2,478.0	$ -11,136.0

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

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
February 28, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $ 13,750 million of 364-day Treasury bills to be dated March 12, 1992, and to mature March 11, 1993 (CUSIP No. 912794 B3 7). This issue will provide about $ 2,525 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $ 11,233 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Thursday, March 5, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders.

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 March 12, 1992. In addition to the maturing 52-week bills, there are $21,301 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks currently hold $ 2,812 million as agents for foreign and international monetary authorities, and $ 7,529 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 $ 730 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.

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 2, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,407 million of 13-week bills to be issued March 5, 1992 and to mature June 4, 1992 were accepted today (CUSIP: 912794YR9).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.00%	4.10%	98.989
High	4.04%	4.14%	98.979
Average	4.02%	4.12%	98.984

$2,280,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 28%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,695	30,695
New York	28,892,140	9,951,820
Philadelphia	20,645	20,645
Cleveland	40,630	40,630
Richmond	152,645	51,925
Atlanta	18,790	18,790
Chicago	1,812,555	210,555
St. Louis	50,330	10,330
Minneapolis	8,800	8,800
Kansas City	29,865	29,865
Dallas	27,205	27,205
San Francisco	640,490	190,190
Treasury	815,485	815,485
TOTALS	$32,540,275	$11,406,935
Type		
Competitive	$27,943,135	$6,809,795
Noncompetitive	1,425,805	1,425,805
Subtotal, Public	$29,368,940	$8,235,600
Federal Reserve	2,500,430	2,500,430
Foreign Official Institutions	670,905	670,905
TOTALS	$32,540,275	$11,406,935

An additional $269,895 thousand of bills will be issued to foreign official institutions for new cash.

NB-1695

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 2, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,422 million of 26-week bills to be issued March 5, 1992 and to mature September 3, 1992 were accepted today (CUSIP: 912794ZJ6).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.08%	4.22%	97.937
High	4.11%	4.26%	97.922
Average	4.10%	4.25%	97.927

$1,700,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 70%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	23,290	23,290
New York	27,365,440	10,174,140
Philadelphia	10,355	10,355
Cleveland	29,815	29,815
Richmond	63,935	38,035
Atlanta	21,900	21,900
Chicago	1,378,700	196,200
St. Louis	33,250	13,250
Minneapolis	8,985	8,985
Kansas City	27,885	27,885
Dallas	19,435	19,435
San Francisco	625,680	225,680
Treasury	633,475	633,475
TOTALS	$30,242,145	$11,422,445
Type		
Competitive	$25,881,915	$7,062,215
Noncompetitive	1,040,935	1,040,935
Subtotal, Public	$26,922,850	$8,103,150
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	619,295	619,295
TOTALS	$30,242,145	$11,422,445

An additional $236,005 thousand of bills will be issued to foreign official institutions for new cash.

NB-1696

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 2, 1992

Contact: Anne Kelly Williams
(202) 566-2041

THE UNITED STATES AND THE REPUBLIC OF COLOMBIA SIGN AGREEMENT TO COMBAT MONEY LAUNDERING

The governments of the United States and the Republic of Colombia continued their fight against illicit drug trafficking and money laundering by signing a bilateral agreement to exchange financial information. The agreement, signed during the San Antonio Drug Summit, provides a mechanism for the countries to exchange currency transaction information in narcotics laws and money laundering enforcement cases. The San Antonio Summit is a follow-up to the drug summit held in Cartagena, Colombia in February 1990.

The bilateral agreement with the Republic of Colombia was signed on February 26, 1992, by Secretary of State, James A. Baker, III, on behalf of the U.S. Department of the Treasury, and by the Colombian Foreign Minister, Noemi Sanin, on behalf of the Colombian Ministry of Finance.

The U.S./Colombia agreement provides for the exchange of information in connection with the laundering of money derived from "all illicit activity." In addition, the two countries have agreed to pursue the necessary legislative changes to provide for the exchange of information set out in the agreement.

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NB-1697

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
March 3, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $22,800 million, to be issued March 12, 1992. This offering will provide about $1,500 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $21,301 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, March 9, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $11,400 million, representing an additional amount of bills dated December 12, 1991 and to mature June 11, 1992 (CUSIP No. 912794 YS 7), currently outstanding in the amount of $10,439 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,400 million, to be dated March 12, 1992 and to mature September 10, 1992 (CUSIP No. 912794 ZK 3).

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

The bills will be issued for cash and in exchange for Treasury bills maturing March 12, 1992. In addition to the maturing 13-week and 26-week bills, there are $11,233 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 $ 1,745 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $2,475 million as agents for foreign and international monetary authorities, and $ 7,529 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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 3, 1992

Contact: Anne Kelly Williams
(202) 566-2041

TREASURY DEPARTMENT ASSESSES PENALTY AGAINST THE FIRST NATIONAL BANK OF MARYLAND

The Department of the Treasury announced today that it has assessed a civil penalty of $950,000 against the First National Bank of Maryland for failing to file currency transaction reports (CTRs) as required by the Bank Secrecy Act. The bank, whose headquarters is in Baltimore, Maryland, has 144 branches located throughout the state. The violations which occurred in 1987 through January, 1989, stemmed from the bank's improper exemption of three accounts from the currency reporting requirements of the BSA. The amount of the penalty was agreed upon by Treasury and the bank in complete settlement of the bank's civil liability under the BSA.

In determining the amount of the penalty, Treasury considered the bank's full cooperation and willingness to institute immediate corrective action. Peter K. Nunez, Assistant Secretary for Enforcement, who announced the assessment, acknowledges the willingness of the bank's senior management to undertake a wholesale review of its compliance, audit and training procedures, and to implement a dramatically improved compliance program. The amount of the penalty reflects that, currently, the bank's BSA program substantially exceeds the minimum standards required by Treasury regulation, and the bank's assurance that it will comply fully with all aspects of the BSA in the future.

The penalty assessed by Treasury was based upon the bank's failure to comply with the requirements of the BSA. The Treasury has no evidence that the bank or any of its employees or officers engaged in any criminal activities in connection with these reporting violations, nor was it under criminal investigation because of its improper exemption of these accounts and its failure to file CTRs.

The Bank Secrecy Act requires banks and other financial institutions to keep certain records, file CTRs with Treasury on cash transactions in excess of $10,000 and file reports on the international transportation of currency, travelers checks and other monetary instruments in bearer form. The purpose of these records and reports is to assist the government's efforts in combatting money laundering as well as for use in civil, tax, regulatory and other criminal investigations.

This penalty is one of the first assessed since Congress raised the maximum penalty from $10,000 to $25,000 (or the amount of the transaction up to $100,000, whichever is greater) for each unreported transaction, It is also one of the first penalties since Treasury adopted a rigid set of internal penalty guidelines. As part of its ongoing Bank Secrecy Act enforcement and administration, Treasury is pursuing significant civil penalties against other bank and nonbank financial institutions for similar violations.

"These substantial penalties will send a strong message to financial institutions," said Assistant Secretary Nunez. "These institutions have a critical responsibility to implement effective programs that ensure maximum compliance with the BSA and to guard against potential exploitation by money launderers." He also commended the efforts of the Office of the Comptroller of the Currency for the thoroughness of their BSA compliance examinations in this matter.

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TREASURY NEWS

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

STATEMENT BY
THE HONORABLE NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FOREIGN OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 4, 1992

Mr. Chairman and Members of the Committee:

Today we are faced with a compelling responsibility and opportunity to strengthen the security and economic interests of the United States. We must continue to move dramatically under the Enterprise for the Americas Initiative working with our Latin American and Caribbean neighbors to build economic reforms and improve living conditions in our own hemisphere. At the same time, we must meet the challenge of advancing prosperity and democracy in Eastern Europe and in the former Soviet republics to which the IMF is key. The international financial institutions (IFIs) and the legislation before you are essential to achieving these goals.

Last year I testified against the backdrop of dramatic changes in Eastern Europe and the sweeping reforms underway in Latin America, and in many countries of Africa and Asia. An international consensus was emerging that democratic systems and market economies were the way to higher living standards and sustained growth.

Now this consensus is being embraced worldwide, even in the former Soviet Union. And as the President said in his State of the Union Address, "America won the Cold War." The former republics of the Soviet Union are now turning, one-by-one, to the international financial institutions to lead them onto the path of free markets and prosperity. What is at stake is a once-in-a-lifetime opportunity to anchor the peace we have paid so dearly for and strived so hard over many years to achieve.

It is not surprising that we in the West are also turning to the IFIs to help these countries. The IMF and the World Bank were created to rebuild a war-torn Europe, and then played the pivotal role in responding to the debt crisis of the 1980's. The IFIs' unique policy advice and leveraging of financial resources have helped to create a safer world and a sounder global economy.

Make no mistake, every American has benefitted from this. IFI support for free and open markets abroad is increasingly important to jobs and growth here at home. The time has passed when U.S. industry can look solely to our own domestic market for sales and the jobs they create. Exports now comprise the most dynamic sector of our economy. Between 1987 and 1991, rising exports accounted for over half of U.S. economic growth. It is estimated that for every $1 billion in new exports, 20,000 export-related American jobs are created. And the fastest growing U.S. export markets are in the developing world, where IFI influence is greatest. In Latin America alone, there has been a doubling of U.S. exports over the past five years, reaching $62 billion last year.

Mr. Chairman, U.S. leadership in the IFIs has been critical to these successes. But if the IFIs are to continue to play their vital role in supporting U.S. national interests at home and abroad, we must ensure that they have adequate resources to fulfill their responsibilities. That is why Administration funding requests for the IFIs and the EAI -- the IMF quota increase, the FY92 request of $1,685 million in appropriations for the Multilateral Development Banks (MDBs), the $310 million for EAI debt reduction, and the $100 million for the Multilateral Investment Fund in FY92 -- are so important.

For FY93 we are requesting $1,659 million in budget authority for subscriptions to the MDBs -- which is $26 million less than our FY92 request. Our financial contribution, and that of other members, supports new commitments that now exceed $34 billion each year. This means a leverage ratio of 20:1 when you compare U.S. contributions to MDB commitments. This is a highly cost-effective way to promote U.S. interests. In addition to the MDBs, the Administration is seeking under the Enterprise for the Americas Initiative (EAI) $100 million for the Multilateral Investment Fund (MIF), and $286 million to offset the credit reform costs of debt reduction for FY93.

Mr. Chairman, this morning I will sketch the economic situation and the role of the IFIs in regions of the world.

LATIN AMERICA AND THE CARIBBEAN

I would like to bring you up to date on an initiative close to home. We are witnessing the will and determination among today's Latin American and Caribbean leaders to work toward growth and

prosperity. The **Enterprise for the Americas Initiative (EAI)** is the most popular and effective program we have developed for securing sustained economic recovery in this hemisphere. During the President's trip in December 1990, these leaders demonstrated their strong support of the EAI by saying the following:

> "The Bush Plan heralds the United States' will to build a constructive agenda vis-a-vis Latin America. It is also a sign that the United States wishes to assign an effective priority to economic cooperation with our region...I deem the Bush Plan to be a promising possibility to definitely reconcile the unity of the Latin American nations with the strengthening of hemispheric cooperation."
>
> President Collor, Brazil

> "Your historic Initiative of the Americas...was scarcely unveiled when we realized that it implied a qualitative change in the hemispheric relations and because of this, Mr. President, we hastened to support and praise it...We look forward to the effective implementation of your proposal."
>
> President Lacalle, Uruguay

> "The integration of Latin America is today something more than a project. It is as irreversible as its democratic systems...It is in this spirit that Argentina sees with hope the promising possibilities which may emerge from the proposals contained in the Enterprise for the Americas...."
>
> President Menem, Argentina

> "The Enterprise for the Americas Initiative proposed by you, Mr. President, opens interesting perspectives...Your vision of a free trade area covering the whole continent is a bold concept, in line with the aspirations and interests of all Americans...This could be an historic opportunity, and we should not let it slip through our fingers."
>
> President Aylwin, Chile

> "I do sincerely believe, Mr. President, that your Initiative has cleared the way for burying the historical mis-encounter that has so much disconcerted and distanced us."
>
> President Perez, Venezuela

Their views have strengthened in the interim as anyone knows who has talked with Latin American and Caribbean presidents who have visited Washington. President Bush remains firmly committed to join in the partnership of the EAI, ensuring the success of this quiet revolution.

Latin American and Caribbean economies are undergoing a dramatic transformation. The Enterprise for the Americas Initiative supports this process by working with countries to encourage

liberalization of trade and investment and to reduce debt burdens as a reward for economic reforms. These reforms will promote economic growth, and better the quality of life for individuals. Enhanced growth and reduced debt burdens will help free-up resources for domestic policy concerns in these countries -- including health, education, and the environment. At the same time, these countries are consolidating democracy and establishing peace.

The size of the region's gross domestic product already makes the Latin American and Caribbean region a dynamic market for U.S. exports. The United States commands a large share of the Latin American and Caribbean markets; 57 percent of the goods purchased by Latin American and Caribbean countries from industrial countries come from the United States, compared to only 11 percent from Japan.

Our neighbors are ready to work together to implement the Initiative with the help of the IFIs. Indeed, substantial progress has already been made -- in large part due to these countries' efforts -- in following through on the trade, investment, debt and environmental goals of the Initiative.

Trade: Under EAI, countries in the region are moving to reduce tariff and non-tariff barriers and to promote regional trade. Negotiation of a free trade agreement among the United States, Mexico, and Canada is proceeding. In addition the United States has concluded bilateral and multilateral trade and investment framework agreements with 31 countries in Latin America and the Caribbean. This includes all the countries in the region except Cuba, Haiti, and Suriname.

Investment: To help countries compete for investment and capital, two programs have been established -- the **investment sector lending program of the Inter-American Development Bank (IDB)** and the **Multilateral Investment Fund (MIF)**.

IDB investment sector loans have already been extended to Chile, Bolivia, Jamaica, and Colombia to support specific reform programs in each of these countries. The open investment climate will help these economies grow and create investment and export opportunities for U.S. companies. For example, as a condition of the Chile investment loan, the government of Chile agreed, for the first time, to allow its state controlled mining monopoly to engage in joint ventures with private companies. The IDB has also sent diagnostic teams to ten other countries to evaluate their investment climates and to discuss potential reform programs that could be supported by an investment sector loan.

The U.S. joined with 20 other countries on February 11 to create a new $1.3 billion **Multilateral Investment Fund,** to be administered by the IDB, as an important complement to its

investment sector lending program. The Administration is seeking authority for U.S. contributions to the MIF of $500 million over five years, beginning with $100 million in FY92. Japan has committed to contribute $500 million to the Fund; Spain, Portugal, Canada, Italy, Germany, France, and at least thirteen Latin American countries have also committed contributions. It is particularly significant that the Latin American countries have already given their broad political endorsement to this historic new partnership. To secure these commitments, the United States must make its contribution first.

Debt: Debt reduction is an essential tool for encouraging countries in the region to sustain economic reforms. By reducing the burden of debt based upon sound economic management, the United States can help them increase economic growth by attracting new equity investment, including the return of flight capital. This growth will create greater demand for U.S. exports, increasing jobs in the United States.

During FY91, the United States determined that Chile, Bolivia, and Jamaica qualified for debt reduction under EAI legislation and undertook a reduction of these countries' P.L. 480 debts to the United States. El Salvador is among those countries moving to qualify for debt reduction by implementing economic reforms. The Administration has requested $310 million in FY92 and $286 million in FY93 to offset the credit reform cost of engaging in debt reduction for countries that are expected to qualify in these periods.

Environment: Debt reduction under EAI leads directly to environmental protection funded by local currency generated as a result of debt relief. Countries qualifying for debt relief -- such as Bolivia, Jamaica, and Chile -- are allowed to pay interest on remaining debt in local currency to environmental funds established under EAI. Local committees to administer these environmental funds are being assembled with broad participation by local non-governmental organizations (NGOs), leading to increased partnership between these organizations and the governments.

The Administration believes progress on all fronts must be sustained if the Enterprise Initiative is to maintain forward momentum. The program is an integral whole with each part essential to the success of the others. In addition to our requests to offset the credit reform costs of debt reduction, gaining authorization and appropriations for our contribution of $100 million annually for five years to the MIF is essential. Without action by Congress, Japan will withdraw its $500 million pledge to contribute to the Fund, and others are likely to do the same.

By providing authorization and appropriations to follow through on the EAI, Congress will put the United States in a position to work with the Latin American and Caribbean countries that have stepped forward to help build a stable, peaceful, and prosperous future for the hemisphere.

The IMF and the World Bank are also playing a pivotal role in supporting the sweeping changes underway in Latin America. The adoption of economic reform programs, and agreement on commercial bank debt reduction packages -- with IMF and World Bank support-- have been central components of the **international debt strategy**. For countries like Mexico, Chile, and Venezuela, the results have been dramatic. Countries which a few years ago were on the brink of financial disaster are returning to the markets, attracting major new investment and a return of flight capital, and experiencing renewed growth.

Argentina, Brazil, and Ecuador are also pursuing negotiations with their banks and are expected to seek additional Fund and Bank support in the months ahead. At present, the **IMF** has committed $12 billion to the region, which is not only catalyzing the economic reform effort, but also substantial private and official flows, including the return of flight capital.

During the past year, the **IDB** has dramatically increased its lending to the region, providing more than $5 billion in loans. When combined with other sources of financing, this $5 billion helped finance over $9 billion worth of programs. The IDB has assisted governments to privatize state-run companies. In Mexico, IDB financing was instrumental in assisting the Government of Mexico to sell the state-owned telecommunications company to private investors, one of which was Southwestern Bell. The Bank is also actively engaged in a loan to Argentina that will privatize an electric public utility there. The Bank has also brought together Argentine officials with potential U.S. investors.

During the last three years, the annual level of new **World Bank** commitments to Latin America and the Caribbean has averaged over $5.5 billion. Five countries in the region -- Bolivia, Guyana, Haiti, Honduras, and Nicaragua -- are now also eligible for concessional **IDA** funding. **IFC** loan and equity investments for support in such areas as privatizations and capital markets development now total around $2.3 billion.

While the World Bank has been active in support of macroeconomic and structural reforms, the bulk of its lending in Latin America continues to be project loans. The Bank is allocating 25 percent of total lending, amounting to $1.5 billion, to address poverty and human resource development, and future environmental operations will concentrate on such key issues as institutional weaknesses, urban pollution and deforestation.

EASTERN EUROPE AND THE FORMER SOVIET UNION

I would like to turn now to developments in Eastern Europe and the former Soviet Union.

Since the collapse of the Iron Curtain in late 1989, the world has been riveted by the democratic revolutions in all of the countries of **Eastern Europe**. What has attracted less attention is that the West as well as the countries of Eastern Europe have turned to the IFIs to take the lead in helping transform the economies from central planning to free markets. Their efforts have been the key to unlocking large-scale assistance.

The commitment to market-oriented reforms in these countries has been strong, and progress has been made in implementing sound macroeconomic policies. As prices have been liberalized, monetary and fiscal policies have been directed toward reducing inflationary pressures. There has also been a remarkable shift in trade away from the former Soviet bloc to Western trading partners. As a result, the countries of Eastern Europe are in a better balance of payments position than expected a year ago. Finally, the commitment to reduce the role of government in economic life and encourage private enterprise remains very strong. This commitment reflects a fundamental change in attitudes that is critical to successful economic transformation.

A few comments about each of the countries can help to illustrate the progress that has been made.

Poland has inspired democratic and economic reform movements throughout the region. It has made progress in overcoming hyperinflation and liberalizing its foreign exchange regime. The government's efforts convinced creditors to agree to a far-reaching debt-reduction agreement. However, Poland has gone out of compliance with an agreed-upon IMF program, and its recently announced economic plan is not expected to achieve compliance. Poland must demonstrate the political commitment to come into compliance or it cannot access significant IFI funds and in due course would forfeit major benefits from the debt-reduction agreement in the Paris Club. Hungary is Eastern Europe's most successful reformer, and has attracted more than half of all foreign investment in the region. The Czech and Slovak Federal Republic (CSFR) stands out as having made the smoothest adjustment -- and now has a near-balanced budget, and the lowest inflation in the region.

Bulgaria, Romania, Albania, and the Baltic states are relative latecomers to the process of economic reform. Bulgaria and Romania have gone furthest in implementing macroeconomic adjustment programs. Albania and the Baltics should have reform programs in place in the coming months -- following March elections in Albania and IMF membership for the Baltic states.

Yugoslavia's reforms have been seriously set back by the internal conflict.

We anticipate further progress in Eastern Europe during the coming year. As the legal basis for private enterprise is improved and transportation and communications infrastructure is upgraded, private sector growth should increase. We are also hopeful that barriers to trade will be reduced during the year, and trade will pick up.

At the same time, more remains to be done. The Administration is trying to help in many areas. Treasury is providing advisors on macroeconomic issues, including tax policy, budget implementation, and relations with international creditors. Advice is also being provided to ensure that appropriate structures exist to allow a free market to flourish, including legislative changes to clarify property rights and to modernize the domestic financial system.

While the challenges in Eastern Europe have been enormous, the task facing the new states of the **former Soviet Union** is even more daunting. Unlike in Eastern European countries, there has been only a limited tradition of free enterprise in the new states since the Bolshevik revolution. There is little understanding of private property and profits -- the building blocks for free markets.

The former Soviet republics now face great difficulties which underlies the necessity for IMF and World Bank support. GDP for the former Union fell by about 11 percent last year. Inflation was around 140 percent during 1991. The budget deficit was more than 22 percent of GDP in 1991. The authorities printed rubles as fast as the printing presses allowed, increasing the money supply two-fold.

While the foreign debt of the former Union -- at around $65 billion -- is relatively small, a liquidity crisis emerged in 1991. At the beginning of last year, arrears on debt service to private suppliers increased, leading bankers to cut short-term credit lines. By December, foreign exchange reserves had effectively disappeared.

In response to this temporary debt servicing problem, G-7 governments met with representatives of the former Soviet Union last fall. Most of the former republics agreed to a number of key principles including joint and several responsibility for servicing the debt of the former Soviet Union, and the undertaking of macroeconomic reform programs in conjunction with the IMF. In turn, the G-7 countries agreed to a deferral of payments on principal on medium- and long-term external debt contracted before January 1, 1991.

Seventeen creditor governments then signed a formal deferral agreement on January 4, 1992. The deferral can be extended until December 31, 1992, provided satisfactory progress is made, particularly on the mobilization of foreign exchange and the adoption of economic reform programs in full consultation with the IMF. The amount of principal which would be deferred by the seventeen creditor countries through the end of 1992 amounts to $3.2 billion.

Despite the serious economic problems faced by the former Soviet republics, we believe that progress is being made.

Important reforms have already been implemented by the Russian Government. The budget deficit in the first quarter of 1992 is expected to be at an annual rate of around 10 percent of GDP, compared to more than 22 percent for 1991. To contain monetary growth the Central Bank has increased reserve requirements and liberalized interest rates. The ruble was sharply devalued and limited reforms in the exchange system were introduced on January 1, 1992.

Prices on most consumer goods have been liberalized while prices on "essential" items (food, fuels, utilities, and transportation) have increased by a factor of three to five. The domestic price of oil in Russia was increased five-fold, but still remains well below world market prices. In addition, President Yeltsin reportedly intends to privatize 90 percent of small shops this year, while a decree on larger enterprises is expected soon.

The Russian government is in the process of negotiating with the IMF on an economic reform program which is expected to go significantly beyond steps taken in January of this year. We expect this program to be a major step forward in Russia's attempts to transform its economy.

I am impressed by the strong and genuine commitment in Russia, Ukraine and elsewhere to free markets. The fall of communism in the Soviet Union offers the best opportunity of our lifetime to promote democracy and freedom. Already, the West has turned again to the IMF and the World Bank for leadership. We should make a wise investment through our support for the IFIs to ensure that this effort does not fail.

Last year, when the Administration submitted its request for the **IMF quota increase**, we did so based on an assessment of the IMF's global financing needs at the time, including its efforts in Eastern Europe where the IMF committed $8 billion in 1991 alone.

Many of the new states of the Soviet Union will need both IMF financing and policy advice in large amounts. As a result, the IMF's loanable resources are projected to reach very low levels towards the end of this year -- levels which in the past have

caused the Fund to cut lending sharply to member countries and to consider postponing new lending operations.

The consequences of failure to pass the IMF quota increase legislation would be extremely adverse. Without our support, the IMF quota increase cannot go into effect. This will threaten the West's entire response to the new states of the former Soviet Union, and seriously erode U.S. leadership in the IMF at a critical turning point in history. We could also then be faced with severe international pressures for increased bilateral assistance at a time of budget constraint.

The role of other IFIs in assisting Eastern Europe and the former Soviet Union is also essential. The **World Bank** has been concentrating on helping Eastern European countries deepen their reforms in critical sectors such as agriculture, energy and finance. Last year the Bank announced its intention to commit up to $9 billion of its resources to Eastern Europe over the next three years. We see scope for even more lending by the Bank if the borrowing countries are successful in implementing sound policies.

The World Bank will also play a major role in supporting economic reform in the countries which were formerly part of Soviet Union. Membership applications have been received from ten of the former republics, with applications from the remaining expected soon. It is likely that they all will be eligible to borrow from the Bank, and some may qualify as IDA or blend (borrowing from both IDA and the World Bank) borrowers. Prior to membership, the World Bank is providing a wide range of technical assistance to the former republics with a focus on critical sectors such as agriculture, energy, and finance.

The **International Finance Corporation (IFC)** is playing an equally vital role in cooperation with the World Bank and the European Bank for Reconstruction and Development in the economic transformation of Eastern Europe and the former Soviet Union. The IFC's special expertise in privatization, foreign investment, and capital markets development is an essential input. The IFC has opened resident missions in Czechoslovakia, Hungary, and Poland. Just to illustrate, in Czechoslovakia, the IFC has been retained by the largest heavy industrial group, Skoda Plzen, to provide advice on strategic planning, joint ventures, and privatization. In Poland, the IFC has established the Polish Business Advisory Service (PBAS), which will provide technical assistance to Polish entrepreneurs. The IFC has begun participating in the World Bank's technical assistance program to former Soviet republics, and would expand its efforts considerably once the republics become IFC members.

Since making its first loan to Poland in June of 1991, the **European Bank for Reconstruction and Development (EBRD)** has

financed 16 projects, for a total of almost $700 million. It plans to provide financing totalling approximately $1.5 billion in 1992 and up to $2.2 billion in 1993. The focus of its activities is on the private sector, and we will continue to stress this priority.

The former Soviet Union was a borrowing member of the EBRD, and received two loans in 1991. The EBRD Board of Directors has now agreed on an approach to membership for the Commonwealth of Independent States (CIS), under which they are individually eligible for EBRD membership as long as they adhere to the Bank's principles of "multiparty democracy, pluralism and market economics" and are formally accepted as members by the Board of Governors. Under this procedure, some of the former Soviet republics could be confirmed as EBRD members by the time of the April Annual Meeting. Moreover, there is general agreement that the original limitation on borrowing by the former Union is no longer appropriate. The old ceiling will be replaced by lending policies which will increase lending to the former republics. However, the Bank will maintain its original focus on Eastern Europe, with these countries receiving at least 60 percent of the Bank's resources over the next several years.

AFRICA

In Africa, which remains an economically disadvantaged region, a positive trend of political and economic transformation is also underway. Today more than 30 sub-Saharan African countries are undertaking IFI-funded and designed adjustment programs, albeit with varying degrees of success. The **IMF**, through its structural adjustment facilities, is providing concessional resources with longer maturities to 24 low income countries, 18 of which are in Sub-Saharan Africa, to promote market-oriented growth and to alleviate widespread poverty.

The **International Development Association's** Special Program of Assistance for Africa, with support from the IMF and the African Development Bank Group, and bilateral donors including the U.S., has been a primary vehicle for assistance for low-income countries in adjustment. For the 20 "core" countries that have participated in SPA during its first three years (1988-90), growth has increased from an average rate of 1 percent at the start of the 1980's to over 4 percent during 1988-90. By comparison, growth rates in non-SPA countries are only half as high.

A specific example of successful implementation of economic reform is Ghana. Ghana has been making macroeconomic and structural reforms since 1983, and has had a 6 percent growth rate since 1986. While formidable challenges remain, its inflation rates and debt service ratios are falling. Ghana is now working with the World Bank Group on better harnessing the

private sector as the engine of sustainable growth. Following installation of a reform minded democratic government, Zambia is demonstrating a renewed commitment to adjustment, having enacted significant reforms during the government's first 100 days in office.

In 1991, the **African Development Bank and African Development Fund** lent $3.4 billion, much of it on concessional terms. Poverty alleviation has been and remains a priority of the Bank. In addition, the Bank has launched new initiatives on performance-based lending, and preserving environmental integrity. In December, the Bank approved its first participation in private sector investments under a new pilot program.

New concessional IDA commitments for the 500 million people of Sub-Saharan Africa have recently averaged about $2.8 billion annually. These have generated substantial co-financing from bilateral donors and the African Development Bank. IDA's financial and policy leadership remain crucial to efforts to address Africa's formidable economic challenges. Without IDA, Africa's prospects would be bleak.

The policy framework established under IDA's ninth replenishment agreement (IDA-9) underscores the institution's basic commitment to poverty reduction. It also reflects complementary U.S. policy objectives of increased emphasis on economic performance, on increasing environmental activities, and providing significant support for adjusting countries in Sub-Saharan Africa. Negotiations have just begun for IDA's tenth replenishment (IDA-10), and we are working to strengthen the implementation of the sound policy framework of IDA-9.

While the economic climate for investment in Africa remains difficult, the **IFC** is seeking to increase its involvement in the region in those countries where adjustment is taking hold. Such programs as the Africa Enterprise Fund, the Africa Project Development Facility, and the African Management Services Company are specifically intended to enhance IFC's assistance to African entrepreneurs.

In support of economic reform efforts in the poorest countries, primarily in Sub-Saharan Africa, the **Paris Club** has also agreed to new "Trinidad Terms" options which provide 50 percent debt relief or long-term reschedulings. The United States is implementing the rescheduling option of the new Trinidad Terms. In addition, last year the U.S. substantially increased its all-grant flows, and forgave, outside of the Paris Club, more than $2.3 billion in concessional debts owed by the poorest countries with IMF or World Bank economic reform programs.

ASIA

Asia is the fastest growing part of the developing world, has about 41 percent of total LDC gross national product, and is an area of considerable commercial and strategic importance to the United States. Asia also contains the world's largest concentrations of poor people. Important changes are taking place in many Asian countries.

The IFIs have been heavily involved in guiding and supporting many Asian countries in their economic development. Indeed, several countries, such as India, Bangladesh, and Mongolia, have begun implementing economic reforms with support of the MDBs and the **IMF**, and will continue to need the close involvement of all of the institutions. A number of other Asian countries, which have already achieved high levels of development with the past assistance of the institutions, have now joined us in the donor community.

We want to continue to develop economic opportunities in this fast-growing part of the world, encourage countries now undergoing difficult economic adjustments, and provide resources to the poorest countries in this region.

In FY91, **World Bank (IBRD)** and **IDA** commitments to their 12 Asian borrowers totaled $7.5 billion, $4.6 billion in IBRD loans and $2.9 billion in IDA credits. Overall, the level of bank adjustment lending in Asia continued to be modest although the Bank has recently provided large scale adjustment financing in support of India's new reform program.

Historically, the **Asian Development Bank (ADB) and Asian Development Fund (ADF)** have been a major vehicle for promoting development and for exercising policy influence in the region. While the ADF has not lent to India and China, it has been especially effective in addressing the needs of the poorest countries in the region. These include Bangladesh, Pakistan, Nepal and recently Mongolia with aid covering agriculture, energy, health and population.

Negotiations for a $4.2 billion ADF replenishment were recently concluded with the U.S. maintaining its share of 16.2 percent or $170 million a year for four years. The U.S. advocated extensive policy reforms in the replenishment including a strong focus on economic policy reform, protection of the environment, poverty alleviation and women in development. With these policies now in place, we believe the ADF is positioned to exercise a much stronger role in fostering growth and development of Asian economies while improving living standards for the people of the region.

Through the ADB we are especially encouraging countries in the region to lower their trade and investment barriers. Such assistance can support fragile emerging democracies and respect for human rights in the region by promoting economic growth and stability.

We are using our influence to advance other aspects of our development agenda. It is important that the ADB have sufficient resources to react quickly to positive developments which support U.S. strategic and commercial interests throughout the region.

THE IMF QUOTA INCREASE

Some have said that the Administration has not pushed hard enough on the IMF quota increase. Nothing could be further from the truth. Mr. Chairman, I renew the Administration's call for Congressional action to provide for U.S. participation in the IMF quota increase. In May 1990, the IMF agreed to increase its basic resources -- quotas -- from around $120 billion to $180 billion. The U.S. share of the increase is some $12 billion. All major industrial countries, including all G-7 countries but Italy and the United States, have already consented to the increase.

Implementation of the quota increase is crucial to U.S. political and economic objectives. The IMF is the central international vehicle for helping countries of vital U.S. interest achieve economic stability. There is no other institution, bilateral or multilateral, which can provide guidance and support comparable to that of the Fund in helping countries which face fundamental economic problems. These problems must be addressed if development, growth, and the transition to market systems are to take place.

As I have already noted, the IMF, at our urging, is playing a leading role in the historic effort to lay the foundation for growth and the transformation of economic systems around the globe: the Fund is leading the West's efforts to assist the historic transformation of the new states of the former Soviet Union; it is helping Poland, Hungary, and other Eastern European countries; it is at the center of the international debt strategy, especially in Latin America; it is now working hard to achieve economic stability in the key countries of Argentina and Brazil; and it is promoting growth and poverty alleviation in Africa.

The quota increase and the Fund itself are good investments for the United States because our contribution is strongly leveraged. Our $12 billion would be matched by $48 billion from other countries. And the U.S. contribution involves no net budgetary outlays, since each dollar we provide the Fund is balanced by a liquid, interest-bearing asset of equal value. In fact, U.S.

transactions with the IMF during the 1980s resulted in average annual net gains of over $600 million to the U.S. Treasury.

The Administration remains strongly committed to passage of the IMF quota legislation. The challenges confronting us today are the result of over 40 years of hard work in the name of democracy and free markets. Failure to increase IMF quotas will jeopardize the Fund's ability to fulfill its responsibility to the new states of the former Soviet Union and to other countries of critical importance to the United States. I strongly urge you to support immediate passage of the proposed increase in the U.S. quota in the IMF.

THE MULTILATERAL DEVELOPMENT BANKS (MDBs)

Mr. Chairman, as you know, supporting the multilateral development banks (MDBs) requires appropriating U.S. financial resources annually. Our FY93 appropriations request of $1,659 million assumes full funding for FY92.

Our FY93 MDB appropriations request breaks down as follows:

World Bank (IBRD)- $70.1 million for the fifth payment on the U.S. subscription to the third capital increase to support and strengthen assistance to Eastern Europe, the former Soviet States, and Latin America;

International Development Association (IDA)- $1,060.0 million for the third and final installment of the ninth replenishment of resources with its sweeping emphasis on poverty reduction, environment and improvement of living conditions in Africa, Asia and also the poor countries of Central America;

International Finance Corporation (IFC)- $50.0 million for the second payment on the U.S. subscription to the third capital increase to advance privatization and transformation of economies with support of private investors;

Inter-American Development Bank (IDB)- $57.3 million for the third payment on the U.S. subscription of the seventh capital increase to promote investment and trade liberalization and growth in the region benefiting U.S. and Latin economies;

IDB Fund for Special Operations (FSO)- $20.6 million for the third installment of the ninth replenishment of resources required to support the poorest counties of the Latin American and Caribbean region;

Asian Development Bank (ADB)- $25.5 million for second and final payment on the U.S. subscription to the special

capital increase needed to strengthen U.S. policy influence in the Bank and maintain parity with Japan;

Asian Development Fund (ADF)- $170.0 million for the first installment of the fifth replenishment of resources to support poorest economies of the region, especially in economic reforms, poverty alleviation and environment;

European Bank for Reconstruction and Development (EBRD)- $70.0 million for the third payment on the U.S. subscription to the initial capitalization to reorient Eastern Europe and the former Soviet republics toward market economies with the cooperation of foreign investors; and,

African Development Fund (AFDF)- $135.0 million for the second installment of the sixth replenishment of resources for continued assistance to poorest African economies in addressing policy reforms and poverty alleviation.

Over the years, the MDBs have served U.S. economic, political, and humanitarian policy objectives. As mentioned earlier, the MDBs are cost effective and flexible instruments of U.S. international economic policy, with a leverage ratio of U.S. contribution to lending of 20:1; a very effective use of tight U.S. budgetary resources. The U.S. continues to be successful in helping to shape the policy framework in which the MDBs operate which in turn serves U.S. interests.

An important aspect of our economic interest in the MDBs is procurement of contracts by U.S. firms. Our overall assessment of U.S. participation in MDB procurement is that U.S. firms have done well. In the Inter-American Development Bank in particular, there have been significant increases in U.S. shares. For the total amount of MDB-assisted contracts, we are the largest single provider of goods and services. No country is a close second and, on balance, where we have been weak, the trends appear to be improving.

The MDBs contribute to global stability by encouraging growth, and they enable us to pursue other closely-related objectives, such as reducing poverty and improvements in the global environment.

ENVIRONMENTAL INITIATIVES IN THE IFIs

The environment continues to be a central theme in Treasury's management of U.S. participation in the multilateral development banks. It is at the heart of the strategy we are developing for international economic cooperation in the post-cold-war era.

Last year, we completed negotiations for replenishment of the African and Asian development funds. The environment was an

important element in both of those negotiations. It is also an important element in the negotiation that has just begun for the tenth replenishment of the International Development Association (IDA-10). In IDA, we seek more effective environmental action plans in borrowing countries, expanded efforts in end-use energy efficiency and conservation, and improved public access to environmental information about IDA projects and programs.

We also want to reform and strengthen the Global Environment Facility (GEF) in the World Bank. This pilot program currently funds innovative projects to help developing countries address climate change, ozone depletion, loss of biodiversity, and protection of international waters. Its limited life of three years will end in 1994.

We are negotiating with other countries to transform this three-year pilot program into a permanent facility -- a single unitary facility that can fund agreed incremental costs of global benefits from activities arising from new environmental conventions now under negotiation. On the basis of these reforms, the Administration is willing to provide a $50 million U.S. contribution to the core facility of the Fund.

This permanent facility should be inclusive, transparent, and accountable. We seek a strong role for the independent Scientific and Technical Advisory Panel and better linkages to NGOs, regional development banks, and the private sector. We also seek approval of individual GEF projects by the World Bank's Board of Executive Directors in order to make the GEF more accountable.

Another important environmental initiative is the new framework we have negotiated for a pilot program to help protect rain forests in Brazil. This program is the result of a commitment the President and other G-7 leaders made at the Houston Summit in 1990. The Administration is seeking to reprogram $5.0 million in bilateral funding for FY92 for a direct contribution to the core fund of the program. Together with our other ongoing bilateral environmental assistance to Brazil, we will have committed $20.0 million for the program.

Treasury's concerns about environmental issues are reflected in our approach to day-to-day activities of the multilateral development banks: the approval of individual loans and the development of new policies to protect tropical forests and promote energy efficiency and conservation. The new and much-improved forest policy approved for the World Bank last September is a case in point.

This policy, adopted largely at U.S. urging, emphasizes conservation of forest areas and consideration of the effects on forests of economic activities in related areas such as

agriculture and transportation. It prohibits support for commercial logging operations in primary tropical moist forest areas.

We are working to get similar forest policies adopted in the regional development banks. As I have said, we also want to make more rapid progress on energy efficiency and conservation issues on the demand side.

Another important issue is the status of our efforts to implement the Pelosi Amendment. It requires us not to support any MDB loan that will have a significant effect on the environment unless an environmental impact assessment has been made available to the Board of Executive Directors and such assessment or a comprehensive summary thereof has been made available to affected groups, local NGOs, and the public at least 120 days in advance of Board action.

Since the Pelosi amendment was enacted in late 1989, the MDBs, at U.S. urging, have made substantial progress in establishing environmental assessment systems. Systems broadly acceptable to us are now in place in the World Bank, the Inter-American Development Bank, and the Asian Development Bank. More detailed work is still needed in these three banks to ensure that environmental assessments or analyses are completed for all projects that will have significant effects on the environment. We need appropriate documentation 120 days in advance of Board consideration even on projects with positive environmental effects as well as those with significant effects which require mitigation measures.

The Board of Directors of the European Bank for Reconstruction and Development has recently published a policy and procedures that create some impediments to our meeting the 120 day provision in the Pelosi Amendment and to ensuring public access to environmental information. Although the policy and procedures were positive in many other respects, we voted against their acceptance and are now seeking to revisit aspects of the Board's decision. At this point, we expect that we will not be able to support some of the operations that may be presented to the Board later this year.

The African Development Bank has made limited progress on environmental impact assessment due to managerial constraints and a lack of qualified environmental staff. We have tried, without success thus far, to assist the Bank in both of these areas. As a result, we will not be able to support a significant part of the Bank's lending program for the foreseeable future. We will, however, continue to look for ways to help bring the AFDB into compliance with the Pelosi amendment.

The Treasury has established new procedures for inter-agency review of environmental impact assessment material made available to us by the MDBs. In addition, we receive public comment on these materials through periodic meetings with non-governmental organizations and other groups. Thus far, we have abstained on 26 loans that we believe will have significant effects on the environment and for which we did not receive environmental assessment material at least 120 days in advance of Board action.

The United States has encouraged the IMF to promote actions to help protect the environment. At our initiative, the Fund established a team of economists to address environmental concerns. There is growing recognition that macroeconomic policies can have an important effect on environmental issues, and that the Fund can play a useful role in this area. We are working hard to ensure that Fund actions complement sustained growth, and are consistent with a sound environment. The IMF has encouraged developing countries to raise energy prices to world levels, and to abolish subsidies which encourage unsustainable depletion of natural resources and which reward polluters.

POVERTY REDUCTION

Reducing poverty is the core of the development mission of the multilateral institutions. It is also a high priority U.S. objective. Reducing poverty is the integrating theme of the World Bank's assistance strategy developed in the 1990 World Development Report (WDR). It is a two-part strategy based on:

- achievement of broad based, labor-intensive growth to increase the incomes of the poor.

- widespread provision to the poor of basic social services such as health and primary education.

Complementing the strategy are well targeted social safety nets to protect the poorest and most vulnerable. Poverty reduction is particularly central to the lending program of IDA, making it a crucial part of policy dialogue with low-income countries. Under the IDA-9 replenishment framework, poverty reduction was given increased emphasis as a critical element in evaluating the performance criterion for allocating resources.

We believe that the World Bank has adopted an economically sound and pragmatic approach to what is a difficult long-term problem. Implementation of the Bank's strategy, including the completion of country poverty assessments, will of course continue to require the priority attention of Bank management and staff and the entire donor community.

U.S. Executive Directors in the regional development banks are also working to ensure the policies and practices in their

institutions complement the World Bank's approach to reducing poverty.

-- The IDB must allocate at least 35 percent of its lending program to the poorest countries in Latin American and the Caribbean during 1990 through 1993.

-- The ADB has emphasized its intention to provide more social lending through both traditional projects and through projects specifically targeted to the poorest of the poor, enhancing income and employment opportunities.

-- The AFDB is strengthening its poverty alleviation activities. Areas of major investment reflect the overall priority of assisting the poor -- lending for agricultural projects (27 percent of total lending) -- particularly emphasizes food production.

-- The EBRD's private sector oriented project activities and the resulting employment generation are expected to contribute to poverty reduction in its borrowing member countries.

The IMF is also actively engaged in efforts to reduce poverty throughout the developing countries. The key to poverty alleviation is sustained growth, which the IMF promotes.

Mr. Chairman, some analysts criticize IMF conditionality as imposing austerity on those who can least afford it. This represents a misconception of the Fund's role in the adjustment process. In fact, countries seeking Fund assistance generally face severe imbalances, having lived well beyond their means. In the absence of IMF assistance, they face the prospect of "forced" adjustment, which entails slashing investment and growth with even more severe effects on the poor. In contrast, with IMF policy advice and financing, countries can achieve an adjustment path which lays the foundation for sustained growth.

The IMF's focus on promoting sustained growth has been strengthened in recent years. It has emphasized structural measures designed to free-up markets and reduce reliance on fiscal belt-tightening and monetary restraint. Moreover, in low-income countries, especially Sub-Saharan Africa, the IMF has offered concessional resources with longer maturities under its Enhanced Structural Adjustment Facility.

There are, to be sure, inevitable costs associated with adjustment. However, the Fund is sensitive to these. IMF programs routinely include social safety nets, such as the maintenance of expenditures for basic human needs such as health, education and nutrition. The IMF programs also provide for targeted assistance to protect the most vulnerable groups from

the effects of such necessary reforms as the removal of subsidies on basic consumer items.

These measures have been adopted with the strong urging of the United States, and we will continue to encourage the IMF to show increased sensitivity to the effects of adjustment on poverty.

Reducing poverty is the overall objective of development in these institutions. And, Mr. Chairman, it will continue to be a major policy emphasis of the U.S. in evaluating the effectiveness of the IFIs' programs and in upcoming capital increase or replenishment negotiations.

CONCLUSION

Mr. Chairman, thank you for allowing me to review with you the vital role that the international financial institutions perform and the U.S. interests that they in turn serve to promote. This testimony has been longer than usual, but the need for detail and clarity is greater this year than ever before. The multilateral institutions assist countries adopting economic policies which will promote sustainable development. Mr. Chairman, I have also discussed with you the President's Enterprise for the Americas Initiative which we consider essential to help encourage Latin American and Caribbean leaders committed to quiet revolution, embracing democratic reforms and market economies on their path to better living conditions. If the EAI is fully funded and successfully implemented, the United States will benefit far beyond its financial contribution.

The relationship of growing economies to the thriving U.S. export sector is strong and growing. The linkages among the IMF, the MDBs, and the EAI and U.S. political, economic, and humanitarian interests are also strong and must remain so. I ask for your assistance in maintaining the strength of our country's leadership to participate actively in these institutions and their programs through full funding of our appropriations requests for FY92 and FY93. Your strong leadership, Mr. Chairman, and that of your Committee, is crucial to the task of honoring U.S. commitments, thereby ensuring that these institutions have adequate resources to meet the historic challenges ahead.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
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Contact: Claire Buchan
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Statement of Secretary of the Treasury
Nicholas F. Brady
on Senate Finance Mark-up of Tax Legislation

The actions taken today by the Democrats on the Senate Finance Committee show clearly the determination by congressional Democrats to raise taxes on Americans rather than focusing on what people care about -- jobs and a strong economy.

First, the House Democrats voted to increase taxes and at the same time, they rejected spending restraint. But neither the President nor the American people were fooled. Now, the Senate Democrats have raised tax rates even higher.

The President put forward a pro-growth package based on job-creating incentives and spending restraint. The Democrats have rejected this approach in favor of new tax increases which will threaten economic recovery.

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TREASURY NEWS

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

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STATEMENT BY
THE HONORABLE NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
MARCH 5, 1992

Mr. Chairman and Members of the Committee:

Today we are faced with a compelling responsibility and opportunity to strengthen the security and economic interests of the United States. We must continue to move dramatically under the Enterprise for the Americas Initiative working with our Latin American and Caribbean neighbors to build economic reforms and improve living conditions in our own hemisphere. At the same time, we must meet the challenge of advancing prosperity and democracy in Eastern Europe and in the former Soviet republics to which the IMF is key.

Last year I testified on various occasions against the backdrop of dramatic changes in Eastern Europe and the sweeping reforms underway in Latin America, and in many countries of Africa and Asia. An international consensus was emerging that democratic systems and market economies were the way to higher living standards and sustained growth.

Now this consensus is being embraced worldwide, even in the former Soviet Union. And as the President said in his State of the Union Address, "America won the Cold War." The former republics of the Soviet Union are now turning, one-by-one, to the international financial institutions to lead them onto the path of free markets and prosperity. What is at stake is a once-in-a-lifetime opportunity to anchor the peace we have paid so dearly for and strived so hard over many years to achieve.

It is not surprising that we in the West are also turning to the IFIs to help these countries. The IMF and the World Bank were created to rebuild a war-torn Europe, and then played the

pivotal role in responding to the debt crisis of the 1980's. The IFIs' unique policy advice and leveraging of financial resources have helped to create a safer world and a sounder global economy.

Make no mistake, every American has benefitted from this. IFI support for free and open markets abroad is increasingly important to jobs and growth here at home. The time has passed when U.S. industry can look solely to our own domestic market for sales and the jobs they create. Exports now comprise the most dynamic sector of our economy. Between 1987 and 1991, rising exports accounted for over half of U.S. economic growth. It is estimated that for every $1 billion in new exports, 20,000 export-related American jobs are created. And the fastest growing U.S. export markets are in the developing world, where IFI influence is greatest. In Latin America alone, there has been a doubling of U.S. exports over the past five years, reaching $62 billion last year.

LATIN AMERICA AND THE CARIBBEAN

I would like to bring you up to date on an initiative close to home. We are witnessing the will and determination among today's Latin American and Caribbean leaders to work toward growth and prosperity. The **Enterprise for the Americas Initiative (EAI)** is the most popular and effective program we have developed for securing sustained economic recovery in this hemisphere. During the President's trip in December 1990, these leaders demonstrated their strong support of the EAI by saying the following:

> "The Bush Plan heralds the United States' will to build a constructive agenda vis-a-vis Latin America. It is also a sign that the United States wishes to assign an effective priority to economic cooperation with our region...I deem the Bush Plan to be a promising possibility to definitely reconcile the unity of the Latin American nations with the strengthening of hemispheric cooperation."
>
> President Collor, Brazil

> "Your historic Initiative of the Americas...was scarcely unveiled when we realized that it implied a qualitative change in the hemispheric relations and because of this, Mr. President, we hastened to support and praise it...We look forward to the effective implementation of your proposal."
>
> President Lacalle, Uruguay

> "The integration of Latin America is today something more than a project. It is as irreversible as its democratic systems...It is in this spirit that Argentina sees with hope the promising possibilities which may emerge from the proposals contained in the Enterprise for the Americas...."
>
> President Menem, Argentina

> "The Enterprise for the Americas Initiative proposed by you, Mr. President, opens interesting perspectives...Your vision of a free trade area covering the whole continent is a bold concept, in line with the aspirations and interests of all Americans...This could be an historic opportunity, and we should not let it slip through our fingers."
>
> President Aylwin, Chile

> "I do sincerely believe, Mr. President, that your Initiative has cleared the way for burying the historical mis-encounter that has so much disconcerted and distanced us."
>
> President Perez, Venezuela

Their views have strengthened in the interim as anyone knows who has talked with Latin American and Caribbean presidents who have visited Washington. President Bush remains firmly committed to join in the partnership of the EAI, ensuring the success of this quiet revolution.

Latin American and Caribbean economies are undergoing a dramatic transformation. The Enterprise for the Americas Initiative supports this process by working with countries to encourage liberalization of trade and investment and to reduce debt burdens as a reward for economic reforms. These reforms will promote economic growth, and better the quality of life for individuals. Enhanced growth and reduced debt burdens will help free-up resources for domestic policy concerns in these countries -- including health, education, and the environment. At the same time, these countries are consolidating democracy and establishing peace.

The size of the region's gross domestic product already makes the Latin American and Caribbean region a dynamic market for U.S. exports. The United States commands a large share of the Latin American and Caribbean markets; 57 percent of the goods purchased by Latin American and Caribbean countries from industrial countries come from the United States, compared to only 11 percent from Japan.

Our neighbors are ready to work together to implement the Initiative with the help of the IFIs. Indeed, substantial progress has already been made -- in large part due to these countries' efforts -- in following through on the trade, investment, debt and environmental goals of the Initiative.

<u>Trade</u>: Under EAI, countries in the region are moving to reduce tariff and non-tariff barriers and to promote regional trade. Negotiation of a free trade agreement among the United States, Mexico, and Canada is proceeding. In addition the United States has concluded bilateral and multilateral trade and investment framework agreements with 31 countries in Latin America and the

Caribbean. This includes all the countries in the region except Cuba, Haiti, and Suriname.

Investment: To help countries compete for investment and capital, two programs have been established -- the **investment sector lending program of the Inter-American Development Bank (IDB)** and the **Multilateral Investment Fund (MIF)**.

IDB investment sector loans have already been extended to Chile, Bolivia, Jamaica, and Colombia to support specific reform programs in each of these countries. The open investment climate will help these economies grow and create investment and export opportunities for U.S. companies. For example, as a condition of the Chile investment loan, the government of Chile agreed, for the first time, to allow private exploitation of state-controlled copper claims. The IDB has also sent diagnostic teams to ten other countries to evaluate their investment climates and to discuss potential reform programs that could be supported by an investment sector loan.

The U.S. joined with 20 other countries on February 11 to create a new $1.3 billion **Multilateral Investment Fund,** to be administered by the IDB, as an important complement to its investment sector lending program. The Administration is seeking authority for U.S. contributions to the MIF of $500 million over five years, beginning with $100 million in FY92. Japan has committed to contribute $500 million to the Fund; Spain, Portugal, Canada, Italy, Germany, France, and at least thirteen Latin American countries have also committed contributions. It is particularly significant that the Latin American countries have already given their broad political endorsement to this historic new partnership. To secure these commitments, the United States must make its contribution first.

Debt: Debt reduction is an essential tool for encouraging countries in the region to sustain economic reforms. By reducing the burden of debt based upon sound economic management, the United States can help them increase economic growth by attracting new equity investment, including the return of flight capital. This growth will create greater demand for U.S. exports, increasing jobs in the United States.

During FY91, the United States determined that Chile, Bolivia, and Jamaica qualified for debt reduction under EAI legislation and undertook a reduction of these countries' P.L. 480 debts to the United States. El Salvador is among those countries moving to qualify for debt reduction by implementing economic reforms. The Administration has requested $310 million in FY92 and $286 million in FY93 to offset the credit reform cost of engaging in debt reduction for countries that are expected to qualify in these periods.

Environment: Debt reduction under EAI leads directly to environmental protection funded by local currency generated as a result of debt relief. Countries qualifying for debt relief -- such as Bolivia, Jamaica, and Chile -- are allowed to pay interest on remaining debt in local currency to environmental funds established under EAI. Local committees to administer these environmental funds are being assembled with broad participation by local non-governmental organizations (NGOs), leading to increased partnership between these organizations and the governments.

The Administration believes progress on all fronts must be sustained if the Enterprise Initiative is to maintain forward momentum. The program is an integral whole with each part essential to the success of the others. In addition to our requests to offset the credit reform costs of debt reduction, gaining authorization and appropriations for our contribution of $100 million annually for five years to the MIF is essential. Without action by Congress, Japan will withdraw its $500 million pledge to contribute to the Fund, and others are likely to do the same.

By providing authorization and appropriations to follow through on the EAI, Congress will put the United States in a position to work with the Latin American and Caribbean countries that have stepped forward to help build a stable, peaceful, and prosperous future for the hemisphere.

The IMF and the World Bank are also playing a pivotal role in supporting the sweeping changes underway in Latin America. The adoption of economic reform programs, and agreement on commercial bank debt reduction packages -- with IMF and World Bank support-- have been central components of the **international debt strategy.** For countries like Mexico, Chile, and Venezuela, the results have been dramatic. Countries which a few years ago were on the brink of financial disaster are returning to the markets, attracting major new investment and a return of flight capital, and experiencing renewed growth.

Argentina, Brazil, and Ecuador are also pursuing negotiations with their banks and are expected to seek additional Fund and Bank support in the months ahead. At present, the **IMF** has committed $12 billion to the region, which is not only catalyzing the economic reform effort, but also substantial private and official flows, including the return of flight capital.

During the past year, the **IDB** has dramatically increased its lending to the region, providing more than $5 billion in loans. When combined with other sources of financing, this $5 billion helped finance over $9 billion worth of programs. The IDB has assisted governments to privatize state-run companies. In Mexico, IDB financing was instrumental in assisting the

Government of Mexico to sell the state-owned telecommunications company to private investors, one of which was Southwestern Bell. The Bank is also actively engaged in a loan to Argentina that will privatize an electric public utility there. The Bank has also brought together Argentine officials with potential U.S. investors.

During the last three years, the annual level of new **World Bank** commitments to Latin America and the Caribbean has averaged over $5.5 billion. Five countries in the region -- Bolivia, Guyana, Haiti, Honduras, and Nicaragua -- are now also eligible for concessional **IDA** funding. **IFC** loan and equity investments for support in such areas as privatizations and capital markets development now total around $2.3 billion.

While the World Bank has been active in support of macroeconomic and structural reforms, the bulk of its lending in Latin America continues to be project loans. The Bank is allocating 25 percent of total lending, amounting to $1.5 billion, to address poverty and human resource development, and future environmental operations will concentrate on such key issues as institutional weaknesses, urban pollution and deforestation.

EASTERN EUROPE AND THE FORMER SOVIET UNION

I would like to turn now to developments in Eastern Europe and the former Soviet Union.

Since the collapse of the Iron Curtain in late 1989, the world has been riveted by the democratic revolutions in all of the countries of **Eastern Europe**. What has attracted less attention is that the West as well as the countries of Eastern Europe have turned to the IFIs to take the lead in helping transform the economies from central planning to free markets. Their efforts have been the key to unlocking large-scale assistance.

The commitment to market-oriented reforms in these countries has been strong, and progress has been made in implementing sound macroeconomic policies. As prices have been liberalized, monetary and fiscal policies have been directed toward reducing inflationary pressures. There has also been a remarkable shift in trade away from the former Soviet bloc to Western trading partners. As a result, the countries of Eastern Europe are in a better balance of payments position than expected a year ago. Finally, the commitment to reduce the role of government in economic life and encourage private enterprise remains very strong. This commitment reflects a fundamental change in attitudes that is critical to successful economic transformation.

A few comments about each of the countries can help to illustrate the progress that has been made.

Poland has inspired democratic and economic reform movements throughout the region. It has made progress in overcoming hyperinflation and liberalizing its foreign exchange regime. The government's efforts convinced creditors to agree to a far-reaching debt-reduction agreement. However, Poland has gone out of compliance with an agreed-upon IMF program, and its recently announced economic plan is not expected to achieve compliance. Poland must demonstrate the political commitment to come into compliance or it cannot access significant IFI funds and in due course would forfeit major benefits from the debt-reduction agreement in the Paris Club.

Hungary is perhaps the region's most successful reformer, in part because its reform efforts go back to the 1960's. Most remarkable has been Hungary's ability to attract foreign investment; it has attracted more than half of all foreign investment in the region. The Czech and Slovak Federal Republic (CSFR) stands out as having made the smoothest adjustment. Four months after becoming an IMF member, the CSFR has a coherent, IMF-supported reform program in place. The CSFR has been successful in approaching a balanced budget, and has the lowest inflation in the region.

Bulgaria, Romania, Albania, Lithuania, Latvia, and Estonia are relative latecomers to the process of economic reform. Bulgaria and Romania have gone furthest in implementing macroeconomic adjustment programs. Albania and the Baltics should have reform programs in place in the coming months -- following March elections in Albania and IMF membership for the Baltic states. Yugoslavia's reforms have been seriously set back by the internal conflict.

We anticipate further progress in Eastern Europe during the coming year. As the legal basis for private enterprise is improved and transportation and communications infrastructure is upgraded, private sector growth should increase. We are also hopeful that barriers to trade will be reduced during the year, and trade will pick up.

At the same time, more remains to be done. All the countries need to accelerate structural reforms. For example, privatization efforts have been slow and bureaucratic. Attitudes toward foreign investment remain unclear, and, in particular, there should be a greater willingness to recognize intellectual property rights.

The Administration is trying to help in many areas. Treasury is providing advisors on macroeconomic issues, including tax policy, budget implementation, and relations with international creditors. Advice is also being provided to ensure that appropriate structures exist to allow a free market to flourish,

including legislative changes to clarify property rights and to modernize the domestic financial system.

While the challenges in Eastern Europe have been enormous, the task facing the new states of the **former Soviet Union** is even more daunting. Unlike in Eastern European countries, there has been only a limited tradition of free enterprise in the new states since the Bolshevik revolution. There is little understanding of private property and profits -- the building blocks for free markets.

The former Soviet republics now face great difficulties which underlies the necessity for IMF and World Bank support. GDP for the former Union fell by about 11 percent last year. Inflation was around 140 percent during 1991. The budget deficit was more than 22 percent of GDP in 1991. The authorities printed rubles as fast as the printing presses allowed, increasing the money supply two-fold.

While the foreign debt of the former Union -- at around $65 billion -- is relatively small, a liquidity crisis emerged in 1991. At the beginning of last year, arrears on debt service to private suppliers increased, leading bankers to cut short-term credit lines. By December, foreign exchange reserves had effectively disappeared.

In response to this temporary debt servicing problem, G-7 governments met with representatives of the former Soviet Union last fall. Most of the former republics agreed to a number of key principles including joint and several responsibility for servicing the debt of the former Soviet Union, and the undertaking of macroeconomic reform programs in conjunction with the IMF. In turn, the G-7 countries agreed to a deferral of payments on principal on medium- and long-term external debt contracted before January 1, 1991.

Seventeen creditor governments then signed a formal deferral agreement on January 4, 1992. The deferral can be extended until December 31, 1992, provided satisfactory progress is made, particularly on the mobilization of foreign exchange and the adoption of economic reform programs in full consultation with the IMF. The amount of principal which would be deferred by the seventeen creditor countries through the end of 1992 amounts to $3.2 billion.

Despite the serious economic problems faced by the former Soviet republics, we believe that progress is being made.

Important reforms have already been implemented by the Russian Government. The budget deficit in the first quarter of 1992 is expected to be at an annual rate of around 10 percent of GDP, compared to more than 22 percent for 1991. To contain monetary

growth the Central Bank has increased reserve requirements and liberalized interest rates. The ruble was sharply devalued and limited reforms in the exchange system were introduced on January 1, 1992.

Prices on most consumer goods have been liberalized while prices on "essential" items (food, fuels, utilities, and transportation) have increased by a factor of three to five. The domestic price of oil in Russia was increased five-fold, but still remains well below world market prices. In addition, President Yeltsin reportedly intends to privatize 90 percent of small shops this year, while a decree on larger enterprises is expected soon.

The Russian government is in the process of negotiating with the IMF on an economic reform program which is expected to go significantly beyond steps taken in January of this year. We expect this program to be a major step forward in Russia's attempts to transform its economy.

I am impressed by the strong and genuine commitment in Russia, Ukraine and elsewhere to free markets. The fall of communism in the Soviet Union offers the best opportunity of our lifetime to promote democracy and freedom. Already, the West has turned again to the IMF and the World Bank for leadership. We should make a wise investment through our support for the IFIs to ensure that this effort does not fail.

Last year, when the Administration submitted its request for the **IMF quota increase**, we did so based on an assessment of the IMF's global financing needs at the time, including its efforts in Eastern Europe where the IMF committed $8 billion in 1991 alone.

Some have said that the Administration has not pushed hard enough on the IMF quota increase. Nothing could be further from the truth. Mr. Chairman, I renew the Administration's call for Congressional action to provide for U.S. participation in the IMF quota increase. In May 1990, the IMF agreed to increase its basic resources -- quotas -- from around $120 billion to $180 billion. The U.S. share of the increase is some $12 billion. All major industrial countries, including all G-7 countries but Italy and the United States, have already consented to the increase.

Implementation of the quota increase is crucial to U.S. political and economic objectives. The IMF is the central international vehicle for helping countries of vital U.S. interest achieve economic stability. There is no other institution, bilateral or multilateral, which can provide guidance and support comparable to that of the Fund in helping countries which face fundamental economic problems. These problems must be addressed if development, growth, and the transition to market systems are to take place.

As I have already noted, the IMF, at our urging, is playing a leading role in the historic effort to lay the foundation for growth and the transformation of economic systems around the globe: the Fund is leading the West's efforts to assist the historic transformation of the new states of the former Soviet Union; it is helping Poland, Hungary, and other Eastern European countries; it is at the center of the international debt strategy, especially in Latin America; it is now working hard to achieve economic stability in the key countries of Argentina and Brazil; and it is promoting growth and poverty alleviation in Africa.

Many of the new states of the Soviet Union will need both IMF financing and policy advice in large amounts. As a result, the IMF's loanable resources are projected to reach very low levels towards the end of this year -- levels which in the past have caused the Fund to cut lending sharply to member countries and to consider postponing new lending operations.

The consequences of failure to pass the IMF quota increase legislation would be extremely adverse. Without our support, the IMF quota increase cannot go into effect. This will threaten the West's entire response to the new states of the former Soviet Union, and seriously erode U.S. leadership in the IMF at a critical turning point in history. We could also then be faced with severe international pressures for increased bilateral assistance at a time of budget constraint.

The quota increase and the Fund itself are good investments for the United States because our contribution is strongly leveraged. Our $12 billion would be matched by $48 billion from other countries. And the U.S. contribution involves no net budgetary outlays, since each dollar we provide the Fund is balanced by a liquid, interest-bearing asset of equal value. In fact, U.S. transactions with the IMF during the 1980s resulted in average annual net gains of over $600 million to the U.S. Treasury.

The Administration remains strongly committed to passage of the IMF quota legislation. The challenges confronting us today are the result of over 40 years of hard work in the name of democracy and free markets. Failure to increase IMF quotas will jeopardize the Fund's ability to fulfill its responsibility to the new states of the former Soviet Union and to other countries of critical importance to the United States. I strongly urge you to support immediate passage of the proposed increase in the U.S. quota in the IMF.

The role of other IFIs in assisting Eastern Europe and the former Soviet Union is also essential. The **World Bank** has been concentrating on helping Eastern European countries deepen their reforms in critical sectors such as agriculture, energy and finance. Last year the Bank announced its intention to commit up

to $9 billion of its resources to Eastern Europe over the next three years. We see scope for even more lending by the Bank if the borrowing countries are successful in implementing sound policies.

The World Bank will also play a major role in supporting economic reform in the countries which were formerly part of Soviet Union. Membership applications have been received from ten of the former republics, with applications from the remaining expected soon. It is likely that they all will be eligible to borrow from the Bank, and some may qualify as IDA or blend (borrowing from both IDA and the World Bank) borrowers. Prior to membership, the World Bank is providing a wide range of technical assistance to the former republics with a focus on critical sectors such as agriculture, energy, and finance.

The **International Finance Corporation (IFC)** is playing an equally vital role in cooperation with the World Bank and the European Bank for Reconstruction and Development in the economic transformation of Eastern Europe and the former Soviet Union. The IFC's special expertise in privatization, foreign investment, and capital markets development is an essential input. The IFC has opened resident missions in Czechoslovakia, Hungary, and Poland. Just to illustrate, in Czechoslovakia, the IFC has been retained by the largest heavy industrial group, Skoda Plzen, to provide advice on strategic planning, joint ventures, and privatization. In Poland, the IFC has established the Polish Business Advisory Service (PBAS), which will provide technical assistance to Polish entrepreneurs. The IFC has begun participating in the World Bank's technical assistance program to former Soviet republics, and would expand its efforts considerably once the republics become IFC members.

Since making its first loan to Poland in June of 1991, the **European Bank for Reconstruction and Development (EBRD)** has financed 16 projects, for a total of almost $700 million. It plans to provide financing totalling approximately $1.5 billion in 1992 and up to $2.2 billion in 1993. The focus of its activities is on the private sector, and we will continue to stress this priority.

The former Soviet Union was a borrowing member of the EBRD, and received two loans in 1991. The EBRD Board of Directors has now agreed on an approach to membership for the Commonwealth of Independent States (CIS), under which they are individually eligible for EBRD membership as long as they adhere to the Bank's principles of "multiparty democracy, pluralism and market economics" and are formally accepted as members by the Board of Governors. Under this procedure, some of the former Soviet republics could be confirmed as EBRD members by the time of the April Annual Meeting. Moreover, there is general agreement that the original limitation on borrowing by the former Union is no

longer appropriate. The old ceiling will be replaced by lending policies which will increase lending to the former republics. However, the Bank will maintain its original focus on Eastern Europe, with these countries receiving at least 60 percent of the Bank's resources over the next several years.

CONCLUSION

Mr. Chairman, thank you for allowing me to review with you the vital role that the international financial institutions perform and the U.S. interests that they in turn serve to promote. I have also discussed with you the President's Enterprise for the Americas Initiative which we consider essential to help encourage Latin American and Caribbean leaders committed to quiet revolution, embracing democratic reforms and market economies on their path to better living conditions. If the EAI is fully funded and successfully implemented, the United States will benefit far beyond its financial contribution.

The relationship of growing economies to the thriving U.S. export sector is strong and growing. The linkages among the IMF, the MDBs, and the EAI and U.S. political, economic, and humanitarian interests are also strong and must remain so. I ask you, Mr. Chairman, to work with your colleagues in the Congress to provide the resources these institutions need now. In Latin America, in Eastern Europe and in the newly independent states of the former Soviet Union, the United States can greatly benefit from the work of these institutions.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 5, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $13,785 million of 52-week bills to be issued March 12, 1992 and to mature March 11, 1993 were accepted today (CUSIP: 912794B37).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.35%	4.56%	95.602
High	4.38%	4.59%	95.571
Average	4.37%	4.58%	95.581

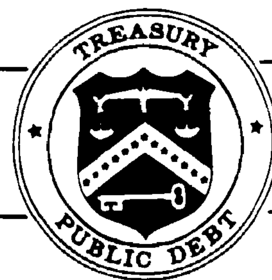
Tenders at the high discount rate were allotted 100%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	18,175	18,175
New York	28,769,930	12,879,930
Philadelphia	10,795	10,795
Cleveland	18,660	18,660
Richmond	17,440	17,440
Atlanta	15,725	15,725
Chicago	1,133,400	58,400
St. Louis	11,530	9,530
Minneapolis	6,890	6,890
Kansas City	23,345	23,345
Dallas	12,875	12,875
San Francisco	735,765	410,515
Treasury	302,885	302,885
TOTALS	$31,077,415	$13,785,165
Type		
Competitive	$27,044,015	$9,751,765
Noncompetitive	624,500	624,500
Subtotal, Public	$27,668,515	$10,376,265
Federal Reserve	2,900,000	2,900,000
Foreign Official Institutions	508,900	508,900
TOTALS	$31,077,415	$13,785,165

PUBLIC DEBT NEWS

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



FOR RELEASE AT 3:00 PM
March 5, 1992

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR FEBRUARY 1992

Treasury's Bureau of the Public Debt announced activity figures for the month of February 1992, of securities within the Separate Trading of Registered Interest and Principal of Securities program, (STRIPS).

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$591,336,269
Held in Unstripped Form	$457,370,684
Held in Stripped Form	$133,965,585
Reconstituted in February	$5,601,760

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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PA-86

TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, FEBRUARY 29, 1992
(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	$4,829,754	$1,828,800	$16,000
11 1/4% Note A-1995	2/15/95	6,933,861	6,029,701	904,160	53,920
11 1/4% Note B-1995	5/15/95	7,127,086	5,315,726	1,811,360	-0-
10 1/2% Note C-1995	8/15/95	7,955,901	6,568,301	1,387,600	24,000
9 1/2% Note D-1995	11/15/95	7,318,550	5,930,150	1,388,400	94,000
8 7/8% Note A-1996	2/15/96	8,575,199	8,256,799	318,400	30,400
7 3/8% Note C-1996	5/15/96	20,085,643	19,725,643	360,000	-0-
7 1/4% Note D-1996	11/15/96	20,258,810	19,346,010	912,800	8,000
8 1/2% Note A-1997	5/15/97	9,921,237	9,826,437	94,800	100,000
8 5/8% Note B-1997	8/15/97	9,362,836	9,180,436	182,400	-0-
8 7/8% Note C-1997	11/15/97	9,808,329	9,032,329	776,000	-0-
8 1/8% Note A-1998	2/15/98	9,159,068	9,149,788	9,280	-0-
9% Note B-1998	5/15/98	9,165,387	9,128,987	36,400	600
9 1/4% Note C-1998	8/15/98	11,342,646	11,213,846	128,800	-0-
8 7/8% Note D-1998	11/15/98	9,902,875	9,478,875	424,000	118,400
8 7/8% Note A-1999	2/15/99	9,719,623	9,602,823	116,800	-0-
9 1/8% Note B-1999	5/15/99	10,047,103	9,119,103	928,000	-0-
8% Note C-1999	8/15/99	10,163,644	10,081,619	82,025	-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	10,334,630	161,600	-0-
8 3/4% Note C-2000	8/15/00	11,080,646	10,983,846	96,800	-0-
8 1/2% Note D-2000	11/15/00	11,519,682	11,304,482	215,200	-0-
7 3/4% Note A-2001	2/15/01	11,312,802	11,246,402	66,400	-0-
8% Note B-2001	5/15/01	12,398,083	12,395,083	3,000	-0-
7 7/8% Note C-2001	8/15/01	12,339,185	12,335,985	3,200	-0-
7 1/2% Note D-2001	11/15/01	24,224,471	24,224,471	-0-	-0-
11 5/8% Bond 2004	11/15/04	8,301,806	4,343,406	3,958,400	89,600
12% Bond 2005	5/15/05	4,260,758	2,220,158	2,040,600	-0-
10 3/4% Bond 2005	8/15/05	9,269,713	8,501,713	768,000	33,600
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	2,187,984	3,817,600	386,400
11 1/4% Bond 2015	2/15/15	12,667,799	2,096,279	10,571,520	47,200
10 5/8% Bond 2015	8/15/15	7,149,916	1,734,556	5,415,360	256,000
9 7/8% Bond 2015	11/15/15	6,899,859	2,107,859	4,792,000	193,600
9 1/4% Bond 2016	2/15/16	7,266,854	6,462,854	804,000	-0-
7 1/4% Bond 2016	5/15/16	18,823,551	17,593,151	1,230,400	339,200
7 1/2% Bond 2016	11/15/16	18,864,448	17,166,128	1,698,320	152,560
8 3/4% Bond 2017	5/15/17	18,194,169	6,662,649	11,531,520	768,320
8 7/8% Bond 2017	8/15/17	14,016,858	10,180,058	3,836,800	436,800
9 1/8% Bond 2018	5/15/18	8,708,639	2,601,439	6,107,200	216,000
9% Bond 2018	11/15/18	9,032,870	1,480,870	7,552,000	313,000
8 7/8% Bond 2019	2/15/19	19,250,798	7,303,598	11,947,200	628,800
8 1/8% Bond 2019	8/15/19	20,213,832	13,035,592	7,178,240	600,640
8 1/2% Bond 2020	2/15/20	10,228,868	3,946,468	6,282,400	32,000
8 3/4% Bond 2020	5/15/20	10,158,883	2,472,483	7,686,400	99,040
8 3/4% Bond 2020	8/15/20	21,418,606	5,630,446	15,788,160	317,920
7 7/8% Bond 2021	2/15/21	11,113,373	8,799,773	2,313,600	-0-
8 1/8% Bond 2021	5/15/21	11,958,888	5,880,488	6,078,400	1,280
8 1/8% Bond 2021	8/15/21	12,163,482	11,838,042	325,440	244,480
8% Bond 2021	11/15/21	22,286,355	22,285,355	1,000	-0-
Total		591,336,269	457,370,684	133,965,585	5,601,760

[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) 874-4023. The balances in this table are subject to audit and subsequent adjustments.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 6, 1992

CONTACT: SCOTT DYKEMA
202-566-2041

TREASURY FINES SIX COMPANIES
FOR LIBYA SANCTIONS VIOLATIONS

The Treasury Department has collected almost $550,000 in civil penalties from six companies for violations of U.S. sanctions against Libya.

This is the first of several announcements expected in the next few weeks, underscoring the administration's determination in dealing with the terrorist regime of Muammar Qadhafi.

"This is a warning to companies throughout the world that they may not do business with Libya from or through the United States," said Richard Newcomb, director of Treasury's office of foreign assets control, which imposed the penalties. "These cases are a graphic reminder of the responsibility of banks under U.S. jurisdiction to freeze transactions relating to Libya that are routed through the United States," Newcomb said.

Treasury has collected civil penalties for various sanction violations from the following companies and banks:

o **Fina Exploration Libya, B.V.**, a subsidiary of Petrofina, one of Europe's largest corporations, paid a penalty of $90,000 for payments through Generale Bank in New York for its Libyan operations. **Generale Bank** paid a fine of $91,000 for effecting numerous transactions for Fina Libya until a Treasury Department audit in 1990 found that the account had not been properly blocked by the bank.

o **Energoprojekt**, headquartered in Yugoslavia with an office in New York, paid $172,500 for its Libyan-related transactions from two accounts at Jugobanka's New York agency. **Jugobanka** paid a $176,000 penalty for related violations of Treasury's Libyan sanction regulations, which involved Energoprojekt's transfers as well as those of a German company.

o **Security Pacific International Bank** in New York paid $10,000 in penalties for failing to block funds destined for a Libyan financial institution -- the Libyan Arab Foreign Bank -- after the Treasury Department revoked a general license for Eurodollar clearing.

o **Vitol S.A., Inc.**, a Houston-based company, paid $10,000 in connection with the sale and shipment of Libyan fuel to Canada in 1989.

Sanctions were imposed against Libya in 1986 to exert financial pressure against Libya and to restrict the ability of Muammar Qadhafi to promote and finance global terrorism. Almost all economic transactions are prohibited with civil penalties of up to $10,000 for each violation. Criminal penalties of $500,000 per violation for corporations and $250,000 for individuals may apply with prison terms up to 12 years for individuals and senior corporate officers.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 9, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,403 million of 13-week bills to be issued March 12, 1992 and to mature June 11, 1992 were accepted today (CUSIP: 912794YS7).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.00%	4.10%	98.989
High	4.02%	4.12%	98.984
Average	4.02%	4.12%	98.984

Tenders at the high discount rate were allotted 28%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	36,050	36,050
New York	36,487,135	9,009,580
Philadelphia	18,890	18,890
Cleveland	53,500	53,500
Richmond	706,255	519,055
Atlanta	533,115	351,675
Chicago	1,281,275	100,475
St. Louis	38,645	17,205
Minneapolis	16,935	16,935
Kansas City	40,165	36,445
Dallas	268,550	88,550
San Francisco	1,101,660	241,660
Treasury	912,575	912,575
TOTALS	$41,494,750	$11,402,595
Type		
Competitive	$36,898,020	$6,805,865
Noncompetitive	1,635,875	1,635,875
Subtotal, Public	$38,533,895	$8,441,740
Federal Reserve	2,228,955	2,228,955
Foreign Official Institutions	731,900	731,900
TOTALS	$41,494,750	$11,402,595

NB-1705

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 9, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,446 million of 26-week bills to be issued March 12, 1992 and to mature September 10, 1992 were accepted today (CUSIP: 912794ZK3).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.12%	4.27%	97.917
High	4.14%	4.29%	97.907
Average	4.13%	4.28%	97.912

Tenders at the high discount rate were allotted 25%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	27,125	27,125
New York	30,318,340	10,160,980
Philadelphia	15,530	15,530
Cleveland	36,145	36,145
Richmond	34,895	29,645
Atlanta	35,465	33,715
Chicago	1,459,940	309,190
St. Louis	29,225	18,975
Minneapolis	7,580	7,580
Kansas City	45,445	42,195
Dallas	17,215	17,215
San Francisco	494,290	106,790
Treasury	640,790	640,790
TOTALS	$33,161,985	$11,445,875
Type		
Competitive	$28,772,330	$7,056,220
Noncompetitive	1,136,755	1,136,755
Subtotal, Public	$29,909,085	$8,192,975
Federal Reserve	2,400,000	2,400,000
Foreign Official Institutions	852,900	852,900
TOTALS	$33,161,985	$11,445,875

NB-1706

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
March 10, 1991

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $22,800 million, to be issued March 19, 1992. This offering will provide about $1,875 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $20,913 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, March 16, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91 -day bills (to maturity date) for approximately $11,400 million, representing an additional amount of bills dated December 19, 1991 and to mature June 18, 1992 (CUSIP No. 912794 YT 5), currently outstanding in the amount of $10,260 million, the additional and original bills to be freely interchangeable.

182 -day bills for approximately $ 11,400 million, to be dated March 19, 1992 and to mature September 17, 1992 (CUSIP No. 912794 ZL 1).

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

The bills will be issued for cash and in exchange for Treasury bills maturing March 19, 1992. 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 $1,201 million as agents for foreign and international monetary authorities, and $4,760 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).

NB-1707

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

TREASURY NEWS

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

AS PREPARED FOR DELIVERY
EMBARGOED UNTIL 10:30 a.m.
March 11, 1992

Contact: Anne Kelly Williams
202-566-2041

Deputy Secretary John E. Robson
National Council of Community Bankers
March 11, 1992
Washington, D.C.

Thank you, Ray (O'Brien, NCCB Chairman). Good morning, and thanks for inviting me here to join you to discuss some important issues that affect not only the nation's banks, but the economic vitality of the entire country.

And it is a special pleasure to be here among America's community bankers -- for you frequently serve as the focal point and core of economic activity in places across the land. You provide the credit for families, farmers, small businesses, and entrepreneurs. And when you come here to Washington, D.C., you come with insight and knowledge about the realities of the nation's economy.

Today, we must recognize the hard fact that economic difficulties extend into many states and communities. Consumer confidence is weak. Unemployment is higher than any of us would like. And we would have to characterize the economy generally as unsatisfactorily sluggish, and acknowledge that a lot of American businesses, American banks, and American people are hurting.

On the other hand, there are some glimmerings of economic recovery. Recently, retail sales, housing starts, and new home sales have turned up. Exports have been strong. Inflation is well under control at half of what it was a year ago. And interest rates -- after much prodding by President Bush and Secretary Brady -- are down significantly. And many believe there is more room for the Fed to ease.

These signs of improvement have led the Congressional Budget Office, the Federal Reserve Chairman and a number of blue chip economists to forecast a perceptible economic recovery by about mid-year. But the Bush Administration is not content to sit by and simply wait for nature to take its course.

NB-1708

Instead, to accelerate the economic recovery and lay some important foundations for long-term growth, President Bush proposed a comprehensive and responsible plan to encourage investment, create jobs, and increase consumer confidence. It's a plan that doesn't raise taxes, relies on cutting government spending, and targets incentives in key areas -- such as families, homebuilders and homebuyers, savings, business investment, and, very importantly, the capital gains tax. And the President challenged Congress to pass basic elements of his economic growth legislation by March 20.

But this legislation is now mired in political quicksand on Capitol Hill. And the Democrats in Congress want to abandon economic responsibility by passing politically inspired legislation that creates no jobs, avoids spending cuts, busts the budget wide open, and raises taxes. This is something for which the American people ought to hold Congress accountable at the polls.

And there are other measures we must take to secure short-term economic recovery and America's long-term economic growth and competitiveness. Growth requires quality education and open global trade and investment policies. And it requires a financial system that can serve the needs of businesses and consumers in good times and bad. I'm talking here about the availability of loans for job-creating investment. I'm talking about the credit crunch.

Everyone will agree that there has been an unhealthy reduction of bank credit available to finance the needs of businesses and consumers -- and that this has adversely affected the economy. There is much less agreement on the causes of the credit restraint. I believe there are several. But, whatever the causes, the result is a market in which many people and businesses are unable to borrow, and many bankers are reluctant to lend.

This is not an acceptable situation. Economic growth is tied directly to bank lending. Banks are primary engines for growth in this country. And, if they do not lend, we are all injured.

And I firmly believe that both the Federal Government and the financial institutions have direct responsibilities to do what we can to confront and solve the credit crunch.

We see the federal government's responsibility as trying to make sure that overregulation of financial institutions is not contributing to the lack of credit. And I acknowledge that bank supervisory policies and practices have contributed to some of the lack of confidence in the lending environment -- and therefore to the credit crunch.

What we want is an environment where banks feel confident making loans to worthy borrowers. That is why Treasury has spearheaded an effort to create an appropriate balance between the dual regulatory responsibilities of advancing economic growth and protecting the public -- and that is why the regulators have provided comprehensive new guidance to the examiner corps.

These changes and clarifications -- some 35 in number and more than a year in the making -- are the product of all four bank and thrift regulatory agencies. The goal is to promote balance and good judgment in examinations with straightforward commonsense ideas that call for equally commonsense application in the field.

What I mean, for example, is that it makes sense for bank examiners to encourage lenders to work with borrowers experiencing temporary problems, not to make it unreasonably difficult to do so. It makes sense for examiners to factor in a time horizon in assessing real estate loans. And it makes sense for examiners not to assume doomsday scenarios. Our economy <u>will</u> turn around, and so will troubled credits. That's common sense and responsible regulation.

To drive the point home, we've called three national meetings of bank and thrift examiners to discuss the issues and go over the guidelines.

Our message to the examiners is this: it is your professional responsibility to carry out your important regulatory duties with balance, judgment, and common sense -- not strict formulas. Follow the guidelines. That is how we can help the credit crunch and contribute to economic growth.

Let me add that these new guidelines for examiners are intended to be permanent improvements in the supervisory process. They are not here just for today's problems and gone tomorrow. They provide sound guidance now and for the future -- for good times and bad. They are issued to be followed in letter and spirit.

And examiners should be held accountable for effective implementation of the guidelines. The regulatory agencies cannot tolerate unprofessional conduct in the field -- whether it be too strict, too lax, inconsistent with the guidance examiners have received, or too bullying in the relationship with the regulated.

Another thing we promised and delivered was stepped-up communications within the bank regulation community. In the past year, we have held over 250 meetings nationwide with examiners, bankers, borrowers, businesses and members of Congress.

Several good ideas were generated from those meetings -- including a new parallel appeals process. The goal is to provide an appeals track for bankers who feel they do not have impartial recourse for treatment they believe to be unfair or not in accordance with the guidelines. We have done this because, while we believe examiner decisions are by and large reasonable, we know it takes very few unreasonable decisions -- only a small number of "horror stories" -- to sap confidence in a fragile lending environment.

So today, the parallel appeals process is in place. You asked for it and you got it. Now I ask you bankers: where are the appeals? Banks are no longer justified in complaining about regulatory overkill unless they come forward and identify where it exists. The regulators cannot deal with unprofessional examiner behavior if they are not informed about where and when it occurred and who did it.

No doubt there are bankers out there -- maybe even some in this room -- who feel they've been treated unfairly. I urge you to take advantage of this opportunity to appeal. You will not be blacklisted by regulators. Examiner retribution will not be tolerated. Instead, you will be doing a service to your customers, to other banks, to the credit crunch and, yes, to the regulatory process.

We are seeing some evidence that the credit crunch is easing. The National Federation of Independent Businesses reports fewer businesses complaining that credit is harder to obtain. Bankers tell us that overkill by bank regulators is less frequent. And, the number of complaint letters to the regulatory agencies has dropped significantly.

But there is more to do. Much more. This is a multi-faceted problem with a multi-faceted solution. We in government will continue to do our part to let the banks do their work.

Beyond the examiner guidelines, we have worked with the Environmental Protection Agency to get a sensible rule for Superfund lender liability. And we have pushed forward on a number of regulatory changes to help lending institutions raise or maintain capital levels -- such as including purchased mortgage servicing rights and credit card relationships in Tier I bank capital, and changing the risk rating on certain residential construction credits.

Now it's your turn. Frankly, it's time the banks came out of hibernation and started lending.

Recently I saw some statistics showing that -- while bank loans fell $47 billion for the year ending last September 30th -- bank portfolios of Treasury securities grew by $27 billion. I don't think that federal and state agencies charter lending institutions simply to have them take deposits and invest them in U.S. Treasury securities. That is not banking.

Banking is the business of making loans to provide capital. It is not risk-free and not intended to be so. We are told frequently that there is a demand for loans out there. And we urge bankers to take the opportunity now, step forward, and make loans to sound borrowers.

Consider what Chemical Bank is doing in New York. Last month, 800 loan officers -- including CEO John McGillicuddy -- went knocking on doors to generate new business and allay fears about the lack of credit. They gave away Nestle Crunch candy bars and said, "This is the only crunch at Chemical." As a result, the bank reports an enthusiastic response from many new customers. Other lenders need to follow this positive and imaginative cue.

If we work together, we can beat the credit crunch problem in the short run and help put the economic recovery on track for robust long-term growth.

In the long run, of course, the problems facing our banks are more complex. One of the main reasons we have a credit crunch is because the banking system is weak. And the main reason the banking system is weak is because it operates under antiquated laws that prevent it from becoming financially healthy and internationally competitive. Last year, the Bush Administration submitted a comprehensive bank reform bill to Congress. But Congress totally failed to adopt anything resembling the needed degree of reform. Instead, they passed flawed legislation that imposes more regulation, higher costs, and offers no opportunity for the banks to strengthen themselves financially.

If we don't correct the fundamental problems in the financial services system, we are going to unnecessarily expose the American taxpayers to the costs of a potential bank cleanup. That's why we're trying again this year to get bank reform.

I know some bankers, particularly at smaller financial institutions, are concerned about Treasury's proposal for interstate banking. We really believe that these concerns are overstated. There is no evidence that out-of-state institutions have overrun community banks. In fact, studies prove that small banks not only survive entry by out-of-state rivals -- they outperform them.

Bank reform is part of the goal we must pursue to get the economy on the right track. President Bush has put forward his proposals to boost the economy now and to strengthen long-term growth. We now look to Congress to act responsively. And your support will be essential if we are to accomplish our mutual goals.

Economic growth must come first. We all share in a commitment to secure growth for our nation. Now, I hope we can work together to fulfill that commitment.

Thank you.

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TREASURY NEWS

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

TESTIMONY OF NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE
AND GENERAL GOVERNMENT
MARCH 12, 1992

Mr. Chairman and Members of the Committee:

It is my pleasure to appear before this Subcommittee to discuss the operating budget request for the Department of the Treasury for FY 1993.

Events have dramatically reshaped the world since we met a year ago. We have witnessed the collapse of Communism and the disintegration of the Soviet Union, affirming for each of us the values embraced in our democratic society. These international developments give us new opportunities and resources to face the economic challenges at home.

Although the economic recovery has been more sluggish than most economists have predicted, there are some encouraging signs: high short term interest rates, which had persisted in recent years, are now at their lowest level in nearly two decades; long term interest rates have also fallen; inflation has subsided, and exports have strengthened.

Last month, I testified before the Senate and House Budget Committees on the economic proposals announced by the President in his State of the Union address and detailed in his FY 1993 Budget. The President's proposals would accelerate economic recovery in the short term, stimulate long-term growth, and increase competition. We ask Congress to support the economic growth initiatives in the President's plan.

Because our nation's economic growth is the engine of progress, and because Americans of every persuasion want action now, we must devote our knowledge and creativity to moving ahead quickly with responsible budget decisions -- for relief from

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present suffering and, more importantly, to preserve a future of genuine economic choices for every American.

The Department of the Treasury's functions are broad and critical to the Nation's economic well being. These critical activities include:

- developing international monetary, financial, and trade policies;
- developing economic policies that consider the economic effects of tax and budget policy;
- borrowing money needed to operate the Federal Government, and accounting for the resulting public debt;
- collecting the proper amount of tax revenue, at the least cost to the public and with the highest degree of public confidence;
- improving Federal cash management and debt collection practices government-wide;
- producing currency and coin for the Nation's commerce;
- carrying out activities that include collecting revenue from imports, and collecting excise taxes on alcoholic beverages and tobacco products;
- regulating the sale of firearms and prosecuting their illegal possession and use, especially with regard to armed career criminals and members of violent criminal gangs; overseeing drug interdiction programs and preventing money laundering; overseeing strategic exports programs; enforcing our nation's trade laws, especially with regard to fraudulent entries, duty evasion, quota and marking violations, and slave labor cases; preventing counterfeiting; training Federal law enforcement officers and protecting the President and Vice President;
- administering embargoes and economic sanctions against foreign countries to further U.S. foreign policy and national security goals; and
- regulating national banks and Federal and State chartered thrifts.

To continue to carry out these essential Government functions, we are requesting a total FY 1993 operating budget of $10.2 billion and 162,519 total FTE, an increase of $612.9 million and a decrease of 524 FTE compared to FY 1992 proposed levels. The Treasury budget request presents an honest approach to responsible spending. More importantly, we are targeting every opportunity available to promote fiscal responsibility and provide innovative responses to today's problems.

The Fiscal Year 1993 budget request has the following major objectives:

- Modernize Information Systems. Treasury plans to aggressively upgrade and integrate our existing systems to ensure they will perform well in the electronic environment of the next century. The major thrust of these upgrades and integration is the complete overhaul and modernization of the IRS' tax administration system, one of the most complex systems of financial transactions in the world. The goal of Tax System Modernization is to enhance service quality by relieving IRS of its manual processes.

- Improve Management of the Nation's Finances. The Financial Management Service is pursuing initiatives to improve government-wide inventory management to reduce the costs associated with excessive and mis-managed inventory. In addition, FMS proposes a major change in the way Treasury pays postage for the checks it issues. If proposed legislation is passed, certain agencies would be charged for the cost of postage for payments made by check. This should give agencies a greater incentive to promote Electronic Funds Transfer, a safer and lower cost alternative to checks.

  The Bureau of Public Debt anticipates long-term savings from its plan to consolidate most of its operations in Parkersburg, West Virginia.

  The Office of the Inspector General is requesting funding to audit bureau financial statements in accordance with the Chief Financial Officers Act of 1990.

- Improve Internal Controls. Resources are requested to strengthen Treasury's internal

controls by identifying and resolving deficiencies in financial systems and processes to fully meet the requirements of the Federal Manager's Financial Integrity Act. These funds include IRS's plans to begin full operation of the Automated Financial System on October 1, 1992, Customs' plans to upgrade its financial accounting systems, replacement of the Bureau of Public Debt's outdated Financial Accounting System, the Inspector General's plans to conduct audits and investigations, and the Financial Management Service's plans to ensure its accounting systems are in compliance with Chief Financial Officers' Act requirements.

- Ensure a "Level Playing Field". Funds are requested to expand Customs' enforcement of U.S. trade laws and IRS' enforcement of international tax laws to help ensure fair competition for U.S. industry and workers.

- Increase Enforcement of the Tax Laws. Additional funds are requested for targeted strategies by the IRS to achieve higher levels of voluntary compliance with the tax laws, more successful collection of taxes owed and more vigorous pursuit of the government's interests in bankruptcy fraud. Also, funds are requested for fair tax administration through increased audit of tax returns on higher incomes and assets.

- Targeting Illegal Money Laundering. Funds are requested for expanding Customs', IRS', and the Financial Crimes Enforcement Network's (FINCEN) attacks on drug-related money laundering operations.

- Conduct Other Enforcement Actions and Expand the War on Drugs. The War on Drugs is a national priority for Treasury's law enforcement and protection bureaus. Funds are requested for FINCEN, Customs, the Bureau of Alcohol, Tobacco and Firearms, IRS, the Federal Law Enforcement Training Center, and the Secret Service to strengthen drug interdiction and investigation, to improve training and continue facility expansion initiated in previous years, to enhance firearms programs, to strengthen protection, and to improve financial crimes intelligence systems.

- o **Meet the Nation's Demand for Currency and Coinage**. Funds are requested for the U.S. Mint to produce sufficient coinage to meet expected demand. The Bureau of Engraving and Printing, which does not require annual appropriations, will meet the Nation's demand for currency.

- o **Policy Formulation and Management Oversight of Departmental Operations**. Funds are requested to permit the Departmental Offices supporting the Secretary to develop and carry out the Nation's economic, financial and tax policies.

- o **International Financial Institutions**. Funding is also requested before another subcommittee for the Multilateral Development Banks (MDBs) which provide technical assistance and financing for development in less developed countries, and for the quota increase for the International Monetary Fund (IMF). The Department is responsible for U.S. policy and operations of the MDBs and the IMF. We will also continue working for American jobs in our hemisphere through the North American Free Trade Agreement and the Enterprise for the Americas Initiative.

In summary, the Department's budget request of $10.2 billion represents a commitment to:

- o modernize the administration of the tax laws, and to promote fairness and quality service to the public;

- o manage the nation's finances responsibly by improving financial accounting and controls;

- o strengthen the war on drugs, and

- o improve the management of essential government services.

Mr. Chairman, that concludes my opening remarks. I will be happy to answer any questions that you or the other Subcommittee members may have.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 12, 1992

Contact: Scott Dykema
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ALAN J. WILENSKY APPOINTED DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Secretary of the Treasury Nicholas F. Brady today announced the appointment of Alan J. Wilensky to serve as deputy assistant secretary of the Treasury for tax policy. As deputy assistant secretary, Mr. Wilensky will serve as the principal advisor to the assistant secretary for tax policy on all matters regarding tax policy. In this position, Mr. Wilensky will oversee the activities of the Office of Tax Legislative Counsel, the Office of the Benefits Tax Counsel and the Office of the International Tax Counsel.

Mr. Wilensky had been a partner with the law firm Dorsey and Whitney of Minneapolis, Minnesota. In his position with the firm, Mr. Wilensky supervised tax and corporate legal work for a broad variety of clients. From 1978 until 1984, Mr. Wilensky was with the law firm Leonard, Street and Deinard, also of Minneapolis, Minnesota. He was made a partner in the firm in 1979.

From 1976 until 1978, Mr. Wilensky was an attorney in the Office of International Tax Counsel in the Department of the Treasury. Prior to 1976, Mr. Wilensky was an associate with the Washington, D.C. law firm Hogan and Hartson.

Mr. Wilensky received an A.B. from Princeton University (1969), where he was a member of Phi Beta Kappa. He received a J.D. from Yale University (1972), where he served as an editor of the Yale Law Journal. He and his wife, the former Connie Grossnor, have two children, Julie and Debra.

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TREASURY NEWS

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PREPARED FOR DELIVERY
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March 12, 1992

Contact: Desiree Tucker-Sorini
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Secretary Nicholas F. Brady
Remarks to the
National Press Club
March 12, 1992

Thank you Alan [Adams]. It's a pleasure to be here at the National Press Club again.

Today I want to take a few minutes to discuss a question that is on many Americans' minds. People have become uncertain about their economic future. They see a rapid pace of change, both here and abroad, and they ask themselves "Where do we stand?"

The conventional wisdom has an answer to that question, an answer rooted in doubt and discouragement: America, we are told, is going downhill. Our economy -- so says the conventional wisdom -- is weak: our goods uncompetitive, our managers inefficient, our workers idle and ill-educated. Germany and Japan are said to be the powerhouses of today and the leaders of tomorrow; the pundits claim that the American Century is drawing to a close.

This view has now been repeated so often and so insistently -- in our newspapers and journals of opinion, in our colleges and universities, in our board rooms and our hearing rooms, and even on Geraldo -- that it has become the opening statement in the debate, no longer to be questioned. These pessimists would judge prescriptions by whether they make us comfortable in our decline, and whether they have a better solution of how to slice an even smaller economic pie.

This bleak appraisal of America's prospects -- like much conventional wisdom -- is seductive, but it's wrong. It reflects a determination to see calamity rather than opportunity. Let us set aside pessimism, and turn to common sense observations about where we stand, and where we go from here.

First, we must lay to rest the myth that America is somehow on its way to becoming an economic backwater. If the pessimists think that the U.S. economy is weak and will soon be overtaken by

economies such as Germany or Japan, they are wrong. The U.S. economy remains the world's preeminent economic power. Total U.S. output is twice the size of Japan's and four times as big as Germany's. With only one-twentieth of the world's population, we produce one-fourth of the world's output.

If the pessimists think any country has a higher standard of living, they are wrong. U.S. GDP per capita, adjusted for purchasing power, is 25% higher than that of Japan and one third higher than Germany's.

If the pessimists think that U.S. manufacturing of high technology products is no longer competitive in world markets, they are wrong. This nation is the world's leading exporter of aircraft and aerospace equipment, computers, microelectronics and scientific and precision equipment. When the Economic Planning Agency of the Japanese government in 1991 evaluated 110 critical technology categories, it determined that American companies dominate 43 of them, Japanese firms 33 and the rest of the world the remaining 34.

If the pessimists think that Japanese or German workers are more productive than American workers, they are wrong. Output per employee in the United States is over 25 percent greater than in Japan or Germany.

If pessimists think the U.S. is losing ground to Germany and Japan in world markets, they are wrong. Since 1986, U.S. merchandise exports have grown 20% faster than Germany's and 70% faster than Japan's.

America remains the land of opportunity -- a place where American men and women can fulfill their unparalleled capacity for innovation and enterprise.

Yet, if all that's so -- and it is -- why do so many Americans lack confidence about the future, our own and our children's?

To some extent, the conventional wisdom simply feeds on itself. So long as we are told at every turn that the future is uncertain, the more uncertain about our future we become.

But there is more to it than this. Although the American economy as a whole remains internationally preeminent, it is no longer free from competitive pressure from abroad. Twenty years ago, for example, General Motors viewed its only serious competitors as Ford and Chrysler. Today, it competes with Honda, Volvo, Toyota, and Volkswagen, to name only a few.

This vigorous international competition is new, confusing and threatening for many Americans. Some would respond by retreat, by circling the wagons, by attempting to close our borders. But this is a sure route to economic decline -- to a lower standard of living for the American people. Instead we must face head on the reality that we now live in a challenging global economic environment.

As an economy modernizes -- faces new competition and enjoys new technological innovations -- the best uses of its resources naturally change. As old companies trim down, new companies open their doors and create new jobs. The entire history of our nation has been a continuing series of such developments. We have not only endured, but thrived -- and thrived in large part *because* of our openness to change.

The changes I am talking about are not always painless. But the technical innovations and world trade that have led to these pressures are *producing* jobs within our economy. Our merchandise exports have increased by $190 billion over the last 5 years, and every billion dollars in increased exports by U.S. companies supports almost 20,000 new jobs. For every 2 1/2 percent growth in GDP, we create almost 2 million new jobs per year.

But the energy that drives the country will only prosper when economic decisions are made by the people in the market place, not in the Congress. We must never forget where good ideas and good products come from. The Salk vaccine was not discovered on Capitol Hill. The airplane was not invented on Pennsylvania Avenue. The energy that drives our country comes from American workers and American businesses, not from Washington D.C.

There is a role for government, but frankly, the American people now are wondering whether it will be a constructive or destructive one.

It is the government's job to help -- not to hinder -- economic progress. The responsibility of those of us in government is to put in place policies that create a climate for economic growth. Only sustained economic growth can improve the incomes of wage-earning men and women.

To keep America growing and the American economy strong, the government needs to live within its means and to provide incentives for hard-working Americans to save and invest -- to build a better future.

When the government fails to control its spending -- to take as little as it can from the people, to husband the resources it does take, and to control deficits -- it drains dollars that could be used in the private sector, and hinders economic growth.

When the government needlessly overregulates businesses and empowers its civil courts to award unlimited damages to consumers for accidents that no amount of care or diligence by the manufacturer could have avoided, it hinders economic growth.

When the government refuses to reform a legal system that makes 80 percent of all obstetricians defendants in malpractice lawsuits, it needlessly drives up the costs of health care and hinders economic growth.

The President recognizes such problems and has proposed initiatives that, for the longer term, will increase our investments in both physical and human capital, reduce unnecessary regulatory burdens on industry, and relieve the long-term pressure on the economy created by the excessive federal deficit.

The President's plan includes:

- Education reform to bring the skills of our future workers up to a standard of excellence;

- Reform of our legal system so that Americans can spend less time litigating and more time innovating;

- Health care reform to provide broader access to the best quality health care in the world;
- Welfare reform to break the cycle of dependency;

- Increased funding for Head Start and strengthened job training;

- A trade policy that opens markets to American goods and services;

- Reform of our archaic banking laws to enable banks to be internationally competitive and financially healthy;

- Reform of our pension guarantee laws to protect the American people against future losses;

- Spending cuts, including complete elimination of 246 programs and over 4,000 projects;

- And record federal support for research and development to keep our nation on the cutting edge of new technologies.

We simply can not allow our nation's economy to have its strength sapped by overregulation, a debilitating legal system and Congressional indifference to the priority of economic growth.

I believe that the American people's uncertainty about the long term -- about both our ability to compete and the government's capacity to enact laws that aid this ability -- has contributed to the short term difficulties of our economy. If these uncertainties about our future can be dispelled, and balance and common sense prevail, we could all be optimistic about our future.

The false start we experienced last year makes us all humble about predicting just when the economy will pick up speed.

But here's how economic rebounds happen; actually, what I think is already happening. The people making investment decisions, the people making hiring decisions, those buying goods or purchasing services are seeing a number of positive signs that the economy has started to grow again. When we recognize that these are not isolated incidents, but a pattern pointing in a definite direction, the confidence that has been lost during this recent period of uncertainty will be restored.

And there are encouraging signs. Last week's increase in the leading economic indicators is one. New manufacturing orders increased in February. Sales of new domestic cars are improving. Inflation is at the lowest level since the early '60's. And today's retail sales increases are very strong.

Corporate profits are beginning to rebound, and as they do, corporate investment -- which is crucial to greater productivity and jobs -- will increase. According to the most recent Department of Commerce survey, corporate managers are planning to increase spending by 6 percent this year.

Housing -- historically a critical industry in lifting the nation out of recession -- is also demonstrating new strength. Home sales and housing starts are both up.

The economy, we feel, is returning to a pattern of growth.

But despite these positive signs, this is no time for complacency. Last year we thought we saw an economic upturn, and instead, the economy remained sluggish. Job creation -- our most critical concern -- remains uneven. And last month's increase in the unemployment rate was disappointing, even though there was some good news: 164,000 nonfarm jobs were added to the economy in February.

Of course, an essential element for this recovery is the conduct of monetary policy. To the American consumer, the signals given by the Federal Reserve about interest rates and its expectations for the future are far more critical than the technicians' latest readings. One only has to remember back to last December to appreciate the positive effect on all Americans of that month's sharp reduction in the discount rate. If growth of the money supply were to stagnate in the spring of '92 as it did in the spring and summer of '91, the recovery would be threatened and an opportunity lost.

The two points I have made today -- ending our uncertainty and beginning a real economic recovery-- have everything to do with what is going on right now on Capitol Hill.

President Bush has put forward a responsible economic package that will accelerate economic recovery in the short term, free the economy to realize its potential in the long term, and increase the competitiveness of American goods and services in the world economy.

The President's plan recognizes that the elements of a recovery are in place, but that positive, concrete steps are needed. We don't need the long bomb, we just need good block and tackle football.

Accordingly, the President's plan is directed at the specific needs and aspirations of the American people: It will assist families to buy a house, to save for the future, to finance education, to purchase health insurance, and to plan for retirement. And these initiatives will provide stimulus in both the short and long term.

The President has proposed seven specific short-term growth initiatives, which embody fundamental principles that have received wide agreement. I want to mention three of the seven examples.

1) Adopting a $5,000 tax credit to help more Americans buy their first home;

2) Creating an investment tax allowance that will inject billions into the economy by encouraging more businesses to invest;

3) Reducing the tax on capital gains, to encourage capital formation and create jobs.

(The other four critical elements of the President's short-term package are passive loss relief for full-time real estate developers, penalty-free IRA withdrawals for first-time home buyers, enhanced corporate alternative minimum tax depreciation, and facilitated real estate investments by pension funds.)

These provisions will encourage construction and productive investment, ease the obstacles that have grown to home ownership for young families, and stimulate the risk takers. And yes, even the Democrats have agreed that these principles are the right ones -- they have finally endorsed a capital gains tax reduction.

But rather than attempting to work with the President to accelerate economic growth and create jobs, the Democrats have devised a partisan plan that raises taxes -- a plan that they know the President will not sign.

The current political battle in Washington is nothing less than a fundamental clash of values -- a clash of values that in recent years has contributed to the sluggish growth of our nation's economy and threatens economic recovery.

The Democrats in Congress believe that politicians in Washington, not free markets, should allocate the nation's resources. They believe that guiding the redistribution of limited economic output is far more important than encouraging economic growth and expanding opportunities for all Americans. And they believe that they should determine the size of government and then tax the American people to fund their plans; that the government should simply take whatever it wants.

Republicans believe that we must eliminate waste and efficiently manage what we have -- not ask for more. Republicans believe that the government should live with budget discipline, just as an American family does, that government should reduce its spending to fit the tax revenues it currently receives.

When it comes to paying for their new initiatives, of course, the Democrats in Congress refuse to look to spending cuts. In both the House and the Senate they have reached the conclusion that the government -- rather than the American people -- should spend the defense savings.

And what the Democrats are trying to label a tax increase on the wealthy is nothing less than an attack on the most effective job creating enterprises in the United States -- this nation's small businesses. The Democrats' tax increase hits right at the heart of small farms and business proprietorships and partnerships. About two-thirds of the taxpayers who would be subject to higher tax rates are owners of small businesses -- the kinds of businesses that create jobs in this country. It is not hard to figure out who will be hurt -- more than a million of

this nation's small businesses -- working Americans. The plan of the Democratic majority is a job killer, not a job creator.

When I talk about tax increases and its effect on jobs and business, I'm not talking abstract theory. I've been there. I'm from New Jersey. We ran the experiment for you, and here's what it showed: higher tax rates were followed by businesses leaving the state and sharp economic decline. And when the people saw the results of the Democrats' tax-raising handiwork, they reacted at the polls. In November of 1991, Republicans won control of both houses in the New Jersey legislature for the first time in 20 years. And not just majorities -- veto-proof majorities in each house to make sure it didn't happen again.

I ask you, why should we run this experiment again at the national level?

But it is not too late. If the Democrats would forsake the politics of division and embrace the cause of growth, the President's proposals could be enacted immediately -- paid for by spending cuts and reforms, not tax rate increases. And the President would sign this bill immediately. More than that, its enactment would demonstrate that Congress can act in a way that benefits the American people.

If the collapse of communism and the disintegration of the Soviet Union this past year have taught us anything at all, it is that government policies that concentrate on managing how limited resources are distributed among the people are a poor substitute for concentrating on creating economic growth.

We are indeed on the brink of a new world -- one that begins with the end of the Cold war -- an economic stimulus that none of us can now calculate, but which will be, over time, of enormous proportions.

The critical task for all of us in government is to work together to strengthen our economy -- for that is what the American people want and deserve.

Thank you.

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Structural Impediments Initiative (SII)

Joint Statement for the Record

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Paul Wonnacott
Member, Council of Economic Advisors

Before the

Subcommittee on International Trade

Committee on Finance

United States Senate

March 13, 1992

The U.S.-Japan Structural Impediments Initiative (SII)

The Structural Impediments Initiative (SII) is one of our broadest economic initiatives with Japan. Since its initiation by President Bush and then-Prime Minister Uno approximately two and one-half years ago, SII has gone through a number of phases, all of which, in our judgment, continue to point toward the importance of SII as a vehicle for addressing serious structural issues that have impeded balance of payments adjustment in the United States and Japan.

Initial Stages: Defining SII's Purpose and Focus

The most important factors affecting balance of payments adjustment are macroeconomic developments. Yet despite shifts in relative domestic demand and exchange rate adjustments in the latter half of the 1980s, lasting reductions in large U.S. and Japanese external imbalances did not occur. This suggested to us the existence of barriers to adjustment -- some formal, but mostly informal structural barriers.

Many of the formal barriers to trade (such as tariffs, quotas, and discriminatory standards and certification requirements) have been eliminated through bilateral and multilateral negotiations. Indeed, Japanese tariffs today, with some notable exceptions, remain quite low by world standards. Moreover, most Japanese import quotas have been eliminated, although the exceptions -- primarily for agricultural products -- remain the subject of intensive bilateral and multilateral negotiations. Our business executives, however, continued to encounter obstacles to entry and profitable operation in Japanese markets. The U.S. Government consequently began in the late 1980s to explore ways to focus more attention on structural barriers to trade and investment flows into Japan.

The disparity between Japan's domestic prices and those prevailing in other industrialized markets provided further evidence of structural barriers to the free flow of goods. At the time we initiated the SII dialogue, Japanese consumers paid on average 40 to 42 percent more for goods than did their U.S. counterparts. Given the strength of the Japanese economy and currency, and the relatively low level of Japanese tariffs and quotas, these prices could partly be explained by administrative and regulatory policies and other business practices.

Let us review some of SII's defining features:

- SII covers areas that have traditionally been considered domestic matters, where foreign views have seldom been taken into account.

- SII addresses systemic barriers broadly, across all sectors of the economy, and therefore is highly ambitious.

- SII focuses on matters that generally have a long time horizon. Its results, accordingly, should be judged over the long term, although there have already been some noteworthy near-term accomplishments.

- SII cuts across the bureaucracies of both countries, involving six agencies of the U.S. Government and five of the Japanese Government on a regular basis, and even more agencies when there are special areas of attention, such as patents.

- SII has demonstrated that there is a clear connection between the interests of foreign companies and a number of constituencies in Japan, such as consumers who are seeking a wider range of choices and lower prices, and some businesses seeking greater transparency in government regulation.

- SII is a two-way street. The Japanese Government has identified a number of impediments to U.S. competitiveness; we identified issues that hinder our access in Japan and adjustment of imbalances.

- Effective implementation of the SII commitments will benefit both the United States and Japan. Indeed, the structural reforms being pursued would be of benefit to all U.S. and Japanese trading partners.

In the Joint Report, published in June 1990, we identified six broad areas that, in our judgment, operated as structural impediments to balance of payments adjustments and market access in Japan: savings and investment, land use, the distribution system, exclusionary business practices, keiretsu and pricing mechanisms.

We have focused on the savings-investment gap because Japan's current account imbalance cannot be reduced unless its counterpart imbalance between domestic saving and investment is also reduced.

In the area of land-use, we have sought to reduce structural impediments that push up real estate prices and exacerbate the natural scarcity of land in Japan. It is widely recognized that land taxation and regulatory practices in Japan have restrained

the availability of land for efficient economic uses, leading to high land prices. High land prices in Japan hinder balance of payments adjustment by restraining private and public investment in construction (especially housing), discouraging complementary household expenditures, and raising market entry costs for foreign direct investment. The business environment is adversely affected because high land prices make the creation of some new businesses in Japan prohibitively expensive for aspiring foreign as well as Japanese entrants.

Laws, regulations, and practices surrounding Japan's complex, rigid, and inefficient **distribution** system are often foreign companies' first--and most frustrating--barrier to market access. Areas emphasized by the U.S. Government in the context of SII discussion have often found support in Japan because many Japanese appear also to believe that reform of the inefficient and costly distribution system is essential.

The scope of **exclusionary business practices** in Japan that concern us is very broad, and includes practices that are or should be covered by principles of antitrust law, as well as exclusionary practices that are outside the scope of traditional antitrust concerns. We focused on the area of competition policy, because we believed that Japan's antimonopoly law was not adequately deterring anticompetitive activities in Japan. effectiveness of that law has been constrained by inadequate penalties, less than vigorous enforcement and numerous exemptions.[1] We decided to address the close relationship in Japan between the government and the private sector because this relationship, which has historical antecedents, is nontransparent and often excludes foreign businesses. We believe similar transparency in the procurement practices of Japanese corporations is of equal importance; U.S. businesses that succeed in overcoming official barriers to imports, such as tariffs or quotas, often find their access to corporate customers impeded by old attitudes and long-established supplier relationships in private firms. Finally, we sought to address deficiencies in the Japanese patent system, long a source of friction between our two countries. For example, the protracted patent examination period in Japan on patent applications dilutes the protection accorded to intellectual property and disadvantages foreigners seeking to capitalize on their breakthroughs in the Japanese market.

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[1]Japan's antimonopoly act has three instruments available to it: administrative fines, criminal penalties and private rights of actions. USTR and Justice have urged increases in administrative fines (and some increases have occurred), more vigorous criminal enforcement and improvements in the system of private rights of action. (There has never been a successful private litigant in Japan for antitrust violations).

We are concerned, in the SII context, that **keiretsu** forms of business organization may result in exclusionary behavior that is economically inefficient and unfair to both Japanese and foreign interests. In order to increase openness and competition, the U.S. Government has sought to make keiretsu linkages more transparent, exclusionary conduct actionable and minority shareholder rights strengthened.

We have focused on **pricing** because we believed the documentation of significant price differentials between Japan and the United States would demonstrate the need for reforms.

Japanese Commitments and Progress in Implementing Them

More than a year and a half have passed since we issued our Joint Report.[2] There have been a number of notable developments during this period, although much work remains to be done. The Japanese Government is seeking to implement most of the specific undertakings contained in the Joint Report, but in our view has slow to take the broad actions required to implement effectively more general undertakings such as "enhancing" shareholder rights. Described briefly below are the major accomplishments of SII as well as areas in which we believe further progress is desirable.

Savings and Investment

A nation's current account balance is essentially equal to the difference between domestic saving and investment. Although the relationship between the two balances is complex, a reduction in the shortage of investment relative to saving in Japan is a necessary counterpart to a reduction in that nation's persistent current account surplus.

Prior to the SII, public fixed investment in Japan had been declining or stagnant as a share of GNP, falling from 8.0 % of GNP in FY 1981 to 6.5% in FY 1990. At the same time, there were many unmet needs for this kind of investment. In this context, we proposed to the Japanese Government that it reduce the saving-investment gap by increasing public investment in domestic infrastructure. This was intended to help to improve the quality of life in Japan, facilitate correction of other structural

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[2] Some of the progress achieved in implementing commitments made in the Joint Report was reflected in our jointly produced First Annual Report, published in May 1991. Additional progress made over the second year of implementation will be incorporated into our Second Annual Report, to be released this summer.

problems (such as investment to improve the distribution system), and reduce Japan's trade and current account surpluses.

We were encouraged by the Japanese Government's commitment in the June 1990 SII Joint Report, which was reaffirmed in the May 1991 First Annual Report, to reduce the country's shortage of investment relative to saving. The Government of Japan has recognized the need to continue to reduce Japan's current account surplus and has strongly reaffirmed its commitment to work actively toward that end.

The Japanese Government committed itself in the June 1990 Joint Report to launch a 430 trillion yen (about $3.3 trillion) comprehensive public infrastructure plan for the years FY 1991-2000, plus an expected 25 trillion yen in investment by four quasi-public entities. It also agreed to prepare eight new, long-term sectoral plans in key infrastructure areas such as housing, airports and port facilities, parks and sewers, as well as to utilize more effectively public investment financing procedures, such as through multi-year budget funding and more efficient intermediation by public bodies, such as the Fiscal Loan and Investment Program.

These commitments should lead to a significant increase in public investment and should, over the medium term, both reduce the shortfall of public investment compared to national saving and create infrastructure that could be used for importing and distributing foreign goods and services. Increased investment would also help improve the quality of social infrastructure in Japan, which generally lags that of other industrial nations.

Japanese authorities have already taken some useful steps in this area:

- Public sector budgets for FY 1991 and the proposed budget for FY 1992 show an increase in the growth rate of public investment to 7.2% and 8.1% respectively. This compares with an average of 5.2% in FY 1986-90.

- The Japanese Government has also set yen values for seven of the eight five-year sectoral plans (which began in FY 1991) ahead of schedule, with a compound annual rate of increase in such investments in excess of seven percent.

- Investment by the four quasi-public entities is expected to grow by 11 percent in FY 1991, more than double the average growth rate of the previous three years.

We have welcomed these actions, which we believe represent good progress at this stage of the ten-year plan. Unfortunately, however, other trends in the savings-investment accounts are offsetting the impact of increases in public investment, and

Japan's current account surplus, consequently, has risen sharply over the past year. For example, the growth of private investment has fallen off, the general government surplus is expected to rise slightly and the private savings rate is expected to remain quite high. Although Japan's current account surplus rose sharply last year to $73 billion from $36 billion in 1990, the U.S. trade deficit with Japan rose only slightly, to $44 billion last year, compared to $42 billion in 1990.

This widening of the gap between saving and investment indicates that Japan can take further steps towards Prime Minister Miyazawa's own stated objective of making Japan a "lifestyle superpower."

Land-Use Policies

In the Joint Report, the Government of Japan made a number of commitments to help correct distortions created by tax and regulatory policies related to land use. A major achievement has been the curtailment of generalized tax benefits for farmland in the major urban areas. The Japanese Diet has also passed legislation to enact a new national land value tax and increase the idle land tax.

With respect to regulatory practices, the Japanese Government has passed legislation to reform the House and Land Lease laws and has taken steps to identify idle and under-utilized central government-owned land and promote more effective use of eminent domain operations.

The need for further policy actions by the Japanese Government is widely recognized in Japan. The ten- to thirty-percent decline in property prices over the last two years in some areas is largely a result of the tight monetary policy employed by the Bank of Japan and restrictions placed on real estate-related bank lending by the Ministry of Finance during the 1990-91 period. Thus, despite the changes that have occurred, a number of problems remain: housing is still prohibitively expensive, particularly for the younger generation of aspiring Japanese homeowners; there is an inadequate amount of office floor space in downtown areas; commutes to and from residences are getting longer; and direct foreign investment is still impeded by the high costs of entry.

The U.S. Government continues to engage the Japanese Government in the SII context on concrete steps that Japan could further undertake in the area of tax reform. Some actions taken to date appear to be very modest and are likely to have little effect on the cost and supply of land. In addition, the new lease laws do not apply to existing rental contracts and, therefore, would not have a significant effect on housing supply for many years. We have urged the Japanese Government to consider additional steps

to identify idle and under-utilized land and to facilitate its conversion to more productive uses.

Distribution

Not all exporters have the means to establish their own distribution networks in Japan. Moreover, Japanese trading companies or exclusive distributorships, an alternative avenue for gaining access to the Japanese market, do not necessarily share the same interests as their foreign clients, with heavy markups for Japanese distributors and lower sales for the U.S. exporters frequently the result.

The SII process has already produced some very encouraging results in the distribution sector. For example, the Japanese Customs Agency is implementing a 24-hour import clearance procedure, along with streamlining sea cargo and air cargo procedures. The Japanese Government, moreover, is improving its import-related infrastructure by doubling cargo capacity at major airports such as Narita and Kansai. Plans for the Chitose airport at Hokkaido call for 24-hour cargo handling with streamlined customs processing and handling of imports. Japan is carrying out harbor improvements to enhance container terminals and warehouse expansion aimed at easing difficulties in processing and distributing imports.

The liberalization of regulations affecting the distribution sector has also proceeded apace. Japan has eased its restrictions on the opening of large retail stores, which tend to carry more imports than smaller outlets. As a result of SII, Japan's Large-Scale Retail Store Law (LSRSL) was amended and streamlined approval procedures were put into place.[3] The well-known Toys 'R' Us case has resulted in a boom in sales, which indicates a positive reaction to lower prices and good prospects for imports as these reforms advance. Japan has also made progress toward deregulating trucking and liquor sales. On premiums, an important means for new entrants to the market to introduce their products, Japan has relaxed restrictions in 16 sectors of interest to U.S. exporters.

Further, The Japanese Government has created, at our recommendation, a senior-level group comprised of Japanese Government officials and Japanese and foreign business executives, called the Import Board, to develop proposals to expand and facilitate imports into Japan. Japan has revised the

[3]Prior to amendment of the LSRSL, competing small stores effectively had a veto right over applications for store openings in their area. This resulted in long delays--sometimes as much as 10 years.

distribution-related guidelines of its Fair Trade Commission, the agency charged with administering Japan's antitrust law. The Government of Japan has also adopted a number of import promotion measures involving tax incentives, low-interest loans, and lower tariffs. Finally, Japan has strengthened the Office of the Trade Ombudsman (OTO) to deal more effectively with foreign firms' complaints. OTO, which works closely with the American Chamber of Commerce in Japan and the U.S. Embassy in Tokyo, has addressed 49 standards problems, many of which U.S. companies had identified as their most significant barrier to the Japanese market.

We continue to discuss a number of areas where we hope to make additional progress toward improving the Japanese distribution system. For example, we are seeking still further streamlining of customs procedures. We also are pressing for deregulation in sectors where regulation is excessive by international norms, and the adoption of internationally accepted standards to facilitate entry of U.S. exports.

Exclusionary Business Practices

We have placed great importance on actions that the Government of Japan might take to ensure that antimonopoly enforcement is vigorous, sanctions for violations are adequate, private damage remedies for violations are effective and that, overall, the antimonopoly enforcement system in Japan effectively deters business practices that are anticompetitive and exclusionary.

Our efforts in the SII discussions have resulted in some significant progress in this area. The Japanese Government's actions so far represent solid--but not yet sufficient--steps toward a comprehensive approach for deterring private anticompetitive behavior in Japan. We have welcomed, with noted reservations, the following actions:

- The Government of Japan has acted to strengthen the enforcement arm of the Fair Trade Commission by increasing the investigative staff of the JFTC by about 38% since JFY 1989. More importantly, the JFTC appears to be making good use of these additional resources. In the first eleven months of JFY 1991, the JFTC took 26 formal actions against antimonopoly violators, quadruple the average number of actions taken in the six years prior to SII. The JFTC also imposed a record $97 million in administrative fines in FY 1990.

- The Japanese Government amended the Antimonopoly Act to increase the JFTC's administrative fines (called "surcharges") automatically imposed on companies committing the most egregious antimonopoly violations. Large manufacturers and service providers are now assessed a

surcharge of 6% of the value of their sales involved in the violation, quadruple the level in effect prior to SII. While this represents a significant increase, it still falls short of the 10% level that we believe is the minimum necessary to force disgorgement of the illegal profits from antimonopoly violations.

- The Government of Japan committed to bring more criminal enforcement actions against antimonopoly violations such as price-fixing, bid rigging, market allocations and group boycotts. To this end, the Ministry of Justice, Public Prosecutor's Office and the Japan Fair Trade Commission jointly established a permanent liaison mechanism to facilitate the development of cases for criminal prosecution. This new mechanism has already made a contribution -- in November 1991, the Ministry of Justice brought its first criminal antimonopoly action in 17 years against eight firms and 15 individuals that had engaged in a price-fixing cartel in the plastic food wrap industry. We are hopeful that this action was not a one-time gesture but rather the beginning of a new era of vigorous criminal antimonopoly prosecution in Japan.

- The JFTC last July issued new antimonopoly guidelines that clarified and strengthened the JFTC's enforcement policy with respect to unlawful distribution practices and activities by _keiretsu._ The JFTC is now following up those guidelines with detailed analyses of _keiretsu_ practices in four sectors of key interest to the United States: automobiles, auto parts, paper and glass.

- The Japanese Government also agreed to increase its efforts to eliminate bid rigging on government-funded projects in Japan. To this end, the JFTC has taken eight enforcement actions against bid rigging activities in the last two years.

- The JFTC has adopted a number of administrative measures intended to promote effective recourse to private damage remedies for antimonopoly violations. As a surrogate for private discovery, the JFTC will preserve evidence it obtains in its investigations and, upon request of the court, will submit those materials to the court for use in private damage litigation. The JFTC also will provide the court with its detailed analysis of the amount of damages suffered by the plaintiff and the causal link between the violation and those damages.

In other areas of exclusionary business practices, we have sought greater transparency in government-business relations, greater openness and transparency in private procurement, and expedited handling of patent applications.

With respect to the transparency and accountability of government processes and of government-business relations, the Japanese Government made a number of commitments in the Joint Report, including:

- o Ensuring that administrative guidance does not restrict market access or undermine fair competition.
- o Implementing administrative guidance in writing as much as possible, and making such guidance public unless there are strong reasons not to do so (e.g. national security, trade secrets).
- o Establishing the Committee on Fair and Transparent Administrative Procedure to work on a draft administrative procedure law.
- o Including consumer and foreign representatives as participants in study groups and advisory committees. (Some, though by no means all advisory committees, such as the Import Board and MITI's Mergers and Acquisitions Study Group, have since solicited foreign views.)

On private procurement practices, the Japanese Government has taken some responsibility for making private procurement more open and transparent and addressing the "buy Japan" mentality that exists in the private sector. The Government of Japan has committed to encourage transparent and non-discriminatory procurement and to conduct annual surveys on the procurement practices of private firms. MITI has conducted the first of three such surveys.

In the area of patents, the Japanese Government has increased the number of patent examiners in the Japan Patent Office (JPO) for FY 1991 by 66 persons, established procedures for using an outside patent-search firm, and introduced an electronic patent-filing system. In the Joint Report, the Government of Japan committed to reduce within five years the patent examination period to 24 months--a reduction from the average of some 37 months in 1990. We have been told by the Japan Patent Office that the current average is down to some 32 months.

Despite the progress indicated, the area of exclusionary business practices remains an extremely active focus of our SII discussions. For example, while the steps taken so far by the Japanese Government in the antitrust area have been encouraging, much more must be done before Japan's antimonopoly regime can be viewed as providing a credible deterrent to exclusionary conduct. We believe that the maximum criminal penalties for antimonopoly act violations -- particularly for corporations -- remain inadequate. We have called on the Government of Japan to

increase substantially its criminal fines for antimonopoly violations in order to bring them up to world standards. Further, we believe that although the JFTC has taken some administrative measures to facilitate private damage actions, these measures, by themselves, will be insufficient to enable parties injured by antimonopoly violations to recover their damages through private litigation. Too many serious barriers remain.[4] An effective private remedy is a necessary adjunct to JFTC enforcement of the Antimonopoly Act and would contribute significantly to deterring antimonopoly violations in Japan.

If the Japanese Government, as a whole, makes a serious and long-term effort to implement a multi-pronged attack on anticompetitive activities -- consisting of more criminal prosecution, increased enforcement efforts, greater penalties, heightened vigilance by procuring agencies and more effective private damage actions -- the Antimonopoly Act regime will have become a more effective one. This, in turn, should directly benefit U.S. and other foreign companies trying to do business in Japan, who should see a reduction in exclusionary activities by the Japanese competitors aimed at keeping them out of the market. Foreign companies will also have more options available to them in the event they are injured by anticompetitive conduct in Japan. They will be able to bring their complaints to the JFTC with new confidence that the JFTC will have both the willingness and power to take effective enforcement action where violations of the Antimonopoly Act are found. And, for the first time, they should have a reasonable chance to secure relief through private litigation in Japanese courts.

We believe the Japanese Government must also work harder to increase transparency and accountability of government-business relations. We will continue to urge, among other things, the adoption by the Japanese Diet of an administrative procedure act, as recently recommended by a blue-ribbon commission of the Prime Minister's Office. We also will continue to press for the adoption by individual Ministries of policies ensuring consistency, transparency, and accountability in their use of advisory committees and study groups.

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[4] We have asked the Japanese Government to reduce the filing fees for private damage suits, which are now prohibitively high, especially for suits with large anticipated damages. We also seek the adoption by the Government of Japan of other measures necessary to improve the damage remedy system, such as an effective discovery system, rebuttable presumptions in favor of plaintiffs, class action lawsuits, and adequate incentives for injured parties to undertake the time, expense and risks necessary to pursue private damage claims.

Further, we believe that much more can--and should--be done to more effectively encourage private firms to make their procurement procedures transparent and nondiscriminatory, as well as to further reduce the patent examination period.

Keiretsu

The keiretsu topic is probably the most complex and difficult to deal with of the issues covered by the SII talks. This is because of the diffuse but pervasive influence of keiretsu relationships, the fact that there may be some efficiencies in these relationships, and because it is difficult to deal directly with these private sector activities without rather intrusive government actions. As a result, our approach has been to suggest a variety of fairly moderate government actions which, in their totality and over time, we believe will reduce the exclusionary effects of keiretsu relationships.

That being said, there is no doubt in our minds that some keiretsu practices have strong adverse effects both on the efficiency of the Japanese economy and on its openness to foreign suppliers and investors. In fact, there is extensive evidence, ranging from academic studies to anecdotes, supporting the conclusion that keiretsu practices impede both foreign sales and foreign direct investment in the Japanese market. The influence of keiretsu firms is extensive. For example, the six largest keiretsu-related trading companies handled 56% of all imports into Japan in 1990.

In the SII process we have focused our attention, first, on identifying the aspects of the keiretsu system that impede foreign access and, then, on what specific actions the Japanese Government could take to remove these impediments.

Our analysis of the keiretsu system shows that keiretsu-affiliated firms, unlike firms based on traditional economic models, are not necessarily short-term profit maximizers. Often their main objective is to increase market share while preserving a domestic economic status quo.

Keiretsu may have some efficiencies. It may be that long-term relationships in this system are able to ensure quality of products to a greater extent than those between independent producers. Therefore, our aim is to address only the restrictive, exclusionary, and inefficient aspects of the keiretsu system.

We believe that undesirable keiretsu behavior results from ineffective oversight, either internally by shareholders or externally by the government, over the management of these groups. Therefore, we have adopted a three-pronged approach:

corporate governance reforms, antimonopoly enforcement,[5] and regulatory reforms to facilitate foreign direct investment.

Corporate Governance Reforms. Cross-shareholding among keiretsu members and an anemic system of shareholder rights serve to insulate management by reducing the influence of outside shareholders on keiretsu firms. This lack of external accountability, combined with the lack of transparency in keiretsu operations, makes it easier for keiretsu management to engage in exclusionary behavior that is unfair to a particular company's shareholders.

Therefore, the Japanese system of corporate governance is a major area of our attention. Greater transparency in keiretsu business arrangements is a necessary first step in order for non-members to compete against, or break into, the keiretsu system. Thus, enhanced disclosure is a primary SII goal. As a result of commitments made in 1990, the Japanese Government has recently instituted rules requiring reporting of stock holdings in excess of 5%, related party transactions, and major customer sales and purchases. We are continuing to explore with the Japanese Government actions to further strengthen the financial disclosure system, to improve the proxy voting system, and other measures to enhance the ability of shareholders to influence keiretsu management.

Essentially, cross shareholding is a problem because it is based not on maximizing financial returns from such investments, but on cementing long-term special relationships. This clearly helps to insulate management from shareholders' demands and from market forces. However, the relative importance of cross shareholding compared to other links in the keiretsu system is subject to debate. Defenders of the practice claim cross shareholding merely serves to "cement" long term relationships and note that the average size of the cross shareholdings is small -- usually much less than 5%.

Nonetheless, we are discussing with the Japanese Government various reforms which would reduce the impediment of cross shareholding to broader outside shareholder influence over keiretsu firms. Also, market forces are working in our favor. With the end of the land and stock market booms in Japan, shareholders can no longer count on large capital gains to justify their holdings. As a result, market pressures are apt to either force the disposal of non-performing holdings or to elicit stockholder demands for a higher current rate of return or for

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[5]We have already referred to the importance of vigorous and effective enforcement of the Antimonopoly element in the discussion of exclusionary business practices.

management to maximize profits rather than focusing on market share or other objectives.

Foreign Direct Investment. Various formal and informal barriers deter foreign direct investment in Japan. The principal formal barrier, the Foreign Exchange and Foreign Trade Control Law, was amended last year. The Japanese Government adopted a "positive list" of sectors that do not require prior notification. (Prior notification had been used to screen or modify proposed foreign investment.) Sectors that are not on the list are expected to have national security implications or to have been reserved under the OECD Code of Capital Liberalization. There is still room for improvement in the investment regime, however. For example, the positive list should be broadened and, eventually, a shorter negative list adopted.

Also as a result of SII, amendments were made to the take-over bid system in December 1990. We are engaged in a further review of the legal environment for mergers and acquisitions in Japan. While social/cultural barriers are certainly the biggest obstacles to mergers and acquisitions in Japan, initial research suggests that meaningful improvements may be possible in such areas as: proxy voting rules, financing restrictions, and rules regarding tender offers.

Pricing

The two price surveys we have conducted jointly with the Government of Japan since the inception of SII (in 1989 and 1991) found that prices for a broad range of consumer and capital goods were, on average, nearly forty percent higher in Japan than in the United States. For products of foreign origin, the price differential was over 60 percent.

Comparative prices have been politically important in drawing the attention of Japanese consumers to the effect on the prices they pay of the structural barriers we have identified. Findings of substantially higher prices in Japan than in the United States have contributed significantly to the growing perception among Japanese citizens of "rich Japan, poor Japanese."

We have used these results to press for reforms in the other focus areas of SII. For instance, the existence of substantial price differentials argues strongly for changes in Japan's antiquated distribution system and, specifically, creation of more streamlined distribution channels for imported goods. It argues for the elimination of exclusionary business practices, including among *keiretsu* affiliates, which discourage imports of competitively priced foreign goods. It argues for reforms in land-use policy to make commercial land more accessible at more affordable prices to new market entrants. And it argues for

increased investment in import-related public infrastructure such as roads, airports, and warehouse facilities.

Only by removing the structural barriers to trade, as we have sought to do in the SII, can the Government of Japan truly alleviate the burden of high prices that Japanese consumers must now bear. Accordingly, we view the results of the surveys already conducted as an indication of the need for the reforms sought by the U.S. Government and we shall continue to analyze movements in price differentials as a barometer of those reforms' success.

U.S. Commitments and Their Implementation

The Japanese have focused on many aspects of our economy that may impede our competitiveness and hinder, in many instances unnecessarily, the competitive initiative of the American people. In our discussions, we have found that we are often in agreement with the Japanese on essential issues. And there is widespread consensus in the United States that progress is needed on many of these issues.

Most important among them is the need to increase the rate of saving and investment in the U.S. Without increased saving to finance a higher rate of investment, the growth of our economy will be slowed. The surest way to boost saving in the U.S. is to reduce Federal Government dissaving, that is, to lower and ultimately eliminate the federal budget deficit.

We also must stimulate our private saving and investment. Increased private saving will help to lower the cost of capital, and in turn increase investment in the stock of plant and equipment. Increased investment will improve U.S. productivity and enhance the competitive position of firms in this country. President Bush has forwarded proposals that would help to increase saving and investment. The Administration is in agreement with the Japanese that without an increase in the pool of saving in the U.S., together with improved after-tax return on investment, we will forego a critical opportunity to increase the investment rate and improve the long-term competitive position of firms in the United States.

We also have made progress in identifying certain U.S. laws and regulations that raise the cost of doing business in this country and discourage domestic production -- and we have proposed remedies. The President announced a 90-day moratorium on all new regulations to identify those that may be unnecessarily costly and that may impede our competitiveness. In addition, the Administration continued to support reform of the antitrust treatment of joint production ventures. And recently, the President reaffirmed his support for continuing our open direct

investment policy -- and he voiced his opposition to proposals that would place unnecessary restrictions on foreign investment in the United States.

Further, we continue to support reform of the product liability laws to restore principles of fairness in the treatment of business and to cut down on excessive litigation. Our existing product liability system presents one of the most serious legal barriers to U.S. businesses' ability to compete. We, therefore, strongly support the pending legislation introduced to reform our product liability system. Without Congressional support on this matter, we will be unable to fulfill our commitments under the SII and, additionally, will be doing the U.S. exporting community a grave disservice.

In the area of export promotion, new programs of the Departments of Commerce and Agriculture are expected to help accelerate the growth of U.S. exports. Some of these programs are aimed specifically at increasing U.S. exports to Japan. The Department of Commerce's ability to strengthen its export promotion activities is in large part due to the funds Congress has appropriated Commerce during the last few years. These funds have been used to:

- Increase the United States Foreign Commercial staff in Japan.
- Assist U.S. industry in seeking commercial opportunities in the Japanese Official Development Assistance Program.
- Publish a wide array of guides and market research reports on business opportunities in Japan.
- Open the Japan Export Information Center to assist the exporting community with all export-related questions.
- Institute a new service in which the U.S. Foreign Commercial Service staff in Japan arranges appointments for exporters to meet with potential distributors of their product.

We have also made progress in deregulating exports of products made in the United States. Multilateral and bilateral agreements reached in 1991 to streamline export controls will enhance significantly the competitiveness of U.S. high technology industry sectors without impairing U.S. national security. The liberalization of export controls in 1991 were the most dramatic since the 1949 creation of the Coordinating Committee for Multilateral Export Controls (CoCom). Last year, we worked with other CoCom countries to agree upon a Core List of products that would reduce considerably national security export controls. The Administration implemented the Core List last September.

Our long-term competitiveness depends greatly on our ability to lead in research and development and our ability to put our innovations to work. The President's budget for FY 1993 increases federal support for research and development to record levels. In addition, the President has again proposed that the R&D tax credit be made permanent. The Administration has also taken steps to speed the movement of technology from federal laboratories to commercial enterprises. Another step to increase our competitiveness is implementation of the metric system. Progress on transition to the metric system is being made at all levels of government.[6]

The American economy depends first, foremost, and finally on American workers. Changes in the world economy and in our own economy create new challenges for the American work force. In order to help keep up with change and to increase the ability of workers to adjust to change, we need to improve our system of education and training. The President's National Education Goals Panel last year issued its first of 10 planned annual reports. The Panel's community-based report reflects their response to the challenge of improving education so that it provides future workers the foundation for becoming productive participants in our economy. Toward this end, the Administration's program would provide for significant improvements in education in mathematics and science, and would continue funding of the National Literacy Act of 1991 aimed at improving adult literacy. The Administration also has proposed "Job Training 2000" to improve the delivery and effectiveness of existing job training programs now under seven different Federal agencies, and to focus them on segments of the work force most in need of training assistance.

Future Directions for SII

SII remains a vital component of our trade agenda with Japan. Much work remains to be done. During President Bush's meetings with Japanese Prime Minister Miyazawa in January, the two heads of state agreed to "reinvigorate" the SII process by undertaking new commitments to address issues affecting the business environments of our countries. These new steps underscore the dynamic nature of the SII process.

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[6] For example, the Commerce Department has spearheaded a metric outreach campaign to encourage the private sector to make the transition and to publicize the fact that the Federal Government's own metric conversion is imminent. Federal agencies will require that the metric system be used in procurement, grants and other business activities by the beginning of FY93. This should serve as an impetus for U.S. firms to adopt this system.

To start the process of implementing that important understanding, the U.S.-Japan Working Group met on February 26. That meeting was productive. We had an opportunity to start the discussion of new commitments and obtain a progress report on implementation efforts. The next SII principals' meeting is in the summer, after which we will issue our second annual report.

Conclusion

SII is a unique process that complements other efforts in the macroeconomic area and in sectoral and multilateral trade talks. It provides a separate forum and procedure for getting at underlying structural problems, which in the longer term can be important.

We have made progress in removing these structural barriers. We recognize, however, that much more needs to be done. There should be no illusions about the rapidity of the effects of these structural changes, although we expect to see some payoffs in the short term.

A successful SII should contribute not only to resolving disputes between the United States and Japan, but also lead to a more positive and constructive relationship between our two countries. This important relationship allows us to cooperate in other activities, such as promoting world economic growth, facilitating the integration of Eastern Europe and the Former Soviet Union into the world economy, resolving debt problems, and providing development assistance to developing countries.

ECONOMIC RESISTANCE TO IRAQI AGGRESSION

Presentation By

R. RICHARD NEWCOMB
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United States Department of the Treasury

Before the
KUWAIT ECONOMIC SOCIETY
Kuwait City, Kuwait
February 24, 1992

Good evening. Thank you, Dr. Faisal Al-Kazemi, for your kind introduction.

Ladies and Gentlemen:

I am very pleased to be here tonight to discuss the U.S. Treasury's role in directing the U.S. Government's economic response to Saddam Hussein's brutal and unprovoked invasion of Kuwait on August 2, 1990.

I. Introduction

Tonight I will tell you what actions the U.S. Government took to protect Kuwait's investments in the critical hours and days after Saddam's troops invaded Kuwait, and how these steps relate to the unprecedented United Nations sanctions program now in effect against Iraq. I will also discuss what we are doing now in the economic sphere to continue the struggle against the Iraqi dictator, especially our efforts to shut down his

arms acquisition network and identify his ill-gotten wealth.

Before I relate to you the economic events set in motion the night of the invasion, I think it would be useful to briefly describe the historical and legal context within which we operate and the U.S. and U.N. economic sanctions were imposed.

II. The Office of Foreign Assets Control and U.S. Foreign Policy

FAC has primary responsibility within the United States Government for administering economic embargo and sanctions programs against selected foreign countries in times of war or national emergency. These kinds of sanctions, call them economic warfare if you prefer, can be very effective when employed in conjunction with, or as an alternative to, conventional warfare.

In performing our job, we rely principally on the broad authority granted to the President by the U.S. Congress under the International Emergency Economic Powers Act of 1977 ("IEEPA") and the Trading With the Enemy Act of 1917 ("TWEA"). These legal authorities confer on the President of the United States extraordinarily broad authority, under specified emergency conditions, to regulate commercial or financial transactions subject to U.S. jurisdiction involving specific foreign countries. These powers have historically been employed in two principal ways.

First, they have been used to "freeze" or "block" (the terms are interchangeable) assets of designated countries by prohibiting transfers of those assets which are in the United States or in the possession or under the control of U.S. persons outside the United States. Frozen assets, which may include everything from bank deposits and other financial credits to real estate and tangible property, cannot be paid out, withdrawn, set off, or transferred in any manner without a Treasury Department license. The purpose of the freeze can be to protect the assets for the benefit of their rightful owner, as we did in the case of Kuwait's property, or to immobilize the assets of an aggressor or outlaw country, as we have done in Saddam's case.

Second, the powers under TWEA and IEEPA can be used to impose a trade or other commercial embargo against designated countries. These sanctions can be applied selectively to a particular kind of transaction, or

comprehensively to all commercial transactions, involving certain designated countries. We imposed a comprehensive trade embargo against Kuwait during the Iraqi occupation and continue to impose a comprehensive embargo against Iraq.

The United States Government first used the assets freeze as a protective tool after the German invasion of Norway in 1940, in order to protect Norwegian assets from forced repatriation by the Nazis. These sanctions were expanded throughout World War II to include all occupied countries until they became the principal economic warfare program employed against the Axis powers. I am happy to report that we are currently in the process of returning control of the last assets remaining blocked under this program to their rightful owners in the restored nations of Latvia, Lithuania, and Estonia. We never recognized as valid the incorporation in 1940 of these countries into the Soviet Union. Fortunately, we did not have to wait 50 years to return Kuwait's frozen assets.

Since the beginning of the Korean war, we have employed asset freezes against North Korea (since 1950), Cuba (since 1964), North Vietnam (since 1964) and the rest of Vietnam (since 1975), Iran (from 1979 to 1981), Libya (since 1986), Panama (from 1988 to late 1989), Haiti (in 1991) and, of course, Iraq (1990 to the present), and Kuwait (from 1990 until liberation). Additionally, we have imposed trade and commercial embargoes against most of these countries in addition to South Africa, Iran, Nicaragua and others.

Of all these programs, only the Iranian freeze even came close to the complexity and magnitude of the blocking which occurred after the invasion of your country.

As you may recall, we froze approximately $12 billion in Iranian government assets in the United States after 52 U.S. nationals were taken hostage in Tehran in November 1979. This freeze was resolved by the 1981 Algiers Accords, which freed the American hostages and provided an orderly framework for the settlement of U.S. claims and Iranian counterclaims.

The framework established by the Algiers Accords included an arbitral body, known as the Iran-U.S. Claims Tribunal, which has been actively resolving these complicated claims and disputes over the last ten years. Although the Tribunal provides a model for how large and complex

international financial and commercial claims can be successfully resolved, the model may prove to be of little use to us in resolving claims against Iraq. Such a process requires at least a minimal degree of international cooperation -- an agreement and adherence to legal principles by all parties involved -- qualities which Saddam Hussein refuses to accept and apparently believes to be signs of weakness.

While the Iranian assets freeze provided a good example of how an asset blocking could be employed unilaterally by the United States in today's sophisticated financial environment, it did not compare in terms of complexity, drama, and magnitude to the events that transpired in the days after Saddam's tanks rolled into your country on August 2, 1990.

III. Protecting Kuwait's Investments - The First Two Months

A. August 1 - The night of the invasion

On the evening of the invasion, I was called to the White House at about 10 P.M. to meet with a group of other senior U.S. Government officials that were assembling from various Departments and agencies -- the Departments of State and Defense, the Central Intelligence Agency, the Joint Chiefs of Staff of the U.S. military, and members of the National Security Council -- to begin going over the reports that were just beginning to come in from Kuwait. Within 30 minutes after the group had assembled the decision was made that we would propose to President Bush that a full trade embargo and asset freeze be employed immediately against Iraq so that Saddam could not use any U.S.-based Iraqi assets or trade with the U.S. to assist in his efforts.

Shortly thereafter, maybe 15 to 20 minutes later, it became clear that with Kuwait's considerable foreign investment that something should be done to protect it from falling into Saddam's hands. I placed a call to the Kuwait Ambassador to the United States, Shiekh Saud Nasir Al-Sabah, whom I had never met. I told him what the U.S. was thinking about doing and asked him if the Government of Kuwait ("GOK") would like to have its assets frozen to protect them from Iraq. He said he would consult with his government and get right back, which he did in 15 to 20 minutes with an affirmative response. Thus a complete plan for an economic response to Iraqi aggression was in place and ready to go by midnight on August 1 Washington time -- just hours after Saddam's tanks had crossed Kuwait's

borders.

We spent the remainder of the night, until perhaps 4 A.M., getting the documents in order. General Scowcroft, the President's National Security Advisor, took the orders to the White House residence where President Bush signed the necessary documents shortly after 5 A.M. Thus, within less that 12 hours after Iraq's invasion of Kuwait, there was a declaration of a national emergency in the United States by President Bush under IEEPA and the issuance of two Executive Orders (No. 12722 and No. 12723), which froze all Iraq and Kuwait government assets in the United States, or under the control of U.S. persons, and imposed a comprehensive trade embargo against Iraq -- an unprecedented event in terms of speed of action, size, and scope.

We consulted during the night with the Federal Reserve System so that all member banks were notified immediately of the Iraq and Kuwait asset freezes. All other U.S. Federal enforcement agencies were notified through the night so that they would be ready in the morning, as were senior officials of the eight largest money center banks in New York, who were personally called by my staff so that nothing would slip through.

In the days that followed, we were contacted by numerous foreign governments who had witnessed what we had done and wanted to follow suit, which many of them did within days after the U.S. action and following the U.S. lead.

Following the August 6 resolution of the United Nations Security Council calling on U.N. member states to impose sweeping economic sanctions against Iraq and occupied Kuwait, President Bush on August 9 issued two more Executive Orders (No. 12724 and No. 12725) broadening the sanctions previously imposed against Iraq and extending the same comprehensive sanctions program to occupied Kuwait. This was done to bring the U.S. sanctions program into compliance with U.N. Security Council Resolution 661. With respect to Iraq, the August 9 Executive order prohibited the following transactions, most of which had been prohibited under the August 2 order:

(1) imports and exports between the United States and Iraq, including activity promoting such transactions;

(2) dealing in property of Iraqi origin exported from Iraq

after August 6;

(3) transactions related to travel to Iraq (with limited exceptions);

(4) transactions related to transportation to or from Iraq, including the use of Iraqi-registered vessels or aircraft;

(5) the performance of contracts in support of projects in Iraq; and

(6) the commitment or transfer of funds or other financial or economic resources to the Government of Iraq.

The August 9 order also continued in effect the blocking of property owned by the Government of Iraq. All of these prohibitions remain in effect against Iraq today.

B. FAC Actions and their Significance - August 2 to August 5

President Bush's orders immediately and effectively immobilized tens of billions of dollars in the United States. The orders interfered with or halted altogether billions of dollars of capital flows. These included: foreign exchange contracts; oil payments; repurchase agreements and currency swaps; payments to international banking syndicates; payments relating to real estate syndicates, corporate holdings, and other direct investments; and a wide variety of overnight investment arrangements involving capital markets in different political jurisdictions.

The President's Orders were intended to deprive Iraq of any economic benefit as a result of the illegal invasion and occupation of Kuwait, and to preserve and protect the substantial assets of Kuwait in the United States for the benefit of Kuwaiti citizens. Due to the swift and coordinated actions of President Bush, the National Security Council, and the Treasury and State Departments on the night of the invasion, the legal authority to implement the sanctions was in place and the operational responsibility assigned before U.S. financial markets opened on August 2.

This was a very important aspect to the overall success of the entire program for several reasons. The United States had already taken the very

critical first steps against Iraq only hours after the invasion. The die had been cast; the stakes immediately had been raised for Saddam, and the rest of the world would soon follow. Within a matter of days it was Iraq against the rest of the world. A noose was already beginning to tighten. Saddam had presumably come for oil and money. The embargo prevented him from profiting from the oil. The asset freeze precluded his access to Kuwait's foreign wealth. Saddam may have looted the stores and banks and taken the property and cash on hand, but he was not able to draw down a penny of Kuwait's offshore deposits or investments as the rest of the world beat him to it and put it out of his reach.

Resolving the problems resulting from the blocking orders was a complicated and difficult task, especially in today's sophisticated capital markets with their international scope and highly developed dependence on the execution of interlocking contractual obligations. We had had considerable experience over the years in freezing the assets of adversarial countries, but not since World War II had we been tasked with imposing and administering such a large scale protective asset freeze involving a country with such complex and extensive multinational investment holdings as Kuwait. In addition, most past asset freezes had not occurred suddenly, but after a period of escalating international tensions; this freeze was imposed literally overnight. In short, we had no road map and, in many instances, had to feel our way along.

The day after the freeze, Friday, August 3, we issued guidance to U.S. persons concerning the completion of existing contracts involving pre-invasion oil shipments en route to the U.S., securities transactions, foreign exchange contracts, and letter of credit payments to U.S. exporters for goods and services exported to Iraq or Kuwait prior to the effective date. That day we also began what became an extensive and ongoing cooperative consulting process with the Kuwait Ambassador to the United States Sheikh Saud Nasir Al-Sabah and his soon to be appointed economic counselor, Dr. Faisal Al-Kazemi.

Dr. Faisal Al-Kazemi, who fortunately for all of us happened to be in the United States on holiday with his family when the invasion occurred, offered his services to the Kuwait Embassy to assist in economic matters. I can attest to his tireless efforts and steadfast performance in facilitating and ensuring the smooth functioning of this program. His knowledge of Kuwait's banking, financial, and commercial world and his advice were invaluable in helping us understand the function, scope of activities, and

structure of many of the Kuwaiti institutions whose assets we had frozen. This information was essential to a fast and accurate decision-making process, which was necessary to ensure as little collateral damage as possible to Kuwait's investments. The high level of success we achieved would not have been possible without the advice and assistance of Dr. Faisal Al-Kazemi.

Over the weekend of August 5, we developed and transmitted to the Federal Reserve Bank of New York ("FRBNY") the first in a series of 26 determinations concerning the blocked status of certain prominent Middle Eastern, Pan-Arab, and Kuwaiti banks and financial institutions. These determinations were immediately circulated by FRBNY through the U.S. and international banking system and then quickly spread throughout the world. Within hours, these determinations became the basis upon which other countries began freezing assets.

These status determinations were fact-intensive and complicated, especially those involving banks in which third countries had interests, and had to be made under severe time constraints. Delays of just a day or two in determining the status of a bank would have caused severe runs by concerned depositors who feared their funds might incidentally be caught in the freeze if the bank were determined to be owned or controlled by the Governments of Kuwait or Iraq.

We believe much of the initial success in implementing the sanctions can be attributed to the quick and rational application of the restrictions by the administrative apparatus that we established to the complex commercial and financial relationship that existed between the United States, Kuwait, and Iraq. In many cases, these actions set the pace or became the model for the sanctions programs administered by other countries.

C. Identifying Kuwaiti and Iraqi Assets and Entities

The most immediate and pressing challenge we faced was to identify which institutions were actually owned or controlled by the Government of Kuwait or the Government of Iraq and to structure a regulatory program that provided a reasonable degree of investment flexibility for the billions of dollars of blocked Kuwaiti property while ensuring that the property remained protected.

Almost immediately, our Kuwaiti sanctions program developed into a two track approach. First, we had to identify and make known to the financial and export communities the Kuwaiti banks and other institutions frozen by the Executive orders and to explain how pre-existing financial and other contractual arrangements could be completed, wound down, or continued without violating the freeze order.

Second, we had to identify, license, and develop operational guidelines for the frozen government-owned institutions determined to be under the control of legitimate Kuwaiti authorities so they could continue to function within the international framework established by the U.N. sanctions program. Some have likened this to a "ring-fence" where every institution determined to be within the ring was free to transact regular business with any other institution within the ring and with the rest of the world, with the exception, of course, of Iraq. This was a form of international recognition of the legitimate Kuwaiti institutions worldwide and their ability to function effectively as a government in exile -- an effort initiated by the United States.

We worked extensively with Dr. Faisal Al-Kazemi during this period to ascertain which of your blocked governmental institutions and companies had sufficient senior officials and management personnel outside of Kuwait to resume limited operations without Iraqi influence. Essentially we had to make a determination in each case of the following: i) the nationality of the majority of the board of directors and the chairman of the board, ii) who was in charge of day-to-day management decisions of the company, iii) where the entity's assets were located, and iv) generally how likely the entity was to come under Iraqi control or influence. If the entity met the Kuwaiti ownership and control tests then it was regarded as blocked but subject to possible licensing by the United States.

Many of these companies and institutions were partially owned or controlled by the Kuwait Investment Office or the Kuwait Investment Authority. Some of the non-banking institutions about which we required to make determinations included: Arab Fund for Economic and Social Development, Arab Maritime Petroleum Transport, Kuwait Foreign Trading Contracting & Investment Company, Kuwait Foreign Investment Corporation, Kuwait Airways, Kuwait Petroleum Corporation and its affiliates, the Kuwait Oil Tanker Company, Kuwait Maritime Transport Company, Kuwait Real Estate Investment Consortium, Kuwait & Middle East Financial Investment Company, and many others.

Obtaining this information proved to be a painstaking and tedious process inasmuch as the legal, financial, and commercial information required to make these determinations had to be precise and accurate. Moreover, the information had to be obtained quickly from various locations worldwide, including some in occupied Kuwait. In this information collection endeavor we received enormous assistance from Mr. Abdullah Al-Gabandi, the current Managing Director of the Kuwait Investment Authority. Working out of London, Mr. Abdullah Al-Gabandi compiled detailed information on management and control of nearly 100 Kuwaiti companies and institutions. We understand he arranged for much of this data to be smuggled out of Kuwait under the noses of the Iraqis at great personal risk to those involved. Without this information many Kuwaiti institutions could not have functioned during the occupation. His efforts were vital to the success of our efforts.

We met with many CEO's and other senior officials of these institutions to tailor specific FAC licenses designed to permit U.S. persons, including holders of blocked property belonging to the institutions, to engage in specified types of transactions involving the institutions. This licensing scheme was followed to ensure that transactions permitted by the licenses remained subject to U.S. jurisdiction and control while allowing the institutions sufficient flexibility to resume operations.

The culmination of this licensing effort, along with the bank determinations we made in the first few days after the invasion, was a document entitled "Notification of Status of Kuwaiti Entities," which we published on October 4, 1990. This notice categorized each of the 95 Kuwaiti companies and banks listed into one of three categories: i) Controlled/Blocked (i.e., GOK owned and thus frozen); ii) Controlled/Licensed to Operate (i.e., GOK owned but operating under FAC license); and iii) Not Controlled/No Restrictions (i.e., Kuwaiti ownership was deemed insufficient to regard the company as GOK controlled).

D. United Nations Actions and International Coordination

In addition to the regular meetings with the Government of Kuwait representatives in Washington, we established a program with foreign governments to meet regularly with their embassies in Washington to coordinate actions and ensure uniform application of all U.N. resolutions.

We met with virtually every U.N. member nation with representation in Washington -- over 115 in all -- where we thought there was even the remotest possibility that trade might exist between those countries and Iraq. We explained our program and asked for an explanation of theirs and offered technical assistance wherever we thought it useful. We held many bilateral meetings and discussions with many of our closest allies -- the United Kingdom, Canada, Switzerland, Japan, France, and others. We also sent our staff to coordination meetings with our allies in such fora as the Bank for International Settlements in Basle, the Organization for Economic Cooperation and Development in Paris, the European Economic Community in Brussels, and the United Nations in New York. These international coordination efforts against Iraq continue today.

IV. Unblocking Kuwait's Assets

In the weeks leading up to Operation Desert Storm we continued to work closely with parties affected by the sanctions. We issued interpretative rulings involving a wide variety of transactions and additional blocking status determinations concerning various institutions.

After Kuwait was liberated, we were ready to unblock Kuwait's assets and lift restrictions on dealings with Kuwait. This required more than merely lifting the restrictions, however. Even while the multinational armed force was still fighting, we had begun laying the groundwork for an orderly unblocking of Kuwaiti assets. In February 1991 we licensed seven of your banks, backed by a guarantee from the Central Bank of Kuwait, to settle obligations that arose prior to the invasion by Iraq. These seven banks were Al Ahli Bank, The Bank of Kuwait & The Middle East, Burgan Bank, Commercial Bank of Kuwait, The Gulf Bank, The Industrial Bank of Kuwait, and Kuwait Real Estate Bank. However, in order to assure the stability of markets, and at the request of your government, we did not issue a general unblocking order.

The next step, upon liberation, was to authorize restoration of travel, trade, and commercial activities with your country. We lifted restrictions against these activities on March 11, 1991.

Two weeks later, again at the request of your government, we unblocked assets located in the United States belonging to your government and most of its agencies or controlled entities. However, we maintained

what restrictions still existed on the seven major Kuwaiti banks, allowing them to settle obligations in an orderly fashion while protecting them from possible attachment actions in U.S. courts by creditors seeking to gain advantage by seeking priority compensation.

In early June of 1991 we lifted all restrictions on those seven banks. This allowed U.S. persons to engage in any transactions with those banks, and allowed the banks to begin normal commercial activity.

Finally, in late July, with your banks operating normally and the unblocking of your assets in the United States complete, President Bush took the Kuwait sanctions off the books completely by revoking the original executive orders which imposed the protective asset freeze and trade embargo against Kuwait.

V. The United Nations Process

A. Key U.N. Resolutions

United States leadership and the unprecedented unity of purpose exhibited by the United Nations during this crisis was instrumental in restoring Kuwait's sovereignty. To put in context a discussion of the interplay between the United Nations and U.S. domestic law, and continuing U.N. efforts to clean up the aftermath of Iraq's invasion, I believe it would be helpful to summarize the key resolutions passed by the United Nations Security Council in response to the Iraqi aggression.

Resolution 661, passed four days after the invasion, imposed a trade and financial embargo on Iraq and Kuwait and called on all countries to protect Kuwait's assets. Of course, the United States had already done this through the executive orders issued by President Bush the day after the invasion. However, the President issued additional orders after Resolution 661 in order to ensure consistency between the U.S. and U.N. programs.

By October, the U.N. had obtained evidence of Iraqi atrocities against innocent Kuwaiti and third-country civilians. Resolution 674 condemned these violations of human rights and invited countries to gather information on grave breaches of international human rights laws by Iraq. Also significant in 674 was the Security Council's affirmation of Iraq's liability under international law for loss, damage or injury arising as a result of the

illegal invasion and occupation of Kuwait. The Resolution also invited the collection by states of information regarding claims by nationals and corporations.

In March, 1991, shortly after the liberation, the Security Council lifted the embargo imposed by Resolution 661 as it applied to Kuwait, through Resolution 686.

One month later, Resolution 687 set the terms for the cease-fire. The Resolution asked the Secretary General of the U.N. to prepare plans for creation and deployment of a peacekeeping force to be deployed in southern Iraq. The Resolution also prohibited Iraq from continuing production of chemical, biological, or nuclear weapons, and required the destruction of such technology that already existed. Resolution 687 also reaffirmed Iraq's liability for loss or damage in Kuwait, including significant environmental damage and the depletion of natural resources. To this end, Resolution 687 called for the creation of a compensation fund, and also allowed for humanitarian aid to persons in Iraq. Finally, the Resolution called for repatriation of all Kuwaitis held in Iraq.

The repatriation of Kuwaiti citizens held hostage has become a major issue in the ongoing efforts to resolve the situation. The International Committee of the Red Cross has been working to gain access to Iraq and repatriate all Kuwaiti citizens, but Saddam Hussein's intransigence has been a real barrier. As all of you are so painfully aware, over 2000 Kuwaitis are still reported as missing. And when you speak of the agony of knowing that your countrymen are held hostage in a foreign country, the United States also has endured suffering at the hands of hostage takers. It is my personal wish that you will have the same reunion that we had, after Iran released our hostages in 1981, and after the last U.S. hostage held in Lebanon was returned last year.

The costs of these disarmament, humanitarian, restitution, and repatriation efforts are enormous. Resolution 699 established Iraq's responsibility to pay for all costs of the inspections for chemical, biological, and nuclear weapons as well as their destruction. Resolution 687 had already confirmed Iraq's liability for restitution and for the repatriation of foreign nationals.

Resolution 706, passed in August 1991, authorized the sale of up to $1.6 billion worth of Iraqi oil for the purpose of funding humanitarian aid,

the compensation fund called for in Resolution 687, activities of the Special Commission working to rid Iraq of its weapons of mass destruction, as well as other administrative costs. To date, Iraq has refused to participate in or comply with Resolution 706, and so implementation of these activities so far has been paid for from the U.N. budget.

B. Relevance of U.N. Resolutions to Kuwait and the World

Saddam's refusal to comply with Resolution 706 has insured the continued suffering of those already victimized by his aggression, including his own people. His refusal to participate in the oil for food program, under which Iraq is permitted to sell the oil necessary to fund the U.N. humanitarian assistance and compensation programs called for by Resolution 706, has resulted in continued suffering in his own country as well as financial strains on the U.N. apparatus assembled to ensure Iraqi compliance with the peace terms. He apparently is using this tactic in an attempt to divide the worldwide coalition of nations arrayed against him. Given the magnitude of the financial claims against Iraq by the U.S., Kuwait, and the rest of the world, it is understandable why he believes this tactic could be divisive.

During Operation Desert Storm, we conducted a census of the Iraqi assets blocked by the U.S. freeze order as well as of U.S. financial claims against Iraq. The value of blocked Iraqi property in the United States is approximately $1.2-$1.3 billion, and U.S. claims against Iraq total in excess of $5 billion. We have used the information obtained from this survey to shape and encourage the current efforts of the U.N. Compensation Commission to create a fair and equitable claims settlement program.

Regardless of the current funding of the Compensation fund, it is still important that the U.S., Kuwait, and all of the coalition countries continue the collection of claims information as called for by Resolution 687 and the filing of claims with the U.N. Commission. Last year I personally witnessed some of the enormous destruction wreaked on your country by Saddam's troops. This devastation and its costs must be thoroughly recorded and documented. I have visited one of the claims offices established in Kuwait by the Public Authority for Assessment of Compensation for Damages, recently opened to begin processing claims for submission to the U.N. fund, and am enormously impressed with the operation and how well organized it is.

VI. Turning the Screws on Saddam - Identifying Hidden Wealth

A. Current Enforcement Efforts

The United States is committed to the continuing struggle to ensure that Iraqi aggression against Kuwait will never occur again. The military battle against Iraq is over; the embargo against Iraq shall continue so long as Saddam remains in power. We must maintain our resolve to enforce an international program of comprehensive economic sanctions against Iraq until Saddam Hussein has been removed from power and all Iraqi weapons of mass destruction and their corresponding production facilities have been eliminated as required by U.N. resolutions. The United States is dedicated to this cause; we are fully committed to ensuring that our allies remain so also. Only by steadfastness can we prevent another nightmare of Iraqi atrocities.

On the diplomatic front, you are well aware of the U.S. leadership role in the United Nations which has resulted in a series of U.N. Security Council resolutions and Sanctions Committee actions which have imposed a strict economic sanctions regime against Iraq. The enormity of those well-publicized actions is vastly augmented by the great numbers of daily government-to-government approaches made behind the scenes by the United States diplomatic community in a concerted effort to keep the coalition united on Iraqi sanctions issues. Since August 1990, the U.S. has approached literally every foreign government where information has been developed with reports of possible sanctions violations by firms or individuals under their respective jurisdictions. This program, implemented shortly after United Nations sanctions were imposed, has thus far resulted in well over 1000 demarche messages to foreign governments. The majority of governments receiving such demarches have responded in a positive manner by conducting their own investigations, contacting the suspect firms or individuals, and taking enforcement actions where appropriate. Thus a significant number of illegal shipments to Iraq have been thwarted by this preventive diplomacy.

The United States itself is not free from individuals who would seek private gain at the expense and misery of others. We have taken numerous enforcement actions in the U.S. against conspirators and violators who have sought to benefit by continuing to trade with Iraq. We have enlisted the efforts of other U.S. enforcement agencies -- the Federal Bureau of

Investigation and the Customs Service -- to root out this criminal element. Working with these agencies we have shut down the operations and blocked all assets of the four firms in the United States which were found to be owned or controlled by the Government of Iraq. An additional firm and its export manager have been found guilty of Iraqi sanctions violations and were sentenced in a United States District Court to pay fines and serve terms of imprisonment. Also, civil penalties have been levied against five other firms. Numerous investigations and enforcement actions remain ongoing at this time.

The United States also has been the leading partner in the Multinational Interception Force ("MIF"), a maritime inspection regime implemented in support of United Nations resolutions by the navies of over a dozen allied coalition states to intercept ships carrying products and commodities bound to and from Iraq. U.S. Navy warships, support vessels, and sailors, and U.S. Coast Guard inspectors have formed the backbone of the MIF fleet. By August 17, 1991, one year after its establishment, the MIF had intercepted over 11,000 ships and boarded over 2,000 merchant vessels in the Northern Red Sea and Arabian Gulf. At the one year mark, on-site inspections of cargoes and manifests had resulted in the diversion of 115 merchant vessels for illegal or undocumented cargoes, improper manifests, inaccessible cargoes, or other irregularities. The MIF continues its maritime interception operations to the present day. In this manner, numerous attempts to ship illegal goods to Iraq have been stopped dead in the water.

B. The SDN Connection

I would now like to discuss for a few minutes a program we have developed to continue to pursue Saddam economically around the globe. We are working with the Government of Kuwait to pursue this effort jointly and hopefully with other GCC countries. Under U.S. law, the Iraqi sanctions program provides the U.S. Department of the Treasury with authority to include within the definition of the Iraqi Government those individuals and entities which have been determined to be acting on behalf of, or controlled by, that government. This greatly enhances the effectiveness of the sanctions by forestalling a potential avenue of sanctions evasion by Specially Designated Nationals -- agents and front companies of Iraq.

The effect of being named a Specially Designated National, or SDN, is significant. The SDN is exposed internationally as a target government agency, instrumentality, or controlled entity acting either overtly or covertly as a front, and all of the SDN's property within the jurisdiction of the United States (including financial assets in U.S. bank branches overseas) is blocked. U.S. persons are prohibited from engaging in any transaction involving property in which the SDN has an interest, which includes all financial and trade transactions, and all holders of SDN property must report those holdings to FAC. In the case of Iraq, which is subject to multinational sanctions, being identified as an Iraqi SDN by the United States provides a basis for other governments to take similar steps to include the specifically identified individuals and entities within their sanctions programs.

Through information obtained by FAC from a combination of public and confidential investigative sources, as well as from other U.S. agencies and foreign governments, we undertook a major initiative to identify front companies and agents used to acquire, technology, equipment, and other resources for Iraq.

We have formally identified 48 businesses and 44 individuals in 30 countries as Iraqi SDN's and 160 merchant ships as Iraqi-owned or controlled, thus prohibiting their use by U.S. businesses and individuals. This action was the culmination of many months of domestic and international investigative effort coordinated by the U.S. Treasury with domestic and foreign investigative resources. Approximately half of the designated Iraqi SDNs are part of the Iraqi military-industrial network.

In practice, an Iraqi SDN is an Iraqi government body, representative, intermediary, or front (whether overt or covert) that is located outside Iraq and functions as an extension of the Government of Iraq. It may be a firm created by the Iraqi Government, or it may be a third-party company that otherwise becomes owned or controlled by the Iraqi government or that operates on behalf of the Government of Iraq. No criminal linkage or violation of U.S. law is necessary for being placed on the SDN list. Ownership or control by the Iraqi government or acting on its behalf would suffice to qualify a person for designation.

For U.S. persons, dealing with an SDN is equivalent to doing business with the government of the target country, an activity which is prohibited and subject to severe penalties. For example, under the Iraq Sanctions Act, civil penalties of up to $250,000 may be imposed

administratively. Criminal fines of up to $1 million per violation may be imposed on both individuals and corporate entities, and prison sentences of up to 12 years are authorized for individuals, including officers, directors, or agents of a corporation, who are knowingly involved in a corporate violations of the sanctions.

U.S. persons may be designated as SDNs and, as such, would have their assets blocked by FAC, effectively putting them out of business. Several U.S. firms in which Iraq holds a controlling interest were immediately blocked under terms of the August 2 Executive order.

The Iraqi SDN list is not intended as a static document, but will be continuously augmented as additional front companies and agents are identified.

The Specially Designated Nationals program is a major weapon in the arsenal of FAC's efforts to detect, expose, neutralize and capture the still hidden assets and procurement networks of Saddam Hussein's Iraq. In ongoing efforts that span the globe, FAC's International Programs Division is in pursuit of Saddam Hussein's hidden instruments of treachery and power, developed secretly to purchase goods that otherwise would not have been available because of the international export control system.

It is my belief, and an operating assumption of the U.S. Treasury, that through secret accounts and investments, covert Iraqi front companies, and clandestine agents of his regime, Saddam Hussein is attempting to sustain and proliferate his tools for disregarding the United Nations embargo. FAC is committed to discovering, disrupting and, ultimately, destroying the labyrinth of organizations and individuals that continue to contribute to those destructive capabilities.

Since August of 1991, FAC has worked to uncover and publicize the assets and arms network of Saddam Hussein. In this work we have had the unstinting cooperation of the Government of Kuwait and of Ambassador Saud Nasir Al-Sabah, who retained a private investigative firm to assist us both. Through these combined government efforts, we have succeeded in identifying and neutralizing significant participants in the Iraqi arms and technology procurement network that was in place before the invasion of Kuwait; and we will soon be exposing more of them.

While we may take pride in the achievements to date, we cannot --

and will not -- be satisfied or rest secure in those accomplishments. All of us are aware of reports that Saddam Hussein may have at his disposal as much as 10 to 30 billion dollars in hidden assets. Whatever the correct amount may be, whether it be more or less, we need to find that concealed wealth. Additionally, there are, inevitably, undetected elements of the Iraqi front network that we have not yet exposed and neutralized; but we are getting there. Indeed, as I departed Washington for this visit, my International Programs Division was hard at work on what we expect to be a major breakthrough on a sophisticated, international maze of companies acting on behalf of and under the control of the Iraqi government. If successful, we believe that this will also enable us to identify millions of dollars of Iraqi assets that are subject to blocking.

Furthermore, we must recognize that Saddam Hussein and his henchmen are not resting. Iraq is resisting compliance with the resolutions of the United Nations and is flagrantly interfering with the work of U.N. inspection teams. It is my belief that Iraqi agents throughout the world are working to circumvent the U.N. embargo; and, unfortunately, there are many parties who are willing to sell to them. In addition, we have no doubt that Saddam Hussein's agents are working with equal dedication to establish new clandestine networks in order to use Iraq's hidden assets to carry out secretly Iraq's financial activities and rebuild its arms-and-technology infrastructure. We can have no higher mission than to seek out, disrupt and, ultimately, extinguish these new networks.

Although Desert Storm was brought to a glorious conclusion and that battle is over, the economic war against Saddam is not yet won. FAC will remain steadfast in its commitment to pursuing and uncovering Saddam Hussein's front networks and hidden treasure for the benefit of all affected by the war.

In this continuing endeavor, I ask tonight the assistance of all citizens and enterprises of Kuwait in identifying Iraq's hidden wealth and clandestine arms-and-technology networks. Through your years of success in the business and financial activities of the petroleum-producing states and the Gulf States in particular, Kuwaiti citizens and companies will of necessity have become familiar with individuals and entities that have been owned or controlled by or have served Iraq.

Similarly, it is likely that much knowledge about the investments and finances of the Iraqi government, Saddam Hussein, and his associates --

including information about their banks and financial advisers -- will have come to the attention of astute Kuwaiti businessmen. I would beseech you to explore your recollections and records to seek out information that may help the Government of Kuwait and FAC to find Iraq's assets and agents. To further these efforts, I am prepared to send senior FAC officials to Kuwait or any other location in order to acquire evidence of Iraq's wealth or networks.

My organization is committed to pursuing Saddam Hussein throughout the globe. We will be unwavering and resolute in this mission, and we ask that you join even more closely with us to accomplish it.

It was a pleasure to appear before you tonight. I will be pleased to respond to any questions.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

ROOM 5310
MAR 16 92 002283

FOR IMMEDIATE RELEASE
March 16, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,434 million of 13-week bills to be issued March 19, 1992 and to mature June 18, 1992 were accepted today (CUSIP: 912794YT5).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.06%	4.16%	98.974
High	4.10%	4.20%	98.964
Average	4.09%	4.19%	98.966

Tenders at the high discount rate were allotted 12%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	39,010	39,010
New York	30,933,010	10,314,915
Philadelphia	14,305	14,305
Cleveland	52,805	52,805
Richmond	264,140	56,460
Atlanta	25,690	23,810
Chicago	1,365,790	51,110
St. Louis	33,600	13,600
Minneapolis	12,355	12,355
Kansas City	35,830	35,830
Dallas	27,680	27,680
San Francisco	630,095	141,095
Treasury	651,500	651,500
TOTALS	$34,085,810	$11,434,475
Type		
Competitive	$29,999,170	$7,347,835
Noncompetitive	1,337,705	1,337,705
Subtotal, Public	$31,336,875	$8,685,540
Federal Reserve	2,310,380	2,310,380
Foreign Official Institutions	438,555	438,555
TOTALS	$34,085,810	$11,434,475

An additional $108,345 thousand of bills will be issued to foreign official institutions for new cash.

NB-1712

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 16, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,430 million of 26-week bills to be issued March 19, 1992 and to mature September 17, 1992 were accepted today (CUSIP: 912794ZL1).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.26%	4.41%	97.846
High	4.27%	4.43%	97.841
Average	4.27%	4.43%	97.841

Tenders at the high discount rate were allotted 69%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	25,540	25,540
New York	27,093,190	10,505,675
Philadelphia	13,455	13,455
Cleveland	29,000	29,000
Richmond	39,340	35,930
Atlanta	18,390	17,390
Chicago	1,313,505	71,145
St. Louis	25,295	15,295
Minneapolis	2,800	2,800
Kansas City	28,580	28,580
Dallas	16,725	16,725
San Francisco	707,245	226,845
Treasury	442,020	442,020
TOTALS	$29,755,085	$11,430,400
Type		
Competitive	$25,733,175	$7,408,490
Noncompetitive	885,965	885,965
Subtotal, Public	$26,619,140	$8,294,455
Federal Reserve	2,450,000	2,450,000
Foreign Official Institutions	685,945	685,945
TOTALS	$29,755,085	$11,430,400

An additional $172,055 thousand of bills will be issued to foreign official institutions for new cash.

NB-1713

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

FOR RELEASE AT 2:30 P.M.
March 17, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 22,800 million, to be issued March 26, 1992. This offering will provide about $ 1,850 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 20,946 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, March 23, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 11,400 million, representing an additional amount of bills dated December 26, 1991 and to mature June 25, 1992 (CUSIP No. 912794 YU 2), currently outstanding in the amount of $ 10,212 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $ 11,400 million, representing an additional amount of bills dated September 26, 1991 and to mature September 24, 1992 (CUSIP No. 912794 YY 4), currently outstanding in the amount of $ 12,563 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 March 26, 1992. 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 $1,924 million as agents for foreign and international monetary authorities, and $4,184 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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

TREASURY NEWS

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

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EMBARGOED UNTIL 8:00 PM
March 17, 1992

Contact: Desiree Tucker-Sorini
(202) 566-8191

Honorable Nicholas F. Brady
Secretary of the Treasury
Electronic Industries Association
March 17, 1992
Washington, D.C.

Thank you, Pete [McCloskey, President, EIA]. It is a pleasure to join the leaders of America's electronic industry to discuss some important issues that affect not only your industry, but the economic vitality of the nation.

But first, I can't make a speech on March 17 without wishing you all a happy St. Patrick's Day. After converting the Irish to Christianity, St. Patrick died on this day in the year 461. Leave it to the Irish to carry on a wake for over 1500 years.

My speech will be considerably shorter than that. Tonight, I want to take a few minutes to discuss the importance of securing economic growth for the United States.

Certainly, your industry knows the critical importance of innovation and competitiveness to economic growth. The electronic firms in the United States were not built on short-sighted visions. They were built on resourcefulness, hard work and quality products. It is no accident that among the winners of the Malcolm Baldrige Quality Awards, you'll find Motorola, Westinghouse, Xerox, and IBM -- all members of the Electronic Industries Association.

And let me take this opportunity to commend your honoree this evening -- John Mitchell -- not only for his significant accomplishments at Motorola, but also for his efforts with EIA to help ensure a strong and competitive environment for your industry. As you know, President Bush has called for a permanent R&D tax credit in each of his three budget proposals, and we appreciate your efforts to support this all-important initiative. A permanent R&D credit is important to U.S. interests, and it's about time to make this incentive something American companies can count on.

Innovation and hard work are America's heritage. But today, there is uncertainty surrounding America's economic future. People see a rapid pace of change, both here and abroad, and they ask themselves "Where do we stand?"

NB-1715

The conventional wisdom has an answer to that question, an answer rooted in doubt and discouragement: America, we are told, is going downhill. Our economy -- so says the conventional wisdom -- is weak: our goods uncompetitive, our managers inefficient, our workers idle and ill-educated. Germany and Japan are said to be the powerhouses of today and the leaders of tomorrow; the pundits claim that the American Century is drawing to a close.

This view has now been repeated so often and so insistently -- in our newspapers and journals of opinion, in our board rooms and our hearing rooms, and even on Geraldo -- that it has become the opening statement in the debate, no longer to be questioned. This bleak appraisal of America's prospects, like much conventional wisdom, is seductive -- but it's wrong.

We must resist the pessimists' myth that America is somehow on its way to becoming an economic backwater. If the pessimists think that the U.S. economy is weak and will soon be overtaken by economies such as Germany or Japan, they are wrong. The U.S. economy remains the world's preeminent economic power. With only one-twentieth of the world's population, we produce one-fourth of the world's output.

If the pessimists think any country has a higher standard of living, they are wrong. U.S. GDP per capita, adjusted for purchasing power, is 25% higher than that of Japan and one third higher than Germany's.

If the pessimists think that U.S. manufacturing of high technology products is no longer competitive in world markets, they are wrong. This nation is the world's leading exporter of aircraft and aerospace equipment, computers, microelectronics and scientific and precision equipment. Since 1986, U.S. merchandise exports have grown 20 percent faster than Germany's and 70 percent faster than Japan's. Exports in the electronics sector alone increased over 100 percent during the last five years.

If the pessimists think that Japanese or German workers are more productive than American workers, they are wrong. Output per employee in the United States is over 25 percent greater than in Japan or Germany.

America remains the land of opportunity -- a place where American men and women can fulfill their unequalled capacity for innovation and enterprise.

Yet, if all that's so -- and it is -- why do so many Americans lack confidence about the future, our own and our children's?

To some extent, the conventional wisdom simply feeds on itself. So long as we are told at every turn that the future is uncertain, the more uncertain about our future we become.

But there is more to it than that. The American economy is no longer free from competitive pressure from abroad. This vigorous international competition is new, confusing, and threatening for many Americans. Some would respond by retreat, by circling the wagons, by attempting to close our borders. But this is a sure route to economic decline -- to a lower standard of living for the American people. Instead we must face head on the reality that we now live in a challenging global marketplace.

As the economy modernizes -- faces new competition and technological innovations -- the best uses of its resources naturally change. These changes are not always painless. But, contrary to the common view, the technical innovations and world trade are actually *producing* jobs within our economy. Our merchandise exports have increased by $190 billion over the last 5 years, and every billion dollars in increased exports by U.S. companies supports almost 20,000 new jobs. Over the last five years, export expansion has accounted for over one-third of GDP growth, and for every 2 1/2 percent growth in GDP, we create almost 2 million new jobs per year.

That's why fair trade and open markets are the goals we seek in the Uruguay Round and the North American Free Trade Agreement. The electronics industry knows we must improve market access and negotiate better trading rules. That's why you were early supporters of NAFTA. By expanding free trade, we will continue the growth in exports and continue to create new jobs.

It is the government's job to help, not to hinder, economic progress. I agree with Thomas Jefferson, who said: "My reading of history convinces me that most bad government results from too much government."

Of course, there is a role for government, but frankly, the American people now are wondering, as each day passes, whether it will be a constructive or destructive one.

When the government fails to control its spending -- to take as little as it can from the people, to husband the resources it does take, and to control deficits -- it drains dollars that could be used in the private sector, and hinders economic growth.

When the government overregulates businesses and empowers its civil courts to award unlimited damages in product liability cases that no amount of care or diligence by the manufacturer could have avoided, it hinders economic growth.

When the government refuses to reform a legal system that makes 80 percent of all obstetricians defendants in malpractice lawsuits, it needlessly drives up the cost of health care and hinders economic growth.

We simply cannot allow our nation's economy to have its strength sapped by overregulation, protectionist trade policies, a debilitating legal system, and Congressional indifference to the priority of economic growth.

The responsibility of those of us in government is to put in place policies that create a climate that encourages innovation and economic growth.

I believe that the American people's uncertainty about the lcng term -- about both our ability to compete and the government's capacity to enact laws that increase this ability -- has contributed to the short term difficulties of our economy. If these uncertainties about our future can be dispelled, and balance and common sense prevail, we could all be optimistic about our future.

It was in this context that President Bush put forward a targeted economic plan and challenged the Congress to join him in this effort -- no later than March 20. The President's plan recognizes that the elements of a recovery are underway, but that selected, concrete steps will accelerate the economic rebound.

Accordingly, the President's plan is directed at the specific needs and aspirations of the American people. It takes into account individual and family goals, and matches them with specific proposals to achieve these goals. His plan will assist families to buy a house, to save for the future, to finance education, to purchase health insurance, and to plan for retirement.

But rather than attempting to work with the President to accelerate economic growth and create jobs, the Democrats have devised a partisan plan that raises taxes -- a plan that they know the President will not sign. Let me explain why the President will veto a bill that raises tax rates.

A plan for economic growth is not a zero sum game -- you don't provide tax incentives with one hand, and negate the economic benefit by increasing taxes with the other.

When I talk about tax increases and their effect on the economy, I'm not talking abstract theory. I've been there. I'm from New Jersey. We ran the experiment for you, and here's what it showed: higher tax rates were followed by businesses leaving the state and sharp economic decline. And when the people saw the results of the Democrats' tax-raising handiwork, they reacted at the polls. In November 1991, Republicans won control of both houses in the New Jersey legislature for the first time in 20 years. And not just majorities -- veto-proof majorities in each house to make sure it didn't happen again.

I ask you, why should we run this experiment again at the national level?

The two bills recently passed by the Democrats in Congress have embraced most of the President's economic stimulus proposals. But there's one important difference -- their bills would raise taxes, not decrease spending. Even their own economists say tax increases won't help economic growth. In addition, the President has told them he would veto these bills. Why don't they just take tax rate increases off the table? It is not too late to foresake the politics of division and embrace the cause of growth.

If the collapse of communism and the disintegration of the Soviet Union this past year have taught us anything at all, it is that government policies that concentrate on managing how limited resources are distributed among the people are a poor substitute for concentrating on creating economic growth.

We are indeed on the brink of a new world -- one that begins with the end of the Cold War -- an economic stimulus that none of us can now calculate, but which will be, over time, of enormous proportions.

The critical task for all of us in government is to work together to strengthen our economy -- for that is what the American people want and deserve.

Thank you.

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TREASURY NEWS

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

Embargoed Until Delivered
Expected at 10 a.m.
March 18, 1992

TESTIMONY OF NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE
AND GENERAL GOVERNMENT

Mr. Chairman and Members of the Committee:

It is my pleasure to appear before this Subcommittee to discuss the operating budget request for the Department of the Treasury for FY 1993.

Events have dramatically reshaped the world since we met a year ago. We have witnessed the collapse of Communism and the disintegration of the Soviet Union, affirming for each of us the values embraced in our democratic society. These international developments give us new opportunities and resources to face the economic challenges at home.

Although the economic recovery has been more sluggish than most economists have predicted, there are some encouraging signs: high short term interest rates, which had persisted in recent years, are now at their lowest level in nearly two decades; long term interest rates have also fallen; inflation has subsided, and exports have strengthened.

Last month, I testified before the Senate and House Budget Committees on the economic proposals announced by the President in his State of the Union address and detailed in his FY 1993 Budget. The President's proposals would accelerate economic recovery in the short term, stimulate long-term growth, and increase competition. We ask Congress to support the economic growth initiatives in the President's plan.

Because our nation's economic growth is the engine of progress, and because Americans of every persuasion want action now, we must devote our knowledge and creativity to moving ahead quickly with responsible budget decisions -- for relief from

present suffering and, more importantly, to preserve a future of genuine economic choices for every American.

The Department of the Treasury's functions are broad and critical to the Nation's economic well being. These critical activities include:

- developing international monetary, financial, and trade policies;
- developing economic policies that consider the economic effects of tax and budget policy;
- borrowing money needed to operate the Federal Government, and accounting for the resulting public debt;
- collecting the proper amount of tax revenue, at the least cost to the public and with the highest degree of public confidence;
- improving Federal cash management and debt collection practices government-wide;
- producing currency and coin for the Nation's commerce;
- carrying out activities that include collecting revenue from imports, and collecting excise taxes on alcoholic beverages and tobacco products;
- regulating the sale of firearms and prosecuting their illegal possession and use, especially with regard to armed career criminals and members of violent criminal gangs; overseeing drug interdiction programs and preventing money laundering; overseeing strategic exports programs; enforcing our nation's trade laws, especially with regard to fraudulent entries, duty evasion, quota and marking violations, and slave labor cases; preventing counterfeiting; training Federal law enforcement officers and protecting the President and Vice President;
- administering embargoes and economic sanctions against foreign countries to further U.S. foreign policy and national security goals; and
- regulating national banks and Federal and State chartered thrifts.

To continue to carry out these essential Government functions, we are requesting a total FY 1993 operating budget of $10.2 billion and 162,519 total FTE, an increase of $612.9 million and a decrease of 524 FTE compared to FY 1992 proposed levels. The Treasury budget request presents an honest approach to responsible spending. More importantly, we are targeting every opportunity available to promote fiscal responsibility and provide innovative responses to today's problems.

The Fiscal Year 1993 budget request has the following major objectives:

- Modernize Information Systems. Treasury plans to aggressively upgrade and integrate our existing systems to ensure they will perform well in the electronic environment of the next century. The major thrust of these upgrades and integration is the complete overhaul and modernization of the IRS' tax administration system, one of the most complex systems of financial transactions in the world. The goal of Tax System Modernization is to enhance service quality by relieving IRS of its manual processes.

- Improve Management of the Nation's Finances. The Financial Management Service is pursuing initiatives to improve government-wide inventory management to reduce the costs associated with excessive and mis-managed inventory. In addition, FMS proposes a major change in the way Treasury pays postage for the checks it issues. If proposed legislation is passed, certain agencies would be charged for the cost of postage for payments made by check. This should give agencies a greater incentive to promote Electronic Funds Transfer, a safer and lower cost alternative to checks.

  The Bureau of Public Debt anticipates long-term savings from its plan to consolidate most of its operations in Parkersburg, West Virginia.

  The Office of the Inspector General is requesting funding to audit bureau financial statements in accordance with the Chief Financial Officers Act of 1990.

- Improve Internal Controls. Resources are requested to strengthen Treasury's internal

controls by identifying and resolving deficiencies in financial systems and processes to fully meet the requirements of the Federal Manager's Financial Integrity Act. These funds include IRS's plans to begin full operation of the Automated Financial System on October 1, 1992, Customs' plans to upgrade its financial accounting systems, replacement of the Bureau of Public Debt's outdated Financial Accounting System, the Inspector General's plans to conduct audits and investigations, and the Financial Management Service's plans to ensure its accounting systems are in compliance with Chief Financial Officers' Act requirements.

- Ensure a "Level Playing Field". Funds are requested to expand Customs' enforcement of U.S. trade laws and IRS' enforcement of international tax laws to help ensure fair competition for U.S. industry and workers.

- Increase Enforcement of the Tax Laws. Additional funds are requested for targeted strategies by the IRS to achieve higher levels of voluntary compliance with the tax laws, more successful collection of taxes owed and more vigorous pursuit of the government's interests in bankruptcy fraud. Also, funds are requested for fair tax administration through increased audit of tax returns on higher incomes and assets.

- Targeting Illegal Money Laundering. Funds are requested for expanding Customs', IRS', and the Financial Crimes Enforcement Network's (FINCEN) attacks on drug-related money laundering operations.

- Conduct Other Enforcement Actions and Expand the War on Drugs. The War on Drugs is a national priority for Treasury's law enforcement and protection bureaus. Funds are requested for FINCEN, Customs, the Bureau of Alcohol, Tobacco and Firearms, IRS, the Federal Law Enforcement Training Center, and the Secret Service to strengthen drug interdiction and investigation, to improve training and continue facility expansion initiated in previous years, to enhance firearms programs, to strengthen protection, and to improve financial crimes intelligence systems.

- Meet the Nation's Demand for Currency and Coinage. Funds are requested for the U.S. Mint to produce sufficient coinage to meet expected demand. The Bureau of Engraving and Printing, which does not require annual appropriations, will meet the Nation's demand for currency.

- Policy Formulation and Management Oversight of Departmental Operations. Funds are requested to permit the Departmental Offices supporting the Secretary to develop and carry out the Nation's economic, financial and tax policies.

- International Financial Institutions. Funding is also requested before another subcommittee for the Multilateral Development Banks (MDBs) which provide technical assistance and financing for development in less developed countries, and for the quota increase for the International Monetary Fund (IMF). The Department is responsible for U.S. policy and operations of the MDBs and the IMF. We will also continue working for American jobs in our hemisphere through the North American Free Trade Agreement and the Enterprise for the Americas Initiative.

In summary, the Department's budget request of $10.2 billion represents a commitment to:

- modernize the administration of the tax laws, and to promote fairness and quality service to the public;

- manage the nation's finances responsibly by improving financial accounting and controls;

- strengthen the war on drugs, and

- improve the management of essential government services.

Mr. Chairman, that concludes my opening remarks. I will be happy to answer any questions that you or the other Subcommittee members may have.

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
March 18, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $25,000 MILLION

The Treasury will auction $14,750 million of 2-year notes and $10,250 million of 5-year notes to refund $18,254 million of securities maturing March 31, 1992, and to raise about $6,750 million new cash. The $18,254 million of maturing securities are those held by the public, including $1,445 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $25,000 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $2,512 million of the maturing securities that may be refunded by issuing additional amounts of the new securities at the average prices of accepted competitive tenders.

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

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Attachment

NB-1717

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED MARCH 31, 1992

March 18, 1992

<u>Amount Offered to the Public</u> ...	$14,750 million	$10,250 million
<u>Description of Security</u>:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series X-1994 (CUSIP No. 912827 E6 5)	Series K-1997 (CUSIP No. 912827 E7 3)
Maturity date	March 31, 1994	March 31, 1997
Interest rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	September 30 and March 31	September 30 and March 31
Minimum denomination available .	$5,000	$1,000
<u>Terms of Sale</u>:		
Method of sale	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $5,000,000	Accepted in full at the average price up to $5,000,000
Accrued interest payable by investor	None	None
<u>Key Dates</u>:		
Receipt of tenders	Tuesday, March 24, 1992	Wednesday, March 25, 1992
a) noncompetitive	prior to 12:00 noon, EST	prior to 12:00 noon, EST
b) competitive	prior to 1:00 p.m., EST	prior to 1:00 p.m., EST
Settlement (final payment due from institutions):		
a) funds immediately available to the Treasury ...	Tuesday, March 31, 1992	Tuesday, March 31, 1992
b) readily-collectible check ...	Friday, March 27, 1992	Friday, March 27, 1992

TREASURY NEWS

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

LIB. ROOM 5310

FOR IMMEDIATE RELEASE   March 20, 1992

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of February 1992.

As indicated in this table, U.S. reserve assets amounted to 75,088 million at the end of February 1992, down from 75,868 million in January 1992.

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/
1992					
January	75,868	11,058	10,980	44,717	9,113
February	75,088	11,058	11,020	44,014	8,996

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on 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-1718

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,454 million of 13-week bills to be issued March 26, 1992 and to mature June 25, 1992 were accepted today (CUSIP: 912794YU2).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.06%	4.16%	98.974
High	4.08%	4.18%	98.969
Average	4.08%	4.18%	98.969

Tenders at the high discount rate were allotted 91%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,360	30,360
New York	29,183,530	9,574,795
Philadelphia	14,970	14,970
Cleveland	53,195	53,195
Richmond	550,890	499,990
Atlanta	39,300	39,030
Chicago	1,600,625	331,375
St. Louis	33,005	13,005
Minneapolis	12,730	12,280
Kansas City	36,465	35,375
Dallas	27,185	27,185
San Francisco	635,105	79,755
Treasury	742,875	742,875
TOTALS	$32,960,235	$11,454,190
Type		
Competitive	$28,887,115	$7,381,070
Noncompetitive	1,379,010	1,379,010
Subtotal, Public	$30,266,125	$8,760,080
Federal Reserve	2,083,810	2,083,810
Foreign Official Institutions	610,300	610,300
TOTALS	$32,960,235	$11,454,190

NB-1719

AUCTION RESULTS

PUBLIC DEBT NEWS

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

ROOM 5310
MAR 26 92 003182

FOR IMMEDIATE RELEASE
March 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,452 million of 26-week bills to be issued March 26, 1992 and to mature September 24, 1992 were accepted today (CUSIP: 912794YY4).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.25%	4.40%	97.851
High	4.27%	4.43%	97.841
Average	4.27%	4.43%	97.841

Tenders at the high discount rate were allotted 70%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	32,060	32,060
New York	30,761,270	10,021,840
Philadelphia	11,990	11,990
Cleveland	38,880	38,880
Richmond	150,260	105,260
Atlanta	41,335	40,035
Chicago	1,499,295	287,195
St. Louis	35,655	15,655
Minneapolis	10,605	9,105
Kansas City	42,995	41,695
Dallas	22,085	22,085
San Francisco	691,445	198,545
Treasury	627,540	627,540
TOTALS	$33,965,415	$11,451,885
Type		
Competitive	$29,598,645	$7,085,115
Noncompetitive	1,127,870	1,127,870
Subtotal, Public	$30,726,515	$8,212,985
Federal Reserve	2,100,000	2,100,000
Foreign Official Institutions	1,138,900	1,138,900
TOTALS	$33,965,415	$11,451,885

NB-1720

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 24, 1992

CONTACT: Bob Levine
(202) 566-2041

TREASURY CRACKS DOWN ON AMERICANS IN LIBYA

Operation Roadblock, a U.S. Treasury Department law enforcement initiative targeting U.S. travellers who violate the U.S. sanctions on Libya, was announced today.

The special operation is part of Treasury efforts to enhance enforcement of the U.S. sanctions imposed against Libya.

Treasury's Office of Foreign Assets Control (OFAC) has sent approximately 80 warning letters and requests for information to persons believed to have travelled to and worked in Libya, or made travel-related payments to Libya, since the embargo against Muammar Qadhafi's regime was implemented. Despite the restrictions, U.S. oil workers have continued to work in Libya in violation of U.S. law, says OFAC.

Investigations by Treasury agents are underway, and many additional warning letters are expected. OFAC is assisted by an interagency task force including the State Department, the Justice Department, Treasury's Financial Crimes Enforcement Network (FinCEN), the Federal Bureau of Investigation, and the U.S. Customs Service.

In announcing today's action, R. Richard Newcomb, director of OFAC, said, "These warning letters and investigations make clear that the U.S. Government will not tolerate economic activities by Americans that contribute to the Qadhafi regime and its politics of terror."

Newcomb warned that "Any U.S. person who is working in Libya or is involved in travel-related transactions with Libya must understand that he can be severely penalized for violating these sanctions. Qadhafi, too, must realize that he cannot hope to benefit from normal economic relations with the U. S. or its citizens as long as he harbors terrorists and exports terror."

(more)

All travel-related transactions with Libya are prohibited for U.S. citizens and residents except for travel by immediate family members of Libyan nationals and travel by full time journalists employed by a news gathering organization. Family members must register with OFAC or at the Belgian embassy in Tripoli.

Economic sanctions were imposed against Libya in 1986 to reduce Qadhafi's ability to promote and finance terrorism. Almost all transactions involving Libya are prohibited. In dealing with these travel cases, OFAC may levy administrative civil penalties of up to $10,000 per violation or may commence criminal proceedings. Violations carry maximum criminal penalties of $250,000 per violation for individuals, $500,000 per violation for corporations plus prison sentences of up to 12 years for individuals and senior corporate officers.

Any person with information about travel-related payments or other transactions involving Libya should contact OFAC at (202) 566-5021. All contacts will be treated confidentially.

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TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
March 24, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 22,800 million, to be issued April 2, 1992. This offering will provide about $ 1,375 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 21,420 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, March 30, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 11,400 million, representing an additional amount of bills dated July 5, 1991 and to mature July 2, 1992 (CUSIP No. 912794 YV 0), currently outstanding in the amount of $ 22,897 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,400 million, to be dated April 2, 1992 and to mature October 1, 1992 (CUSIP No. 912794 ZM 9).

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 April 2, 1992. 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 $ 1,089 million as agents for foreign and international monetary authorities, and $ 5,171 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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

11/5/91

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

11/5/91

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 24, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $14,779 million of 2-year notes, Series X-1994, to be issued March 31, 1992 and to mature March 31, 1994 were accepted today (CUSIP: 912827E65).

The interest rate on the notes will be 5 3/4%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	5.84%	99.832
High	5.85%	99.814
Average	5.85%	99.814

$1,000,000 was accepted at lower yields.
Tenders at the high yield were allotted 84%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	33,085	33,085
New York	38,080,745	13,629,705
Philadelphia	24,000	24,000
Cleveland	181,020	140,020
Richmond	180,865	131,025
Atlanta	53,515	43,195
Chicago	2,283,555	188,595
St. Louis	64,845	61,685
Minneapolis	47,765	33,765
Kansas City	93,710	91,530
Dallas	21,980	21,980
San Francisco	585,460	86,660
Treasury	293,845	293,845
TOTALS	$41,944,390	$14,779,090

The $14,779 million of accepted tenders includes $1,154 million of noncompetitive tenders and $13,625 million of competitive tenders from the public.

In addition, $732 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $2,262 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 25, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $10,290 million of 5-year notes, Series K-1997, to be issued March 31, 1992 and to mature March 31, 1997 were accepted today (CUSIP: 912827E73).

The interest rate on the notes will be 6 7/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.93%	99.771
High	6.94%	99.729
Average	6.94%	99.729

$147,000 was accepted at lower yields.
Tenders at the high yield were allotted 90%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	39,878	39,878
New York	23,421,666	9,621,911
Philadelphia	22,276	22,266
Cleveland	108,336	80,836
Richmond	114,627	88,627
Atlanta	32,781	32,581
Chicago	1,157,235	118,435
St. Louis	47,238	44,238
Minneapolis	20,761	20,751
Kansas City	67,224	66,124
Dallas	23,645	23,633
San Francisco	392,974	57,354
Treasury	72,971	72,945
TOTALS	$25,521,612	$10,289,579

The $10,290 million of accepted tenders includes $1,037 million of noncompetitive tenders and $9,253 million of competitive tenders from the public.

In addition, $700 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $250 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-1724

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 26, 1992

CONTACT: Keith Carroll
202-566-5252

ATF SPECIAL AGENTS RECOGNIZED BY TREASURY SECRETARY NICHOLAS BRADY

Secretary Nicholas Brady today recognized 50 Special Agents of the Bureau of Alcohol, Tobacco, and Firearms (ATF) for their dedication and contributions into the war against violent crime in Washington, D.C.

These agents were a part of the Armed Criminal Enforcement Study (ACES), which worked with the Washington, D.C. Metropolitan Police Department during a six month period. Working together, they used Federal firearms laws in a concerted effort to attack rampant crime in the District of Columbia.

"I am proud to support and recognize these dedicated agents," said Secretary Brady. "Their devotion to eradicating the crime epidemic in our nation's capital is truly impressive."

During the six-month period, significant inroads into violent crime were accomplished. Among its many accomplishments, the program aided the Drug Enforcement Agency and Metropolitan police in the seizure of $500,00 worth of assets, and for all of 1991, the Metropolitan Police Department reported a 20 percent reduction in firearms-related violence in the District of Columbia.

The ACES program was initiated by ATF as a pilot task force program to develop successful initiatives in attacking violent crime. The techniques developed during the ACES program are being applied around the country in task forces manned by ATF special agents and state and local police.

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Note to Editors: A list of awardees is attached.

NAME AND TITLE

Pervis Smith, Special Agent
Washington District Office

Stanley Zimmerman, ASAC
Washington District Office

Gaetono Spiotto, Ops. Officer
Charlotte District Office

Dominick Polifrone, Group Sup.
New York District Office

Patti Galupo, Group Supervisor
Cleveland District Office

Hamilton Bobb, Group Supervisor
Philadelphia District Office

Frank Spizuoco, Group Supervisor
Washington District Office

David Behrend, Special Agent
Philadelphia District Office

Gary Blanch, Special Agent
New York District Office

Michael Bouchard, Special Agent
Washington District Office

John Chambers, Special Agent
Washington District Office

John DePollo, Special Agent
Washington District Office

Brian Gallagher, Special Agent
Philadelphia District Office

Steve Gunderson, Special Agent
Seattle District Office

Shawn Hoben, Special Agent
San Francisco District Office

Anthony Jackson, Special Agent
Washington District Office

Lisa Kincaid, Special Agent
Washington District Office

Brenda Molloy, Special Agent
Boston District Office

Virginia O'Brien, Special Agent
Bureau Headquarters

Randy Rosso, Special Agent
Chicago District Office

NAME AND TITLE

ıa Sherrow, Special Agent
shington District Office

rllis Shantz, Special Agent
shington District Office

:k Kraft, Special Agent
shington District Office

nes McCall, Special Agent
llas District Office

ıald Toll, Special Agent
shington District Office

:los Vasquez, Special Agent
ımi District Office

stin Banks, Special Agent
ı Orleans District Office

r Branch, Special Agent
ısas City District Office

ieph Cludy, Special Agent
ıttle District Office

:ven Cordle, Special Agent
.anta District Office

:gg Hine, Special Agent
ihington District Office

.ly Jones, Special Agent
ihington District Office

ınis Kennamer, Special Agent
:hville District Office

ıedee Graham, Special Agent
rlotte District Office

c Martinez, Special Agent
Paul District Office

an Rothman, Special Agent
hville District Office

es Cooke, Special Agent
Angeles District Office

y Aguilera, Special Agent
ston District Office

erie Goddard, Special Agent
roit District Office

n Abrams, Special Agent
mingham District Office

k Potter, Special Agent
hington District Office

NAME AND TITLE

John Ryan, Special Agent
Washington District Office

Kyle Walton, Special Agent
Cleveland District Office

Jose Vasquez, Special Agent
Washington District Office

Steve Pugmire, Special Agent
Washington District Office

Mark Jones, Special Agent
Washington District Office

Eugene Brandon, Special Agent
Washington District Office

Teresa Tate, Int. Research Spec.
Washington District Office

Michael Gammage, Tactical Ops. Off.
Washington District Office

Philip O'Donnell
Inspector
Washington Metropolitian Police Department

TREASURY NEWS

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

AS PREPARED FOR DELIVERY
EMBARGOED UNTIL 1:00 p.m. EST
March 27, 1992

Contact: Desiree Tucker-Sorini
(202) 566-8191

Nicholas F. Brady
Secretary of the Treasury
U.S. Savings Bonds Committee Kick Off Luncheon
New York, New York
March 27, 1992

Thank you, Jack. It is a pleasure for me to be here today with the group of men and women who will lead this year's savings bond campaign in New York.

Just over 50 years have passed since Henry Morgenthau sold Franklin Roosevelt the first Series E Savings Bond in the spring of 1941. That bond sale was meant as a symbol to the American people — a symbol of prudence, patriotism and national pride. But, in the most important respects, that bond was no different from the $250 billion in savings bonds that have followed: each has been a direct investment in America's future, and each reflects an American's decision that our country's future is worth investing in.

In 1941, the world was a simpler place and the decision to invest in America was obvious and easy. I don't mean to say that there were no problems and no uncertainties, for there were many: the world across the oceans was at war, and we knew we might soon be called upon to play a part. But for a young person who graduated from high school and entered the work force that spring, America was full of promise — and for five decades that promise has been fulfilled. America has been the leader of the free world and the economic engine of the West. American companies have outstripped global competition in manufacturing, technology, and finance. In 1950, only 5 years after the war had ended, 4,000 young families every day were moving into new houses and looking forward to better lives. The Class of '41 had no doubt that America's future was a good investment.

The Class of '91 seems less confident. They have been in the work force only a year now, and in that year they have been told — often and repeatedly — that America is a short sale. The conventional advice for young people today is that they must resign themselves to diminished expectations: dimmer prospects, fewer opportunities, and a lower standard of living than their parents. Like Rome after the Fall or France after Napoleon, America — the pundits claim — has had its day in the sun.

Why has the pessimism become so fashionable? Why has it gained such currency? Why have the American people been told to doubt their potential more now than in the past? There are several reasons, and none of them offers the sole explanation. One important point, however, is that for many Americans the recent recession was the first they had ever seen. Over half of the American workforce is under 40, and many of these people have spent their entire working lives during the longest peace-time expansion in American history. They have known only years of growth, and have no past experience against which to measure an economic downturn.

I want to tell the Class of '91 that — although you may hear this pessimism every day — it is wrong. America clearly remains the world's preeminent economic power: total U.S. output is twice the size of Japan's and four times as big as Germany's. With only one-twentieth of the world's population, we produce one-fourth of the world's output. We are on the threshold of an unprecedented opening of free market economies around the world and a new era of growth and trade. And the end of the Cold War last year is an event we cannot yet fully understand and whose positive force we cannot yet begin to calibrate.

If we lay aside the pessimism and focus on the real economic facts that now face us, there is cause for a renewed sense of strength.

First, there are a number of important signs that the U.S. economy is returning to a pattern of growth. The recent increase in the leading economic indicators is one. Housing starts are up. Inflation is as low as it was in the mid-60's. The retail sales increases in January and February were very strong. Corporate profits are beginning to rebound, and as they do, corporate investment — and that means jobs — will increase.

Indeed, net employment at America's top 50 corporations did not decline last year — it rose. The cutbacks at IBM, GM and other large employers have dominated the headlines. Yet many of the country's 50 leading employers — including PepsiCo, UPS, GTE and Boeing, to name a few — have added over 200,000 jobs, more than offsetting those lost at similar-sized companies. Obviously, overall unemployment remains greater than we would like, but this country is filled with strong, dynamic companies that will begin to pick up the slack.

Second — and this is very significant — the enhancement of global trade and the extraordinary emergence of open and growing markets around the world will be an important source of growth for America. Exports of goods and services, as a percentage of GDP, have almost doubled since 1941 — or even 1971. International trade and global capital flows will continue to be a critical force for growth as we enter the 21st century.

Already we have seen the benefits of this liberalization in world trade. Let us look, for example, at our trade with Latin America, including Mexico. Since 1986, our exports to Latin America have more than doubled, from $31 billion to over $63 billion. This doubling of exports created over 600,000 U.S. jobs.

Exports to Mexico alone have risen from $12 billion to nearly $33 billion, creating over 300,000 jobs. And these new jobs are not occurring only in the obvious growth regions of the country. We would expect the border states of California and Texas to be among the chief exporters to Mexico, and they are. But who would guess that the third leading exporter to Mexico is Michigan? It is.

Of course, an essential element of both short and long-term growth is the conduct of monetary policy. To the American consumer, the signals given by the Federal Reserve about interest rates and its expectations for the future are the Fed's most critical function. One only has to remember back to last December to appreciate the positive effect on all Americans of that month's sharp reduction in the discount rate. By contrast, in the summer of '91, the growth of the money supply was allowed to slow, and the economy faltered. If that happens again in the spring or summer of 1992, the recovery will be threatened and an opportunity lost.

President Bush is determined to improve both our short and our long-term economic future: the future not just of today's workforce, but of tomorrow's; not just of today's graduates, but of today's third-graders — for today's third-graders will be the graduating class of 2001, and the pioneers of America's economic growth in the 21st century.

The President recognizes that long-term growth is the foundation that will provide better living standards for the next generation — and ensure that the United States will remain the world's leading economic power. To achieve that end, the President and the Administration have taken a series of concrete steps.

First, the Administration is aggressively pursuing a free and fair trade policy. If the Class of '91 is to compete successfully in the global economy, they will require a level playing field throughout the world, one that promotes competitiveness and decries protection. The Administration is continuing its battle to reduce trade barriers worldwide, and is leading the charge to complete the current round of trade negotiations among members of the GATT. A successful GATT agreement is expected to increase U.S. GNP by $1.1 trillion over ten years.

In addition, the President has proposed a North American Free Trade Agreement to eliminate barriers to trade among the economies of the United States, Mexico, and Canada. Our goal is to expand this trade and investment across the whole of North America — from Baffin Bay to the Sierra Madre — and create a vibrant, growing free trade zone.

Second, the Administration is working hard to ensure greater capital investment throughout the economy. If the Classes of '91 and 2001 are to have the resources they need to forge America's future in this new world of competitive global trade, there must be incentives for family savings, entrepreneurship, and private research and development, as well as Federal investment in key technologies.

In 1991, the nation's rate of personal saving was about 5.2 percent -- about half that of Japan and Germany. It is clear families need more incentives to save. That's why President Bush is proposing a flexible IRA to encourage savings and a capital gains tax cut to promote mobility of capital and encourage more risk taking and investment.

And we must produce an economic climate that stimulates and encourages the nation's innovators. Ours is an age of increasingly rapid technological advancement: over half the sales of Hewlett-Packard in 1991 were products that didn't even exist in 1988. If we do not take steps to keep the pace of innovation in this country ahead of our competitors, we will find ourselves — like Alice in Wonderland's Red Queen — running as fast as we can just to stay in the same place. Accordingly, this year President Bush proposes record investment in federal R&D -- $76.6 billion -- along with permanent extension of the R&D tax credit. We must put our money where our ideas are now, because we know innovation increases productivity growth and standards of living for the future.

Third, the Administration has proposed a comprehensive program of investment in human resources. The American people and American businesses are increasingly worried about their access to affordable health care. President Bush has addressed this issue head-on with his comprehensive health care plan. This plan will make health insurance more accessible and more affordable, make the health care system more efficient, and control the growth of costly and ineffective government health programs.

But in a world of increasingly complex technology and an economy where information rivals industry in importance, investment in human capital means not just care of the body, but also care of the mind. President Bush is committed to leading America into a new era of education reform, an era that recognizes and rewards excellence; that targets Federal resources to assist those most in need; that seeks greater flexibility and choice in education; and that encourages accountability at all

levels of the education system. He has increased spending over the last three years for pre-college math and science education -- and proposes a total of $768 million in funding for his America 2000 plan in 1993.

Fourth, the Administration remains committed to a responsible, pro-growth fiscal policy. We simply must get control of wasteful government spending and reduce the structural deficit so that government profligacy does not become a crippling obstacle to our competitiveness.

President Bush has worked to control spending and build a leaner government for future generations. In his 1993 budget, domestic discretionary spending was frozen. Last week, the President announced rescissions of funding for a number of government projects that waste money. He is proposing the complete elimination of 246 federal programs and more than 4,000 projects. He proposes to cut federal personnel by nearly 4 percent.

And the President has proposed historic cuts in defense -- more than $50 billion over five years -- totalling a 29 percent cut in defense from 1986 to 1997. The President will insist that these defense savings go to deficit reduction or be returned to the people through an increase in the personal exemption. He will not allow these savings to serve as additional spending fodder.

Each of these concrete steps from the President's domestic agenda are part of a comprehensive plan, a plan grounded in five basic principles:

1) Ensuring America is prepared to compete successfully in the global economy;

2) Investing in America's future to prepare us for the challenges of the 21st century;

3) Building the family and promoting American values;

4) Controlling wasteful, unregulated government spending; and

5) Keeping America at peace by strengthening the new world order and maintaining a strong defense

For the United States, a strong future depends on these steps. For many American families, a stronger future will depend on the measures they take now to ensure financial security. And for them, United States Savings Bonds can play an important role. Savings Bonds are a safe and easy way for families to save for

[illegible]ucation, or planning for

retirement. And the market-based rates of today's Bonds are competitive. The efforts of the people in this room today in leading New York's savings bond campaign are appreciated.

Both the Class of '91 and of 2001 are counting on us to build a foundation for the future, and they deserve our best effort to get the job done right. Our critical task now is to help create an environment that encourages the nation's productive growth. With your help, we can ensure that our future is secure and our economy vibrant, now and into the 21st century.

Thank you.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 27, 1992

CONTACT: Scott Dykema
202-566-2041

TREASURY NAMES MORE LIBYAN-CONTROLLED COMPANIES

The Treasury Department today added 46 companies to its list of businesses controlled by the government of Libya. This action is part of ongoing Treasury efforts to tighten enforcement of the U.S. economic embargo against Libya.

As a result of today's action, the listed firms are now considered "specially designated nationals" (SDNs) of the Libyan government, bringing them under the embargo and asset freeze imposed against Libya by President Reagan in January 1986. All assets of Libyan SDNs within U.S. jurisdiction, including overseas branches of U.S. banks, are blocked. Economic transactions by U.S. persons with SDNs of Libya anywhere in the world are prohibited.

"Muammar Qadhafi's continued use of terrorism as a tool of Libyan foreign policy will prove to be a costly and counterproductive venture as Libya becomes more economically isolated," said R. Richard Newcomb, director of Treasury's Office of Foreign Assets Control (OFAC), in announcing today's action. "Naming these companies helps expose the extent of Libyan holdings abroad and emphasizes U.S. commitment to denying Libya the benefit of normal international commercial relations with the United States," Newcomb said.

The 46 companies include key Libya-controlled organizations in the international banking, petroleum, investment, and commercial industries. While it has been widely understood that U.S. individuals and companies are barred from doing business with firms located in Libya, the Libyan government's control of its joint ventures and overseas investments has been less apparent.

Including those named in today's action, there are 106 companies and 20 individuals on Treasury's SDN list for Libya.

Doing business with a Libyan SDN is equivalent to doing business with the government of Libya, which carries maximum criminal penalties of $500,000 per violation for corporations and $250,000 per violation for individuals, plus prison sentences of up to 10 years for individuals and senior corporate officers. OFAC also may levy administrative civil penalties of up to $10,000 per violation.

(MORE)

Treasury's SDN list for Libya may be expanded or amended at any time, as new information becomes available to the Treasury Department. Persons with information on individuals or firms owned or controlled by the Government of Libya or acting on behalf of the Government of Libya may call 202-566-5021. All calls will be kept confidential.

-o-

IN ADVANCE OF PRINTED COPY 4810-25-M

DEPARTMENT OF THE TREASURY

Office of Foreign Assets Control

Received in the Office of the Federal Register
3/24/92
4:35pm

31 CFR Part 550

Libyan Sanctions Regulations

AGENCY: Office of Foreign Assets Control, Department of the Treasury.

ACTION: Final rule; amendments to the list of specially designated nationals of Libya.

SUMMARY: The Libyan Sanctions Regulations are being amended to clarify the worldwide application of the Regulations to each name listed at Appendix A, Organizations Determined To Be Within the Term "Government of Libya" (Specially Designated Nationals of Libya), to stipulate that the absence of any particular person from the list of specially designated nationals is not to be construed as evidence that it does not meet the definition of the "Government of Libya," and to add the names of 46 companies to Appendix A. Appendix A contains the names of companies, banks, and other entities, whether located inside or outside of Libya, which the Director of the Office of Foreign Assets Control has determined to be owned or controlled by, or acting or purporting to act directly or indirectly on behalf of, the Government of Libya. This list may be expanded or amended at any time.

EFFECTIVE DATE: [date of publication]

ADDRESS: Copies of this list are available upon request at the following location: Office of Foreign Assets Control, U.S. Department of the Treasury, Annex, 1500 Pennsylvania Avenue, N.W., Washington, D.C. 20220.

FOR FURTHER INFORMATION CONTACT: J. Robert McBrien, Chief, International Programs Division, Office of Foreign Assets Control, Tel.: (202) 566-5021.

SUPPLEMENTARY INFORMATION: The Libyan Sanctions Regulations, 31 CFR Part 550 (the "Regulations"), were issued by the Treasury Department to implement Executive Orders No. 12543 (51 FR 875, Jan. 9, 1986) and 12544 (51 FR 1235, Jan. 10, 1986), in which the President declared a national emergency with respect to Libya, invoking the authority, *inter alia*, of the International Emergency Economic Powers Act (50 U.S.C. 1701 *et seq.*), and ordering specific measures against the Government of Libya. The Regulations were amended by a final rule published in the Federal Register (56 FR 20540, May 6, 1991) which added Appendix A, a list of organizations determined to be within the term "Government of Libya." The Regulations were amended further by a final rule published in the Federal Register (56 FR 37156, Aug. 5, 1991) which removed the numerical designations from Appendix A, merged the separate categories in Appendix A, added the names of twelve companies to Appendix A, and added a new Appendix B, "Individuals Determined To Be Specially Designated Nationals of the Government of Libya," to the end thereof. The Regulations were also amended by a final rule published in the Federal Register (56 FR 65993, Dec. 20,

1991) which removed one name from Appendix B.

Section 550.304 of the Regulations defines the term "Government of Libya" as follows:

(a) The "Government of Libya" includes:

(1) The state and the Government of Libya, as well as any political subdivision, agency, or instrumentality thereof, including the Central Bank of Libya;

(2) Any partnership, association, corporation, or other organization substantially owned or controlled by the foregoing;

(3) Any person to the extent that such person is, or has been, or to the extent that there is reasonable cause to believe that such person is, or has been, since the effective date, acting or purporting to act directly or indirectly on behalf of any of the foregoing;

(4) Any other person or organization determined by the Secretary of the Treasury to be included within paragraph (a) of this section.

(b) A person specified in paragraph (a)(2) of this section shall not be deemed to fall within the definition of Government of Libya solely by reason of being located in, organized under the laws of, or having its principal place of business in, Libya.

Determinations that persons fall within the definition of the "Government of Libya" are effective upon the date of determination by the Director of FAC, acting under authority delegated by the Secretary of the Treasury. Public notice is effective upon the date of

publication or upon actual notice, whichever is sooner.

This rule amends Appendix A to Part 550 to provide public notice of the worldwide application of the Regulations to each name listed at Appendix A, to provide further public notice that the absence of any particular name from the list is not to be construed as evidence that the person does not meet the definition of the "Government of Libya," and to provide public notice of 46 additional companies determined to be "specially designated nationals" of the Government of Libya. The rule clarifies that all listed organizations meet the definition of "Government of Libya" not only at the listed addresses inside or outside of Libya, but also at all their other locations worldwide. The rule stipulates further that the absence of any particular person from the specially designated nationals list is not to be construed as evidence that it is not owned or controlled by, or acting or purporting to act directly or indirectly on behalf of, the Government of Libya.

Appendix A consists of organizations determined by the Director of FAC to be owned or controlled by, or acting or purporting to act directly or indirectly on behalf of, the Government of Libya. The persons listed in Appendix A thus fall within the definition of the "Government of Libya" contained in § 550.304(a) of the Regulations, and are subject to all prohibitions applicable to other components of the Government of Libya. All unlicensed transactions with such persons, or in property in which they have an interest, are prohibited anywhere in the world.

The list of specially designated nationals is a partial one, since FAC may not be aware of all the agencies and officers of the Government of Libya or of all the persons that might be owned or controlled by the Government of Libya or acting as agents or front organizations for Libya, and which thus qualify as specially designated nationals of the Government of Libya. Therefore, persons engaging in transactions may not rely on the fact that any particular person is not on the specially designated nationals list as evidence that it is not owned or controlled by, or acting or purporting to act directly or indirectly on behalf of, the Government of Libya. The Treasury Department regards it as incumbent upon all U.S. persons to take reasonable steps to ascertain for themselves whether persons they enter into transactions with are owned or controlled by the Government of Libya or are acting or purporting to act on its behalf, or on behalf of other countries subject to blocking or transactional restrictions (at present, Cuba, Haiti, Iraq, North Korea, and Vietnam).

Section 206 of the International Emergency Economic Powers Act, 50 U.S.C. 1705, as amended by the Uniform Sentencing Act, 18 U.S.C. 3571 and 3581, provides for civil penalties not to exceed $10,000 per count for violations of the Regulations, fines of up to $250,000 and imprisonment for up to 12 years for willful violations of the Regulations by individuals, and fines of up to $500,000 for organizations.

Because the Regulations involve a foreign affairs function, Executive Order 12291 and the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rulemaking, opportunity for public participation, and delay in effective date, are inapplicable. Because no notice of proposed rulemaking is required for this rule, the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.*, does not apply.

List of Subjects in 31 CFR Part 550

Administrative practice and procedure, Banks, Banking, Blocking of assets, Foreign trade, Libya, Penalties, Reporting and recordkeeping requirements, Securities, Specially designated nationals, Travel restrictions.

PART 550 -- LIBYAN SANCTIONS REGULATIONS

For the reasons set forth in the preamble, 31 CFR Part 550 is amended as set forth below:

1. The authority citation for Part 550 continues to read as follows:

Authority: 50 U.S.C. 1701 *et seq.*; 22 U.S.C. 2349aa-8 & -9; 49 U.S.C. 1514; E.O. 12543, 51 FR 875 (Jan. 9, 1986); E.O. 12544, 51 FR 1235 (Jan. 10, 1986).

2. Appendix A to Part 550, "Organizations Determined To Be Within the Term 'Government of Libya' (Specially Designated Nationals of Libya)," is amended by adding the following paragraph as a preamble to the list of names:

The names and addresses listed below are the most complete ones currently known to the Office of Foreign Assets Control. Listed organizations located in Libya meet the definition of "Government of Libya" not only at their locations inside of Libya, but also at all their other locations worldwide. Listed organizations outside of Libya also meet the definition of "Government of Libya" not only at their cited addresses, but also at all their other locations worldwide. The absence of any particular person from the list of specially designated nationals is not to be construed as evidence that it is not owned or controlled by, or acting or purporting to act directly or indirectly on behalf of, the Government of Libya. Please note that name variations and addresses are subject to change over time and that the Office of Foreign Assets Control will update name and address information periodically.

3. Appendix A to Part 550 is also amended by adding the following names in their proper alphabetical positions:

o A. BORTOLOTTI & CO. S.P.A.
(a.k.a. BORTOLOTTI)
Via Predore, 59, 24067 Sarnico, Bergamo, Italy
Cremona, Italy

o AD-DAR AL JAMAHIRIYA FOR PUBLISHING DISTRIBUTION & ADVERTISING
P.O. Box 17459, Misurata, Libya
P.O. Box 959, Tripoli, Libya
P.O. Box 321, Benghazi, Libya
P.O. Box 20108, Sebha, Libya
P.O. Box 547, Valletta, Malta
P.O. Box 15977, Casablanca, Morocco

o AGIP NORTH AFRICA AND MIDDLE EAST OIL COMPANY
(a.k.a. Agip (N.A.M.E.) Limited)
Adahr, P.O. Box 346, Sciara Giakarta, Tripoli, Libya
Benghazi Office, P.O. Box 4120, Benghazi, Libya

o AQUITAINE LIBYE
Omar El Mokhtar Street, P.O. Box 282, Tripoli, Libya

- ARABIAN GULF OIL COMPANY
  (a.k.a. AGOCO)
  P.O. Box 263, Al Kish, Benghazi, Libya
  P.O. Box 693-325, Ben Ashour Street, Tripoli, Libya
  Sarir Field, Libya
  Windsor House, 42-50 Victoria Street, London SW1H ONW, United Kingdom

- AZZAWIYA OIL REFINING COMPANY
  P.O. Box 6451, Tripoli, Libya
  Benghazi Asphalt Plant Office, Benghazi, Libya

- CENTRAL BANK OF LIBYA
  Al-Fatah Street, P.O. Box 1103, Tripoli, Libya
  Benghazi, Libya
  Sebha, Libya

- CHEMPETROL
  (a.k.a. CHEMPETROL INTERNATIONAL)
  145, Flat 9, Tower Road, Sliema, Malta

- CHEMPETROL INTERNATIONAL LTD.
  5th Floor, Quality Court, Chancery Lane, London WC2A 1HP, United Kingdom
  28 Lincoln's Inn Fields, London WC2A 3HH, United Kingdom

- F.A. PETROLI S.P.A.
  Italy

- GENERAL ARAB AFRICAN ENTERPRISE
  (a.k.a. GAAE)
  (a.k.a. GENERAL ARAB AFRICAN COMPANY)
  (a.k.a. GAAC)
  P.O. Box 8059, 219 Mohammed el Megarief Street, Tripoli, Libya
  Nasser Street, Benghazi, Libya

- JAMAHIRIYA BANK
  (f.k.a. MASRAF AL-GUMHOURIA)
  P.O. Box 3224, Martyr Street, Megarief, Tripoli, Libya
  Emhemed Megrief Street, Tripoli, Libya
  P.O. Box 1291, Benghazi, Libya
  (38 local branches in Libya)

- JOINT OIL
  (a.k.a. JOINT OIL TUNISIA)
  (a.k.a. JOINT EXPLORATION, EXPLOITATION AND PETROLEUM SERVICES COMPANY)
  (a.k.a. SOCIETE DE RECHERCHE ET D'EXPLOITATION COMMUNE ET DE SERVICE PETROLIERE)
  (a.k.a. LIBYAN-TUNISIAN EXPLORATION COMPANY)
  B.P. 350 Houmt Souk 4180, Djerba Island, Tunisia
  7th of November offshore field, Gulf of Gabes
  Planning & Logistic Group complex, Port of Zarzis, Tunisia

- LIBYAN AGRICULTURAL BANK
  (a.k.a. THE AGRICULTURAL BANK)
  (a.k.a. NATIONAL AGRICULTURAL BANK OF LIBYA)
  52, Omar El Mokhtar Street, P.O. Box 1100, Tripoli, Libya
  (1 city branch and 27 branches in Libya)

- LIBYAN ARAB FOREIGN BANK
  (a.k.a. LAFB)
  Dat El Imad Complex Tower No. 2, P.O. Box 2542, Tripoli, Libya

- MEDITERRANEAN POWER ELECTRIC COMPANY LIMITED
  A 18B, Industrial Estate, Marsa, Malta

- NATIONAL COMMERCIAL BANK S.A.L.
  P.O. Box 4647, Shuhada Square, Tripoli, Libya
  P.O. Box 166, Benghazi, Libya
  (22 branches in Libya)

- NATIONAL COMPANY DRILLING CHEMICAL & EQUIPMENT
  (a.k.a. JOWFE)
  NOC Building, Ashjara Square, Benghazi, Libya

- NATIONAL COMPANY FOR FIELD AND TERMINALS CATERING
  Airport Road, Km. 3, P.O. Box 491, Tripoli, Libya

- NATIONAL COMPANY FOR OILFIELD EQUIPMENT
  P.O. Box 8707, Tripoli, Libya

- NATIONAL DRILLING WORKOVER COMPANY
  (a.k.a. NATIONAL DRILLING COMPANY)
  (a.k.a. NATIONAL DRILLING COMPANY (LIBYA))
  208 Omar El Mokhtar Street, P.O. Box 1454, Tripoli, Libya

- NATIONAL OIL CORPORATION
  (a.k.a. NOC)
  (a.k.a. LIBYAN NATIONAL OIL CORPORATION)
  (a.k.a. LNOC)
  Bashir Saadawi Street, P.O. Box 2655, Tripoli, Libya
  P.O. Box 2978, Benghazi, Libya
  Dahra Gas Projects Office, Dahra Street, P.O. Box 12221, Dahra, Tripoli, Libya
  Petroleum Training and Qualifying Institute, Zawia Road, Km. 9, P.O. Box 6184, Tripoli, Libya
  Petroleum Research Centre, Al Nasser Street, P.O. Box 6431, Tripoli, Libya
  (Subsidiaries and joint ventures in Libya and worldwide)

- NATIONAL PETROCHEMICALS COMPANY
  (a.k.a. NAPETCO)
  (f.k.a. NATIONAL METHANOL COMPANY)
  P.O. Box 20812, Marsa Brega, Libya
  P.O. Box 5324, Garden City, Benghazi, Libya
  Dusseldorf, Germany (Office Closed)

- NEUTRON INTERNATIONAL
  Tripoli, Libya

- NORDDEUTSCHE OELLEITUNGSGESELLSCHAFT MBH
  (a.k.a. NDO)
  (a.k.a. NORTH GERMAN OIL PIPELINE)
  Moorburger Strasse 16, D2000 Hamburg-Harburg 90, Germany
  Wilhelmshaven to Hamburg pipeline, Germany

- OIL ENERGY FRANCE
  France

- OIL ENERGY SPAIN
  Spain
  (a.k.a. OILINVEST SPAIN)
  (a.k.a. OILINVEST ESPANOLA)

- RAFFINERIE DU SUD-OUEST
  (a.k.a. RSO)
  (a.k.a. COLLOMBEY REFINERY)
  Collombey, Valais, Switzerland

- RAS LANUF OIL AND GAS PROCESSING COMPANY, LTD.
  (a.k.a. RASCO)
  P.O. Box 75071, Tripoli, Libya
  Ras Lanuf Complex and Terminal, Ghout El Shaal, Libya
  Benghazi Complex, P.O. Box 1971, Gamel Abdul Nasser Street,
  Benghazi, Libya

- SAHARA BANK
  10 First September Street, P.O. Box 270, Tripoli, Libya
  (22 branches in Libya)

- SIRM HOLDING S.R.L.
  Rome, Italy

- SIRTE OIL COMPANY
  (a.k.a. SIRTE OIL CO. FOR PRODUCTION MANUFACTURING OIL & GAS
  MARSA EL BREGA)
  P.O. Box 385, Tripoli, Libya
  P.O. Box 2582, Tripoli, Libya
  Benghazi, Libya
  Sirte Field, Libya
  Marsa El Brega, Libya

- SYRIAN LIBYAN COMPANY - INDUSTRIAL & AGRICULTURAL INVESTMENTS
  (a.k.a. ARAB LIBYAN SYRIAN INDUSTRIAL & AGRICULTURAL INVESTMENT
  COMPANY)
  (a.k.a. SYLICO)
  9 Mazze, Autostrade, Damascus, Syria

- TAMOIL HUNGARIA
  Hungary

- TAMOIL PETROLI ITALIANA S.P.A.
  Milan, Italy
  (1,977 gasoline retail outlets in Italy)

- TAMOIL SUISSE S.A.
  (a.k.a. TAMOIL SWITZERLAND)
  (f.k.a. GATOIL SUISSE S.A.)
  Zug, Switzerland
  Geneva, Switzerland
  (330 gasoline retail outlets in Switzerland)
  (RSO refinery in Collombey)

- TAMOIL TRADING LTD.
  Monte Carlo, Monaco
  Zurich, Switzerland
  London, United Kingdom

- TEKNICA PETROLEUM SERVICES LIMITED
  Suite 1100, 736 Sixth Avenue S.W., Calgary, Alberta T2P 3T7, Canada

- TEKXEL LIMITED
  (f.k.a. JAWABY TECHNICAL SERVICES LIMITED)
  London, United Kingdom

- UMM AL-JAWABY PETROLEUM CO. S.A.L.
  P.O. Box 693, Tripoli, Libya
  Nafoora Field, Libya

- UMMA BANK S.A.L.
  1 Giaddet Omar Mokhtar, P.O. Box 685, Tripoli, Libya
  (31 branches throughout Libya)

- VEBA OIL LIBYA GMBH
  (a.k.a. VEBA OIL LIBYAN BRANCH)
  (a.k.a. VEBA OIL OPERATIONS B.V.)
  (f.k.a. MOBIL OIL LIBYA, LTD.)
  P.O. Box 2357, Tripoli, Libya
  Al Magharba Street, P.O. Box 690, Tripoli, Libya.

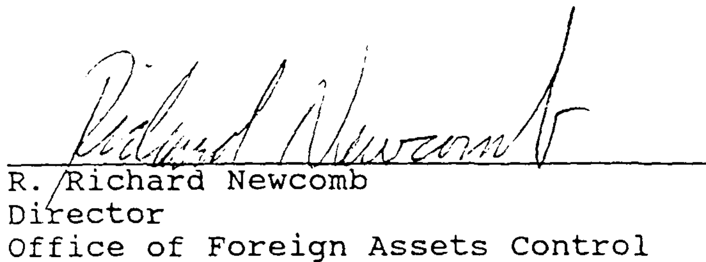
- VULCAN OIL S.P.A.
  Milano 2, Centro Direz. Pal. Canova, 20090 Segrate, Milan, Italy
  Delta Energy/ERG bunkering service, Genoa, Italy
  United Kingdom (offshore)

- WAHA OIL COMPANY
  Omar El Mokhtar Street, Box 395, Tripoli, Libya
  P.O. Box 221, Benghazi, Libya
  Sidi Issa Street, P.O. Box 915, Tripoli, Libya
  P.O. Box 1075, Tripoli, Libya.

o WAHDA BANK
Jamel Abdul Nasser Street, P.O. Box 452, Fadiel Abu Omar Square, El-Berhka, Benghazi, Libya
P.O. Box 1320, Benghazi, Libya
P.O. Box 3427, Tripoli, Libya
(37 branches throughout Libya)

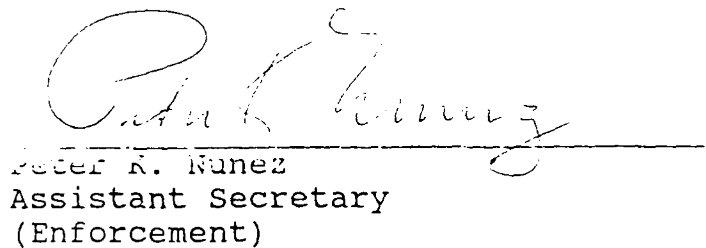
o ZUEITINA OIL COMPANY
Zueitina Building "A", Sidi Issa, Dahra, P.O. Box 2134, Tripoli, Libya
Mitchell Cotts Building, P.O. Box 2134, Tripoli, Libya
Plant at Intisar Field A, Tripoli, Libya
Gas Processing Plants, Tripoli, Libya

Dated: March 11, 1992



R. Richard Newcomb
Director
Office of Foreign Assets Control

Approved: March 17, 1992



Peter K. Nunez
Assistant Secretary
(Enforcement)

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202-219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $ 13,750 million of 364-day Treasury bills to be dated April 9, 1992, and to mature April 8, 1993 (CUSIP No. 912794 B8 6). This issue will provide about $ 2,725 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $ 11,022 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Thursday, April 2, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders.

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 April 9, 1992. In addition to the maturing 52-week bills, there are $ 21,616 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks currently hold $ 2,664 million as agents for foreign and international monetary authorities, and $ 7,561 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 $ 345 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.

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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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.

TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON
March 30, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY OFFERS $22,000 MILLION OF 13-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $22,000 million of 13-day Treasury bills to be issued April 3, 1992, representing an additional amount of bills dated October 17, 1991, maturing April 16, 1992 (CUSIP No. 912794 YJ 7).

Competitive tenders will be received at all Federal Reserve Banks and Branches prior to 1:00 p.m., Eastern time, Wednesday, April 1, 1992. Each bid for the issue must be for a minimum amount of $1,000,000. Bids over $1,000,000 must be in multiples of $1,000,000. Bids must show the rate desired, expressed on a bank discount rate basis with two decimals, e.g., 7.10%. Fractions must not be used.

Noncompetitive bids will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, D. C.

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 amount 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.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account. An institution submitting a bid for customers must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount bid at each rate. Customer bids may not be aggregated by rate on the customer list. All bids submitted on behalf of trust estates must provide, for each trust estate, the name or title of the trustee(s), a reference to the document creating the trust with the date of execution, and the employer identification number of the trust.

A single bidder must report its net long position if the total of all its bids for the security being offered and its position in the security equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the security being auctioned, in "when issued" trading,

and in futures and forward contracts, as well as holdings of outstanding bills with the same maturity date and CUSIP number as the new offering. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit.

Public announcement will be made by the Department of the Treasury of the amount and range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection of their bids. The Secretary of the Treasury expressly reserves the right to accept or reject any or all bids, 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.

Notice of awards will be provided by a Federal Reserve Bank or Branch to bidders who have accepted bids, whether for their own account or for the account of customers. No later than 12:00 noon local time on the day following the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities must furnish, no later than 10:00 a.m. local time on the day following the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. A depository institution or government securities broker/dealer submitting a bid for a customer is responsible for notifying its customer of this requirement if the customer is awarded $500 million or more as a result of bids submitted by the depository institution or the broker/dealer.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's Single Bidder Guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies may be obtained from any Federal Reserve Bank or Branch.

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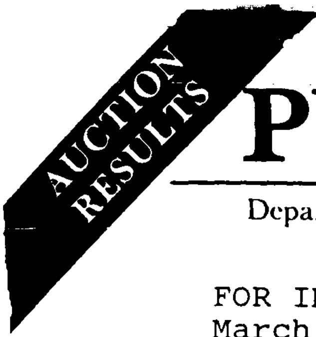


PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 30, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,430 million of 13-week bills to be issued April 2, 1992 and to mature July 2, 1992 were accepted today (CUSIP: 912794YV0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.07%	4.17%	98.971
High	4.08%	4.18%	98.969
Average	4.08%	4.18%	98.969

$540,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 58%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	33,580	33,580
New York	34,614,585	9,690,315
Philadelphia	19,095	19,095
Cleveland	37,460	37,460
Richmond	122,965	60,365
Atlanta	33,905	32,645
Chicago	1,721,535	169,935
St. Louis	24,910	14,910
Minneapolis	7,075	7,075
Kansas City	36,185	34,765
Dallas	26,935	26,935
San Francisco	1,252,560	472,100
Treasury	830,690	830,690
TOTALS	$38,761,480	$11,429,870
Type		
Competitive	$34,201,275	$6,869,665
Noncompetitive	1,468,890	1,468,890
Subtotal, Public	$35,670,165	$8,338,555
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	391,315	391,315
TOTALS	$38,761,480	$11,429,870

An additional $146,785 thousand of bills will be issued to foreign official institutions for new cash.

NB-1730

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 30, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,424 million of 26-week bills to be issued April 2, 1992 and to mature October 1, 1992 were accepted today (CUSIP: 912794ZM9).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.18%	4.33%	97.887
High	4.19%	4.34%	97.882
Average	4.19%	4.34%	97.882

Tenders at the high discount rate were allotted 49%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	25,820	25,820
New York	31,524,925	9,990,435
Philadelphia	8,690	8,690
Cleveland	36,300	36,300
Richmond	187,790	109,250
Atlanta	29,410	28,900
Chicago	1,084,910	284,075
St. Louis	20,340	17,790
Minneapolis	20,335	5,335
Kansas City	34,480	33,970
Dallas	15,705	15,705
San Francisco	709,530	170,380
Treasury	697,230	697,230
TOTALS	$34,395,465	$11,423,880
Type		
Competitive	$30,089,090	$7,117,505
Noncompetitive	1,167,785	1,167,785
Subtotal, Public	$31,256,875	$8,285,290
Federal Reserve	2,526,535	2,526,535
Foreign Official Institutions	612,055	612,055
TOTALS	$34,395,465	$11,423,880

An additional $213,445 thousand of bills will be issued to foreign official institutions for new cash.

NB-1731

TREASURY NEWS

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

For Release Upon Delivery
Expected at 10:00 A.M. E.S.T.

Statement of
William E. Barreda
Treasury Deputy Assistant Secretary for
Trade and Investment Policy
before the
Subcommittee on Economic Stabilization
of the
Committee on Banking, Finance, and Urban Affairs
United States House of Representatives
March 31, 1992

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify before the Subcommittee on the Exon-Florio provision and its implementation by the Committee on Foreign Investment in the United States (CFIUS), and to present the Administration's views on the "Technology Preservation Act of 1991," H.R. 2624. I will begin with a brief overview of our investment policy, as a backdrop to our discussions.

Overview of U.S. Investment Policy

U.S. policy towards foreign direct investment is to welcome direct investment and to support free and open foreign direct investment among all nations. The President reaffirmed this long-standing U.S. policy in a statement on December 26, 1991. At the same time, we ensure that our open investment policy does not compromise our national security.

Simple economic theory underlies this policy of openness. When capital is free to flow in response to market demand, it achieves its most efficient use. When the United States makes the best use of capital, we achieve greater productivity and enhanced international competitiveness. This reliance on the market place to allocate resources is the hallmark of our economic policies.

Openness to foreign direct investment serves our economic self-interest. Although only a small part of our overall economy, foreign direct investment plays a positive role in its contributions to jobs, technological advances, wages, and managerial skills. And it adds to the pool of capital available to U.S. investors at a time when the United States is saving less relative to our past and to our industrial competitors. Thus, foreign capital has helped the United States maintain high investment levels than would otherwise be possible. Investment is the key to higher productivity, which is vital to meeting economic challenges in an increasingly integrated world economy.

Exon-Florio Provision and the CFIUS Review Process

a) The provision

The Exon-Florio provision was added to the Defense Production Act by the 1988 Trade Act. It provides the President authority to suspend or prohibit the acquisition of a U.S. business by a foreign investor, if he finds:

> There is credible evidence to believe that the foreign investor might take action that threatens to impair the national security; and
>
> 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.

b) Committee on Foreign Investment in the United States

Though the President alone retains the power to prohibit or suspend a transaction, the Committee on Foreign Investment in the United States (CFIUS) implements the Exon-Florio provision. Members of CFIUS are the Secretary of the Treasury (chair), the Secretaries of State, Defense, and Commerce, the Attorney General, the Director of the Office of Management and Budget, the U.S. Trade Representative, and the Chairman of the Council of Economic Advisers. Other agencies participate when a transaction falls within their respective sectors of expertise. For example, if a transaction is in the energy sector, we invite the Department of Energy to participate. And when transactions involve advanced technology, we invite the Office of Science and Technology Policy to augment the expertise of CFIUS agencies in appraising the technology in question.

Within CFIUS, Treasury serves as the secretariat. Treasury receives notifications of transactions, decides what Executive Branch agencies other than the eight CFIUS agencies need to be brought in for technical advice, serves as the contact point for

the private sector, establishes a calendar for each transaction, and in general supervises the process.

The Exon-Florio provision provides for a 30-day initial review and, if necessary, an extended 45-day review. For those transactions for which an extended review is completed, a report must be provided to the President, who must announce the final decision within 15 days. In total, the process does not exceed 90 days.

c) Notices to CFIUS

CFIUS review is initiated by receipt of a written notification of a transaction. The regulations provide that notice may be given only by a party to the transaction or by a CFIUS member agency. Notice from third parties is not accepted.

Notification is voluntary. Many foreign acquisitions do not involve issues related to national security and, consequently, parties to the transaction may decide not to notify CFIUS. In that case, failure to notify does not, in any case, remove the transaction from future review under Exon-Florio. Under Exon-Florio, there are no time limits on the President's power with regard to a foreign acquisition. Consequently any foreign acquisition that has not been notified to CFIUS remains subject indefinitely to Presidential action.

Notifications contain information required by the Exon-Florio regulations with regard to the identity of the parties to the transaction, their businesses, government contracts, and the plans and intentions of the foreign investor.

d) Review procedures

Once a notification is received, Treasury verifies that it is complete, and distributes it to CFIUS agencies and other relevant agencies. This commences the initial 30-day review period. Internally, CFIUS agencies each distribute the notification to the divisions, agencies, bureaus, and offices that may have an interest in the transaction.

During the 30-day period, CFIUS agencies, through the chair, typically engage in a dialogue with the parties to the transaction regarding issues raised by the various CFIUS agencies, and other agencies as appropriate, including the intelligence community. This dialogue takes place initially in the form of written questions and answers which clarify or supplement information contained in the notice. Subsequently, the dialogue may extend to inviting the parties to the transaction to Treasury to meet with staff from the CFIUS agencies for further clarification and exchange of information.

e) Clearing a transaction or undertaking an extended review

Based on its review, CFIUS staff, in consultation with policy officials, decide if the transaction raises national security concerns. If agencies conclude that there are no national security concerns sufficient to warrant an extended review the parties to the transaction are so informed and Exon-Florio procedures end with respect to that transaction.

If there is doubt, or sufficient information is not available for CFIUS staff to evaluate the transaction within the initial 30-day period, CFIUS agencies request an extended review. A request for an extended review is in the form of a letter to Treasury from a Presidential appointee, generally an Assistant Secretary.

The Executive Order delegating implementation authority to CFIUS provides for an appeal to the President in the event of disagreement among CFIUS members. Such an appeal to the President has not been necessary. Each time an individual agency has made a request, there has been an extended review.

A decision to investigate begins the statutory investigation period which is not to exceed 45 days. This phase of CFIUS work is usually an intensified version of the initial review: A series of questions to the parties to the transaction and further meetings with them to address various issues, consultations with government experts and, if appropriate, with the intelligence community. This process provides the Committee with a factual basis to evaluate whether there are concerns that meet the criteria for prohibiting the transaction.

At the completion of the extended review, CFIUS sends a report and a recommendation to the President. If CFIUS is unable to reach a unanimous recommendation, the Secretary of the Treasury, as chairman, must submit a CFIUS report to the President which sets forth the differing views and presents the issues for decision. The President then has 15 days to announce his decision on the case.

f) Summary of Exon-Florio operations

We have received almost 700 notices since the inception of Exon-Florio in August 1988. Of that total, 13 transactions have been subject to a 45-day extended review. Nine of those reached the President's desk for decision. In eight of those nine transactions, he chose not to interfere. The President chose to prohibit one transaction. He ordered the divestment of the purchase of MAMCO, Inc., a Seattle company by the China National Aero-Technology Import and Export Company. The notifications to CFIUS of the remaining four transactions were withdrawn.

Changes in Exon-Florio

Our experience in implementing Exon-Florio has led us to the conclusion that the process works well. CFIUS reviews and extended reviews are careful and thorough. CFIUS has developed the ability to collect and analyze extensive information during the initial 30-day review. The statute is achieving its goal of protecting national security without discouraging foreign direct investment. Therefore, I do not believe that changes proposed in several legislative proposals are warranted.

H.R. 2624

You asked for comments on H.R. 2624, the "Technology Preservation Act of 1991." H.R. 2624 would make specific changes where we believe none are warranted. The effect of these changes in their totality would upset the balance between our national security and our open investment policy. This change would hurt our economy. It would have the perverse effect of discouraging investment in those areas that are most important to our economy.

Mr. Chairman, Secretary Brady wrote Chairman Dingell stating opposition to H.R. 2624 and the intention of the President's senior advisors to recommend that he veto it if presented for the President's signature in its current form.

H.R. 2624:

- provides for mandatory notice to CFIUS of transactions involving specific export licenses or classified information;

- authorizes "assurances" and review of these assurances for compliance;

- limits the President's flexibility in protecting the national security and administering the Executive Branch by detailing how CFIUS and the Exon-Florio process is to be managed; and

- expands the scope of Exon-Florio to cover "other business combinations" that could potentially encompass virtually any business relationship with a foreign entity or person.

H.R. 2624 has changed in ways that reflect thoughtful consideration to objections to such legislation first voiced in the previous Congress. Nevertheless, the effect of the present legislation will be to make a basic change in our investment policy. For example, the proposed legislation would:

- o establish a presumption that, with regard to foreign investment in certain high-technology industries, we are no longer concerned with the actions that a foreign investor might take, but rather view the acquisition itself as somehow suspect;

- o introduce the probability that over time a list of high-technology industries would emerge which identifies areas where foreign investment would be subject to intense CFIUS scrutiny, both at the time of the investment and thereafter, whether or not the investor represented any conceivable threat to national security.

The Administration believes that, if enacted, this legislation would:

- o discourage foreign direct investment in those sectors that are most attractive to investors and most important to our economy;

- o make it harder for U.S. firms to compete by weakening their ability to attract capital at a time when competition for capital worldwide is intensifying and by impeding the ability of U.S. firms to take a global approach in choosing partners; and

- o make our direct investment regime more restrictive, thus sending a negative message to foreign investors.

Mr. Chairman, the rationale for the legislation rests on the premise that foreign investment in certain industries threatens the national security and that current Exon-Florio procedures have failed to protect national security. That premise is incorrect.

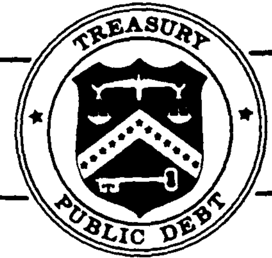
H.R. 2624 is unnecessary. It will not help national security and will do real harm to the economy by making the United States less competitive over the long term. Our high-technology companies will initially be the most adversely affected, but the damage will spill over to the overall economy.

I do not believe H.R. 2624 can be made acceptable by changing one provision or another. The adverse impact of the legislation in its entirety far exceeds the impact of its

separate elements. Notwithstanding, the changes made in the legislation, the proposed bill would undercut our investment policy and remains fundamentally flawed. As such, the President's senior advisors will recommend that the President veto this bill if presented for his approval.

This concludes my statement. I will be happy to take your questions.

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
March 31, 1992

CONTACT: Peter Hollenbach
(202) 219-3302
or
L. Richard Keyser
(202) 708-1591

TREASURY AUTHORIZES HUD CALL OF FHA INSURANCE FUND DEBENTURES

The Departments of Treasury and Housing and Urban Development announced today the call of all Federal Housing Administration (FHA) debentures, outstanding as of March 31, 1992, with interest rates of 7 1/2 percent or higher. Debentures that have been registered on the books of the Federal Reserve Bank of Philadelphia as of March 31, 1992, are considered, "outstanding." The date of the call for the redemption of the more than $252 million in debentures is July 1, 1992, with the semi-annual interest due July 1, paid along with the debenture principal.

Debenture owners of record as of March 31, 1992, will be notified by mail of the call and given instructions for submission. Those owners who cannot locate the debentures should contact the Federal Reserve Bank of Philadelphia (215) 574-6684 for assistance.

No transfers or denominational exchanges in debentures covered by this call will be made on or after April 1, 1992, nor will any special redemption purchases be processed. This does not affect the right of the holder to sell or assign the debentures.

The Federal Reserve Bank of Philadelphia has been designated to process the redemptions and to pay final interest on the called debentures. To ensure timely payment of principal and interest on the debentures, they should be received by June 1, 1992, at:

The Federal Reserve Bank of Philadelphia
Securities Division
P.O. Box 90
Philadelphia, PA 19105-0090

o0o

PA-88

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
March 31, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 22,800 million, to be issued April 9, 1992. This offering will provide about $ 1,175 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 21,616 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, April 6, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Daylight Saving time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 11,400 million, representing an additional amount of bills dated January 9, 1992, and to mature July 9, 1992 (CUSIP No. 912794 ZC 1), currently outstanding in the amount of $ 10,715 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,400 million, to be dated April 9, 1992, and to mature October 8, 1992, (CUSIP No. 912794 ZN 7).

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

The bills will be issued for cash and in exchange for Treasury bills maturing April 9, 1992. In addition to the maturing 13-week and 26-week bills, there are $ 11,022 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $ 2,264 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $ 2,609 million as agents for foreign and international monetary authorities, and $ 7,605 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.

The following institutions may submit tenders for accounts of customers if the names of the customers and the amount for each customer are furnished: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)); and government securities broker/dealers registered with the Securities and Exchange Commission that are registered or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities and Exchange Act of 1934, as amended by the Government Securities Act of 1986. 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 competitive tenders on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward contracts as well as holdings of outstanding bills with the same CUSIP number as the new offering. Those who submit tenders for the accounts of 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 competitive tenders.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Tenders from all others must be accompanied by full payment for the amount of bills applied for. A cash adjustment will be made on all accepted tenders, accompanied by payment in full, for the difference between the par payment submitted and the actual issue price as determined in the auction.

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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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Cash adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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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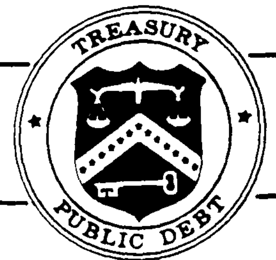
PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
March 31, 1992

Contact: Peter Hollenbach
(202) 219-3302

COMMENT PERIOD ON UNIFORM OFFERING CIRCULAR EXTENDED

Treasury's Bureau of the Public Debt has extended the comment period on its proposed Uniform Offering Circular (31 CFR Part 356) through April 15, 1992. The comment period was extended from March 31, 1992 to allow interested Government securities market participants more time to prepare their comments. The proposed rule, published in the Federal Register on January 31, covers the sale and issue of marketable Treasury securities.

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PA-87

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

FOR IMMEDIATE RELEASE

March 31, 1992

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of February 1992.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $182.7 billion on February 29, 1992, posting a decrease of $360.4 million from the level on January 31, 1992. This net change was the result of decreases in holdings of agency debt of $304 million, in holdings of agency assets of $0.1 million, and in holdings of agency-guaranteed loans of $56.3 million. FFB made 25 disbursements in February.

Attached to this release are tables presenting FFB February loan activity and FFB holdings as of February 29, 1992.

NB-1734

FEDERAL FINANCING BANK

FEBRUARY 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (other than semi-annual)
AGENCY DEBT					
FEDERAL DEPOSIT INSURANCE CORPORATION					
Note No. 0004					
Advance #3	2/4	$397,000,000.00	4/1/92	4.088%	
NATIONAL CREDIT UNION ADMINISTRATION					
Central Liquidity Facility					
Advance #591	2/18	6,000,000.00	3/19/92	4.013%	
GOVERNMENT - GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
Foley Square Office Building	2/3	2,435,370.00	12/11/95	6.236%	
Foley Square Courthouse	2/12	1,854,805.86	12/11/95	6.123%	
Memphis IRS Service Center	2/21	5,307,677.39	1/3/95	5.895%	
Foley Square Office Building	2/24	3,959,605.00	12/11/95	6.496%	
U.S. Trust Company of New York					
Advance #28	2/6	4,498,683.51	11/16/92	4.255%	
RURAL ELECTRIFICATION ADMINISTRATION					
Oglethorpe Electric Power #335	2/12	20,571,000.00	1/2/24	7.734%	7.661% qtr.
Sugar Land Telephone Co. #210A	2/18	1,668,000.00	1/3/17	7.552%	7.482% qtr.
South Mississippi Elec. #003A	2/21	4,137,488.63	12/31/09	7.487%	7.418% qtr.
South Mississippi Elec. #003A	2/21	698,568.04	12/31/09	7.487%	7.418% qtr.
South Mississippi Elec. #003A	2/21	1,301,892.85	12/31/09	7.487%	7.418% qtr.
South Mississippi Elec. #003A	2/21	1,991,791.57	12/31/09	7.487%	7.418% qtr.
South Mississippi Elec. #003A	2/21	3,421,472.53	12/31/09	7.487%	7.418% qtr.
South Mississippi Elec. #003A	2/21	2,888,153.15	12/31/09	7.487%	7.418% qtr.
South Mississippi Elec. #003A	2/21	2,136,872.70	12/31/09	7.487%	7.148% qtr.
South Mississippi Elec. #003A	2/21	6,967,574.45	12/21/09	7.487%	7.418% qtr.
South Mississippi Elec. #003A	2/21	5,506,199.39	1/3/11	7.519%	7.450% qtr.
South Mississippi Elec. #003A	2/21	5,634,514.06	1/3/11	7.519%	7.450% qtr.
South Mississippi Elec. #003A	2/21	5,570,920.60	1/3/11	7.519%	7.450% qtr.
South Mississippi Elec. #003A	2/21	3,523,905.34	1/3/11	7.519%	7.450% qtr.
South Mississippi Elec. #003A	2/21	1,399,211.50	12/31/13	7.606%	7.535% qtr.
South Mississippi Elec. #090A	2/21	754,157.65	12/31/13	7.606%	7.535% qtr.
M & A Electric Power Coop.#337	2/26	319,000.00	1/3/23	7.869%	7.793% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
A-92-7	2/28	451,187,709.46	5/29/92	4.173%	

+rollover

FEDERAL FINANCING BANK
(in millions)

Program	February 29, 1992	January 31, 1992	Net Change 2/1/92-2/29/92	FY '92 Net Change 10/1/91-2/29/92
Agency Debt:				
Export-Import Bank	$ 9,802.7	$ 9,802.7	$ -0-	$ -1,458.3
Federal Deposit Insurance Corporation	11,868.0	11,471.0	397.0	3,572.0
NCUA-Central Liquidity Fund	9.2	10.2	-1.0	-104.3
Resolution Trust Corporation	53,818.6	53,818.6	-0-	-9,063.8
Tennessee Valley Authority	10,025.0	10,725.0	-700.0	-1,850.0
U.S. Postal Service	8,200.6	8,200.6	-0-	-0-
sub-total*	93,724.1	94,028.1	-304.0	-8,904.4
Agency Assets:				
Farmers Home Administration	48,534.0	48,534.0	-0-	-2,160.0
DHHS-Health Maintenance Org.	61.2	61.2	-0-	-0-
DHHS-Medical Facilities	75.8	75.8	-0-	-0-
Rural Electrification Admin.-CBO	4,663.9	4,663.9	-0-	-0-
Small Business Administration	5.3	5.4	-0.1	-0.9
sub-total*	53,340.2	53,340.3	-0.1	-2,160.9
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,513.9	4,522.1	-8.2	-86.0
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	-0-	-30.0
DHUD-Community Dev. Block Grant	196.1	197.6	-1.5	-8.4
DHUD-Public Housing Notes +	1,853.2	1,853.2	-0-	-50.2
General Services Administration +	694.7	676.6	18.1	34.1
DOI-Guam Power Authority	28.4	28.4	-0-	0.0
DOI-Virgin Islands	23.9	23.9	-0-	-0.6
NASA-Space Communications Co. +	0.0	0.0	-0-	-32.7
DON-Ship Lease Financing	1,576.2	1,576.2	-0-	-48.3
Rural Electrification Administration	18,494.3	18,533.7	-39.4	-102.7
SBA-Small Business Investment Cos.	187.2	211.4	-24.3	-57.9
SBA-State/Local Development Cos.	663.1	668.6	-5.5	-25.2
TVA-Seven States Energy Corp.	2,424.8	2,420.0	4.9	-22.2
DOT-Section 511	20.3	20.7	-0.4	-1.0
DOT-WMATA	177.0	177.0	-0-	-0-
sub-total*	35,673.1	35,729.4	-56.3	-431.1
grand total*	$ 182,737.4	$ 183,097.8	$ -360.4	$ -11,496.4

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