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Department of the Treasury

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TREASURY DEPARTMENT

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
July 7, 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 $ 23,200 million, to be issued July 16, 1992. This offering will provide about $ 1,475 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 21,734 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, July 13, 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 $ 11,600 million, representing an additional amount of bills dated April 16, 1992 and to mature October 15, 1992 (CUSIP No. 912794 ZP 2), currently outstanding in the amount of $ 11,417 million, the additional and original bills to be freely interchangeable.

182 -day bills (to maturity date) for approximately $ 11,600 million, representing an additional amount of bills dated January 16, 1992 and to mature January 14, 1993 (CUSIP No. 912794 ZZ 0), currently outstanding in the amount of $ 12,840 million, the additional and original bills to be freely interchangeable.

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

The bills will be issued for cash and in exchange for Treasury bills maturing July 16, 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 $ 1,300 million as agents for foreign and international monetary authorities, and $ 4,601 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 bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

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DEPT. OF THE TREASURY

For Immediate Release July 7, 1992

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of May 1992.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $179.6 billion on May 31, 1992, posting a decrease $7,261.7 million from the level on April 30, 1992. This net change was the result of decreases in holdings of agency debt of $5,077.8 million and in holdings of agency assets of $2,200.1 million, and an increase in holdings of agency-guaranteed loans of $16.1 million. FFB made 26 disbursements in May.

Attached to this release are tables presenting FFB May loan activity and FFB holdings as of May 31, 1992.

FEDERAL FINANCING BANK
MAY 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (not semi-annual)
GOVERNMENT - GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
Foley Square Courthouse	5/15	$ 1,923,716.00	12/11/95	6.231%	
Foley Square Office Bldg.	5/22	5,367,316.00	12/11/95	6.373%	
Memphis IRS Service Center	5/29	419,360.97	1/3/95	5.755%	
U.S. Trust Company of New York					
Advance #32	5/4	76,611.00	11/16/92	4.045%	
Advance #33	5/28	4,269,869.87	11/16/92	4.085%	
RURAL ELECTRIFICATION ADMINISTRATION					
Brazos Electric #230A	5/6	5,404,000.00	1/3/22	7.933%	7.856% qtr.
Oglethorpe Power #335	5/6	34,675,000.00	1/2/24	7.987%	7.909% qtr.
Cornbelt Power #055	5/8	2,045,255.25	12/31/13	7.701%	7.628% qtr.
Cornbelt Power #055	5/8	100,030.19	12/13/13	7.701%	7.628% qtr.
Cornbelt Power #094	5/8	2,050,188.38	12/31/13	7.701%	7.628% qtr.
Cornbelt Power #094	5/8	284,009.62	12/31/13	7.701%	7.628% qtr.
Cornbelt Power #094	5/8	646,251.35	12/31/13	7.701%	7.628% qtr.
Cornbelt Power #094	5/8	247,626.55	12/31/13	7.701%	7.628% qtr.
Hoosier Electric #107	5/8	35,106,125.37	12/31/12	7.673%	7.601% qtr.
Hoosier Electric #107	5/8	19,404,174.23	12/31/13	7.701%	7.628% qtr.
Hoosier Electric #107	5/8	23,979,718.62	12/31/13	7.701%	7.628% qtr.
Cooperative Power #130A	5/14	1,466,000.00	6/30/94	5.322%	5.287% qtr.
Central Power #331	5/18	1,257,000.00	12/31/19	7.644%	7.572% qtr.
East Kentucky Power #073A	5/26	18,086,857.78	12/31/12	7.513%	7.444% qtr.
East Kentucky Power #073A	5/26	6,797,356.95	12/31/12	7.513%	7.444% qtr.
East Kentucky Power #073A	5/26	4,738,193.19	12/31/12	7.513%	7.444% qtr.
East Kentucky Power #073A	5/26	6,015,034.92	12/31/13	7.540%	7.470% qtr.
East Kentucky Power #073A	5/26	6,588,330.06	12/31/13	7.540%	7.470% qtr.
East Kentucky Power #073A	5/26	9,296,811.81	12/31/13	7.540%	7.470% qtr.
East Kentucky Power #140	5/26	8,978,682.81	12/31/13	7.540%	7.470% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-92-9	5/29	461,770,687.77	8/31/92	3.921%	

FEDERAL FINANCING BANK
(in millions)

Program	May 31, 1992	April 30, 1992	Net Change 5/1/92-5/31/92	FY '92 Net Change 10/1/91 - 5/31/92
Agency Debt:				
Export-Import Bank	$ 8,637.9	$ 8,637.9	$ 0.0	$ -2,623.1
Federal Deposit Insurance Corporation	11,868.0	11,868.0	0.0	3,572.0
NCUA-Central Liquidity Fund	5.0	5.0	0.0	-108.6
Resolution Trust Corporation	54,786.0	59,563.8	-4,777.8	-8,096.4
Tennessee Valley Authority	9,025.0	9,325.0	-300.0	-2,850.0
U.S. Postal Service	9,550.6	9,550.6	0.0	1,350.0
sub-total*	93,872.5	98,950.2	-5,077.8	-8,756.1
Agency Assets:				
Farmers Home Administration	45,434.0	47,634.0	-2,200.0	-5,260.0
DHHS-Health Maintenance Org.	61.2	61.2	0.0	0.0
DHHS-Medical Facilities	72.5	72.5	0.0	-3.3
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	-65.0
Small Business Administration	4.8	4.9	-0.1	-1.4
sub-total*	50,171.4	52,371.5	-2,200.1	-5,329.7
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,451.2	4,468.3	-17.1	-148.7
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	0.0	-30.0
DHUD-Community Dev. Block Grant	191.1	193.3	-2.2	-13.4
DHUD-Public Housing Notes +	1,853.2	1,853.2	0.0	-50.2
General Services Administration +	728.6	718.0	10.6	68.0
DOI-Guam Power Authority	27.7	27.7	0.0	-0.7
DOI-Virgin Islands	23.9	23.9	0.0	-0.6
NASA-Space Communications Co. +	0.0	0.0	0.0	-32.7
DON-Ship Lease Financing	1,576.2	1,576.2	0.0	-48.3
Rural Electrification Administration	18,472.8	18,440.1	32.8	-124.1
SBA-Small Business Investment Cos.	166.3	180.2	-13.9	-78.7
SBA-State/Local Development Cos.	648.6	652.8	-4.2	-39.7
TVA-Seven States Energy Corp.	2,417.0	2,406.4	10.6	-30.0
DOT-Section 511	19.8	20.2	-0.4	-1.5
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	35,573.5	35,557.4	16.1	-530.6
grand-total*	$ 179,617.3	$ 186,879.0	$ -7,261.7	$ -14,616.4

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

PUBLIC DEBT NEWS

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

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DEPT. OF THE TREASURY

FOR RELEASE AT 3:00 PM
July 7, 1992

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JUNE 1992

Treasury's Bureau of the Public Debt announced activity figures for the month of June 1992, of securities within the Separate Trading of Registered Interest and Principal of Securities program, (STRIPS).

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$613,404,196
Held in Unstripped Form	$467,044,181
Held in Stripped Form	$146,360,015
Reconstituted in June	$12,709,940

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) 874-4023.

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PA-101

TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JUNE 30, 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	$5,100,154	$1,558,400	$179,200
11-1/4% Note A-1995	2/15/95	6,933,861	5,920,581	1,013,280	79,040
11-1/4% Note B-1995	5/15/95	7,127,086	5,037,486	2,089,600	22,080
10-1/2% Note C-1995	8/15/95	7,955,901	6,245,901	1,710,000	75,200
9-1/2% Note D-1995	11/15/95	7,318,550	5,265,750	2,052,800	-0-
8-7/8% Note A-1996[2]	2/15/96	8,415,019	7,957,419	457,600	145,600
7-3/8% Note C-1996	5/15/96	20,085,643	19,634,443	451,200	356,800
7-1/4% Note D-1996	11/15/96	20,258,810	18,654,810	1,604,000	-0-
8-1/2% Note A-1997	5/15/97	9,921,237	9,331,637	589,600	30,000
8-5/8% Note B-1997	8/15/97	9,362,836	8,794,836	568,000	-0-
8-7/8% Note C-1997	11/15/97	9,808,329	8,779,529	1,028,800	-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	9,120,987	44,400	-0-
9-1/4% Note C-1998	8/15/98	11,342,646	11,209,046	133,600	-0-
8-7/8% Note D-1998	11/15/98	9,902,875	9,594,075	308,800	129,600
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	9,176,703	870,400	-0-
8% Note C-1999	8/15/99	10,163,644	10,076,119	87,525	2,000
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	10,358,630	137,600	-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	11,349,682	170,000	-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	12,087,083	311,000	8,000
7-7/8% Note C-2001	8/15/01	12,339,185	12,182,385	156,800	-0-
7-1/2% Note D-2001	11/15/01	24,226,102	24,226,102	-0-	-0-
7-1/2% Note A-2002	5/15/02	11,714,437	11,510,117	204,320	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	5,161,006	3,140,800	470,400
12% Bond 2005	5/15/05	4,260,758	3,086,358	1,174,400	255,500
10-3/4% Bond 2005	8/15/05	9,269,713	8,365,713	904,000	192,000
9-3/8% Bond 2006	2/15/06	4,755,916	4,755,916	-0-	-0-
11-3/4% Bond 2009-14	11/15/14	6,005,584	2,534,384	3,471,200	1,164,800
11-1/4% Bond 2015	2/15/15	12,667,799	2,544,759	10,123,040	1,406,400
10-5/8% Bond 2015	8/15/15	7,149,916	2,079,196	5,070,720	472,640
9-7/8% Bond 2015	11/15/15	6,899,859	2,899,859	4,000,000	1,398,400
9-1/4% Bond 2016	2/15/16	7,266,854	6,386,854	880,000	203,200
7-1/4% Bond 2016	5/15/16	18,823,551	17,844,351	979,200	132,000
7-1/2% Bond 2016	11/15/16	18,864,448	17,368,528	1,495,920	76,960
8-3/4% Bond 2017	5/15/17	18,194,169	6,128,409	12,065,760	1,011,680
8-7/8% Bond 2017	8/15/17	14,016,858	9,957,658	4,059,200	881,600
9-1/8% Bond 2018	5/15/18	8,708,639	2,363,039	6,345,600	500,800
9% Bond 2018	11/15/18	9,032,870	1,342,470	7,690,400	65,200
8-7/8% Bond 2019	2/15/19	[illegible]	6,826,798	12,424,000	20,800
8-1/8% Bond 2019	8/15/19	[illegible]	12,688,392	7,525,440	207,040
8-1/2% Bond 2020	2/15/20	10,228,868	4,418,468	5,810,400	11,600
8-3/4% Bond 2020	5/15/20	10,158,883	2,504,003	7,654,880	79,040
8-3/4% Bond 2020	8/15/20	21,418,606	5,048,526	16,370,080	137,120
7-7/8% Bond 2021	2/15/21	11,113,373	9,710,173	1,403,200	684,800
8-1/8% Bond 2021	5/15/21	11,958,888	5,554,088	6,404,800	1,214,080
8-1/8% Bond 2021	8/15/21	12,163,482	10,227,802	1,935,680	299,200
8% Bond 2021	11/15/21	32,798,394	23,208,904	9,589,490	797,160
Total		613,404,196	467,044,181	146,360,015	12,709,940

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

[2]The Total amount and Portion Held in Unstripped Form amount previously included Foreign Targeted Treasury Notes. These notes cannot be held in stripped form. The amount pertaining to these notes have been adjusted in these two columns.

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.

Pressemitteilung

Presse- und Informationsamt der Bundesregierung

JUL 1993 000025

DEPT. OF THE TREASURY

8 July 1992

Working together for growth and a safer world

(1)

WIRTSCHAFTSGIPFEL
MÜNCHEN

1. We, the Heads of State and Government of seven major industrial nations and the President of the Commission of the European Community, have met in Munich for our eighteenth annual Summit.

2. The international community is at the threshold of a new era, freed from the burden of the East-West conflict. Rarely have conditions been so favourable for shaping a permanent peace, guaranteeing respect for human rights, carrying through the principles of democracy, ensuring free markets, overcoming poverty and safeguarding the environment.

3. We are resolved, by taking action in a spirit of partnership, to seize the unique opportunities now available. While fundamental change entails risk, we place our trust in the creativity, effort and dedication of people as the true sources of economic and social progress. The global dimension of the challenges and the mutual dependencies call for world-wide cooperation. The close coordination of our policies as part of this cooperation is now more important than ever.

World economy

4. Strong world economic growth is the prerequisite for solving a variety of challenges we face in the post-Cold War world. Increasingly, there are signs of global economic recovery. But we will not take it for granted and will act together to assure the recovery gathers strength and growth picks up.

5. Too many people are out of work. The potential strength of people, factories and resources is not being fully employed. We are particularly concerned about the hardship unemployment creates.

6. Each of us faces somewhat different economic situations. But we all would gain greatly from stronger, sustainable non-inflationary growth.

7. Higher growth will help other countries, too. Growth generates trade. More trade will give a boost to developing nations and to the new democracies seeking to transform command economies into productive participants within the global marketplace. Their economic success is in our common interest.

8. A successful Uruguay Round will be a significant contribution to the future of the world economy. An early conclusion of the negotiations will reinforce our economies, promote the process of reform in Eastern Europe and give new opportunities for the well-being of other nations, including in particular the developing countries.

We regret the slow pace of the negotiations since we met in London last year. But there has been progress in recent months. Therefore we are convinced that a balanced agreement is within reach.

We welcome the reform of the European Community's Common Agricultural Policy which has just been adopted and which should facilitate the settlement of outstanding issues.

Progress has been made on the issue of internal support in a way which is consistent with the reform of the Common Agricultural Policy, on dealing with the volume of subsidised exports and on avoiding future disputes. These topics require further work. In addition, parties still have concerns in the areas of market access and trade in cereal substitutes that they seek to address.

We reaffirm that the negotiations should lead to a globally balanced result. An accord must create more open markets for goods and services and will require comparable efforts from all negotiating partners.

On this basis we expect that an agreement can be reached before the end of 1992.

9. We are committed, through coordinated and individual actions, to build confidence for investors, savers, and consumers: confidence that hard work will lead to a better quality of life; confidence that investments will be profitable; confidence that savings will be rewarded and that price stability will not be put at risk.

10. We pledge to adopt policies aimed at creating jobs and growth. We will seek to take the appropriate steps, recognising our individual circumstances, to establish sound macroeconomic policies to spur stronger sustainable growth. With this in mind we have agreed on the following guidelines:

- to continue to pursue sound monetary and financial policies to support the upturn without rekindling inflation;
- to create the scope for lower interest rates through the reduction of excessive public deficits and the promotion of savings;
- to curb excessive public deficits above all by limiting public spending. Taxpayers' money should be used more economically and more effectively.
- to integrate more closely our environmental and growth objectives, by encouraging market incentives and technological innovation to promote environmentally sound consumption and production.

As the risk of inflation recedes as a result of our policies, it will be increasingly possible for interest rates to come down. This will help promote new investment and therefore stronger growth and more jobs.

11. But good macroeconomic policies are not enough. All our economies are burdened by structural rigidities that constrain our potential growth rates. We need to encourage competition. We need to create a more hospitable environment for private initiative. We need to cut back excess regulation, which suppresses innovation, enterprise and creativity. We will strengthen employment opportunities through better training, education, and enhanced mobility. We will strengthen the basis for long-term growth through improvements in infrastructure and greater attention to research and development. We are urging these kinds of reforms for new democracies in the transition to market economies. We cannot demand less of ourselves.

12. The coordination of economic and financial policies is a central element in our common strategy for sustained, non-inflationary growth. We request our Finance Ministers to strengthen their cooperation on the basis of our agreed guidelines and to intensify their work to reduce obstacles to growth and therefore foster employment. We ask them to report to our meeting in Japan in 1993.

United Nations Conference on Environment and Development (UNCED)

13. The Earth Summit has been a landmark in heightening the consciousness of the global environmental challenges, and in giving new impetus to the process of creating a world-wide partnership on development and the environment. Rapid and concrete action is required to follow through on our commitments on climate change, to protect forests and oceans, to preserve marine resources, and to maintain bio-diversity. We therefore urge all countries, developed and developing, to direct their policies and resources towards sustainable development which safeguards the interests of both present and future generations.

14. To carry forward the momentum of the Rio Conference, we urge other countries to join us:

- in seeking to ratify the Climate Change Convention by the end of 1993,
- in drawing up and publishing national action plans, as foreseen at UNCED, by the end of 1993,
- in working to protect species and the habitats on which they depend,

(4)

- in giving additional financial and technical support to developing countries for sustainable development through official development assistance (ODA), in particular by replenishment of IDA, and for actions of global benefit through the Global Environment Facility (GEF) with a view to its being established as a permanent funding mechanism,
- in establishing at the 1992 UN General Assembly the Sustainable Development Commission which will have a vital role to play in monitoring the implementation of Agenda 21,
- in establishing an international review process for the forest principles, in an early dialogue, on the basis of the implementation of these principles, on possible appropriate internationally agreed arrangements, and in increased international assistance,
- in further improving monitoring of the global environment, including through better utilisation of data from satellite and other earth observation programmes,
- in the promotion of the development and diffusion of energy and environment technologies, including proposals for innovative technology programmes,
- by ensuring the international conference on straddling fish stocks and highly migratory fish stocks in the oceans is convened as soon as possible.

Developing countries

15. We welcome the economic and political progress which many developing countries have made, particularly in East and South-East Asia, but also in Latin America and in some parts of Africa. However, many countries throughout the world are still struggling against poverty. Sub-Sahara Africa, above all, gives cause for concern.

16. We are committed to dialogue and partnership founded on shared responsibility and a growing consensus on fundamental political and economic principles. Global challenges such as population growth and the environment can only be met through cooperative efforts by all countries. Reforming the economic and social sector of the UN system will be an important step to this end.

17. We welcome the growing acceptance of the principles of good governance. Economic and social progress can only be assured if countries mobilise their own potential, all segments of the population are involved and human rights are respected. Regional cooperation among developing coun-

(5)

tries enhances development and can contribute to stability, peaceful relations and reduced arms spending.

18. The industrial countries bear a special responsibility for a sound global economy. We shall pay regard to the effects of our policies on the developing countries. We will continue our best efforts to increase the quantity and quality of official development assistance in accordance with our commitments. We shall direct official development assistance more towards the poorest countries. Poverty, population policy, education, health, the role of women and the well-being of children merit special attention. We shall support in particular those countries that undertake credible efforts to help themselves. The more prosperous developing countries are invited to contribute to international assistance.

19. We underline the importance for developing countries of trade, foreign direct investment and an active private sector. Poor developing countries should be offered technical assistance to establish a more diversified export base especially in manufactured goods.

20. Negotiations on a substantial replenishment of IDA funds should be concluded before the end of 1992. The IMF should continue to provide concessional financing to support the reform programmes for the poorest countries. We call for an early decision by the IMF on the extension for one year of the Enhanced Structural Adjustment Facility and for the full examination of options for the subsequent period, including a renewal of the facility.

21. We are deeply concerned about the unprecedented drought in southern Africa. Two thirds of the Drought Appeal target has been met. But much remains to be done. We call on all countries to assist.

22. We welcome the progress achieved by many developing countries in overcoming the debt problems and regaining their creditworthiness. Initiatives of previous Summits have contributed to this. Nevertheless, many developing countries are still in a difficult situation.

23. We confirm the validity of the international debt strategy. We welcome the enhanced debt relief extended to the poorest countries by the Paris Club. We note that the Paris Club has agreed to consider the stock of debt approach, under certain conditions, after a period of three or four years, for the poorest countries that are prepared to adjust, and we encourage it to recognise the special situation of some highly indebted lower-middle-income countries on a case by case basis. We attach great importance to the enhanced use of voluntary debt conversions, including debt conversions

Central and eastern Europe

24. We welcome the progress of the democracies in central and eastern Europe including the Baltic states (CEECs) towards political and economic reform and integration into the world economy. The reform must be pursued vigorously. Great efforts and even sacrifices are still required from their people. They have our continuing support.

25. We welcome the substantial multilateral and bilateral assistance in support of reform in the CEECs. Financing provided by the EBRD is playing a useful role. Since 1989, total assistance and commitments, in the form of grants, loans and credit guarantees by the Group of 24 and the international financial institutions, amounts to $ 52 billion. We call upon the Group of 24 to continue its coordination activity and to adapt it to the requirements of each reforming country. We reaffirm our readiness to make fair contributions.

26. We support the idea of working with Poland to reallocate, on the basis of existing arrangements, funds from the currency stabilisation fund, upon agreement on an IMF programme, towards new uses in support of Poland's market reform effort, in particular by strengthening the competitiveness of Poland's business enterprises.

27. The industrial countries have granted substantial trade concessions to the CEECs in order to ensure that their reform efforts will succeed. But all countries should open their markets further. The agreements of the EC and EFTA countries aiming at the establishment of free trade areas with these countries are a significant contribution. We shall continue to offer the CEECs technical assistance in enhancing their export capacity.

28. We urge all CEECs to develop their economic relations with each other, with the new independent States of the former Soviet Union as well as more widely on a market-oriented basis and consistent with GATT principles. As a step in this direction we welcome the special cooperation among the CSFR, Poland and Hungary, and hope that free trade among them will soon be possible.

29. Investment from abroad should be welcomed. It is important for the development of the full economic potential of the CEECs. We urge the CEECs to focus their policies on the creation of attractive and reliable investment conditions for private capital. We are providing our bilateral credit insurance and guarantee instruments to promote foreign investment when these conditions, including servicing of debt, are met. We call upon enterprises in the industrial countries to avail themselves of investment opportunities in the CEECs.

New independent States of the former Soviet Union

30. The far-reaching changes in the former Soviet Union offer an historic opportunity to make the world a better place: more secure, more democratic and more prosperous. Under President Yeltsin's leadership the Russian government has embarked on a difficult reform process. We look forward to our meeting with him to discuss our cooperation in support of these reforms. We are prepared to work with the leaders of all new States pursuing reforms. The success is in the interest of the international community.

31. We are aware that the transition will involve painful adjustments. We offer the new States our help for their self-help. Our cooperation will be comprehensive and will be tailored to their reform progress and internationally responsible behaviour, including further reductions in military spending and fulfilment of obligations already undertaken.

32. We encourage the new States to adopt sound economic policies, above all by bringing down budget deficits and inflation. Working with the IMF can bring experience to this task and lend credibility to the efforts being made. Macroeconomic stabilisation should not be delayed. It will only succeed if at the same time the building blocks of a market economy are also put into place, through privatisation, land reform, measures to promote investment and competition and appropriate social safeguards for the population.

33. Creditworthiness and the establishment of a dependable legal framework are essential if private investors are to be attracted. The creditworthiness of the new States will in particular be assessed by the way in which they discharge their financial obligations.

34. Private capital and entrepreneurial commitment must play a decisive and increasing part in economic reconstruction. We urge the new States to develop an efficient private business sector, in particular the body of small and medium-sized private companies which is indispensable for a market economy.

35. Rapid progress is particularly urgent and attainable in two sectors: agriculture and energy. These sectors are of decisive importance in improving the supply situation and increasing foreign exchange revenue. Trade and industry in our countries are prepared to cooperate. Valuable time has already been lost because barriers to investment remain in place. For energy, we note the importance of the European Energy Charter for encouraging production and ensuring the security of supply. We urge rapid conclusion of the preparatory work.

36. All Summit participants have shown solidarity in a critical situation by providing extensive food aid, credits and medical assistance. They also have committed technical assistance. A broad inflow of know-how and experience to the new States is needed to help them realise their own potential. Both private and public sectors can contribute to this. What is needed most of all is concrete advice on the spot and practical assistance. The emphasis should be on projects selected for their value as a model or their strategic importance for the reform process. Partnerships and management assistance at corporate level can be particularly effective.

37. We stress the need for the further opening of international markets to products from the new States. Most-favoured-nation treatment should be applied to trade with the new States and consideration given to further preferential access. The new States should not impede reconstruction by setting up barriers to trade between themselves. It is in their own interest to cooperate on economic and monetary policy.

38. We want to help the new States to preserve their highly-developed scientific and technological skills and to make use of them in building up their economies. We call upon industry and science in the industrial countries to promote cooperation and exchange with the new States. By establishing International Science and Technology Centres we are helping to redirect the expertise of scientists and engineers who have sensitive knowledge in the manufacture of weapons of mass destruction towards peaceful purposes. We will continue our efforts to enable highly-qualified civil scientists to remain in the new States and to promote research cooperation with western industrial countries.

39. We welcome the membership of the new States in the international financial institutions. This will allow them to work out economic reform programmes in collaboration with these institutions and on this basis to make use of their substantial financial resources. Disbursements of these funds should be linked to progress in implementing reforms.

40. We support the phased strategy of cooperation between the Russian Government and the IMF. This will allow the IMF to disburse a first credit tranche in support of the most urgent stabilisation measures within the next few weeks while continuing to negotiate a comprehensive reform programme with Russia. This will pave the way for the full utilisation of the $ 24 bn support package announced in April. Out of this, $ 6 bn earmarked for a rouble stabilisation fund will be released when the necessary macro-economic conditions are in place.

41. We suggest that country consultative groups should be set up for the new States, when appropriate, in order to foster close cooperation among the States concerned, international institutions and partners. The task of these groups would be to encourage structural reforms and to coordinate technical assistance.

Safety of nuclear power plants in the new independent States of the former Soviet Union and in central and eastern Europe

42. While we recognise the important role nuclear power plays in global energy supplies, the safety of Soviet-design nuclear power plants gives cause for great concern. Each State, through its safety authorities and plant operators, is itself responsible for the safety of its nuclear power plants. The new States concerned of the former Soviet Union and the countries of central and eastern Europe must give high priority to eliminating this danger. These efforts should be part of a market-oriented reform of energy policies encouraging commercial financing for the development of the energy sector.

43. A special effort should be made to improve the safety of these plants. We offer the States concerned our support within the framework of a multilateral programme of action. We look to them to cooperate fully. We call upon other interested States to contribute as well.

44. The programme of action should comprise immediate measures in the following areas:

- operational safety improvements;

- near-term technical improvements to plants based on safety assessments;

- enhancing regulatory regimes.

Such measures can achieve early and significant safety gains.

45. In addition, the programme of action is to create the basis for longer-term safety improvements by the examination of

- the scope for replacing less safe plants by the development of alternative energy sources and the more efficient use of energy,

- the potential for upgrading plants of more recent design.

Complementary to this, we will pursue the early completion of a convention on nuclear safety.

46. The programme of action should develop clear priorities, provide coherence to the measures and ensure their earliest implementation. To implement the immediate measures, the existing G 24 coordination mandate on nuclear safety should be extended to the new States concerned of the former Soviet Union and at the same time made more effective. We all are prepared to strengthen our bilateral assistance.

    In addition, we support the setting up of a supplementary multilateral mechanism, as appropriate, to address immediate operational safety and technical safety improvement measures not covered by bilateral programmes. We invite the international community to contribute to the funding. The fund would take account of bilateral funding, be administered by a steering body of donors on the basis of consensus, and be coordinated with and assisted by the G 24 and the EBRD.

47. Decisions on upgrading nuclear power plants of more recent design will require prior clarification of issues concerning plant safety, energy policy, alternative energy sources and financing. To establish a suitable basis on which such decisions can be made, we consider the following measures necessary:

    - The necessary safety studies should be presented without delay.

    - Together with the competent international organisations, in particular the IEA, the World Bank should prepare the required energy studies including replacement sources of energy and the cost implications. Based on these studies the World Bank and the EBRD should report as expeditiously as possible on potential financing requirements.

48. We shall review the progress made in this action programme at our meeting in 1993.

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49. We take note of the representations that we received from various Heads of State or Government and organisations, and we will study them with interest.

<u>Next meeting</u>

50. We welcome and have accepted Prime Minister Miyazawa's invitation to Tokyo in July 1993.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 8, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 7-YEAR NOTES

Tenders for $9,774 million of 7-year notes, Series G-1999, to be issued July 15, 1992 and to mature July 15, 1999 were accepted today (CUSIP: 912827F98).

The interest rate on the notes will be 6 3/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.42%	99.749
High	6.45%	99.583
Average	6.44%	99.638

Tenders at the high yield were allotted 39%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	12,613	12,613
New York	21,231,260	9,395,990
Philadelphia	20,047	20,047
Cleveland	41,811	41,811
Richmond	73,102	71,172
Atlanta	29,084	26,034
Chicago	1,001,547	106,417
St. Louis	21,047	19,047
Minneapolis	8,331	8,331
Kansas City	25,979	25,979
Dallas	5,498	5,498
San Francisco	203,623	32,474
Treasury	8,768	8,751
TOTALS	$22,682,710	$9,774,164

The $9,774 million of accepted tenders includes $591 million of noncompetitive tenders and $9,183 million of competitive tenders from the public.

In addition, $18 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $191 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-1893

TREASURY NEWS

Department of the Treasury | Washington, D.C. | Telephone 202-622-2960

For Release Upon Delivery
Expected at 10:00 a.m.

STATEMENT OF THE HONORABLE
JEROME H. POWELL
UNDER SECRETARY OF THE TREASURY FOR FINANCE
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

July 9, 1992

Chairman LaFalce, Congressman Ireland and Members of the Committee:

It is a pleasure to appear here today to discuss the effects of bank and thrift regulatory requirements and capital standards on credit availability and the economic recovery. In particular, the Committee has requested the Treasury Department's views concerning the effects of unnecessarily burdensome regulations on bank and thrift lending; the steps the Treasury Department is taking to alleviate the regulatory burden, including the proposed Credit Availability and Regulatory Relief Act of 1992 ("CARRA"); and the extent to which depository institution capital standards unnecessarily restrain credit.

Let me assure you at the outset that the Treasury Department is very concerned that excessive federal regulation of depository institutions is constricting the supply of business credit generally, and small business credit particularly.

Years of accumulating statutory and regulatory burdens

create costs -- costs that are passed on to consumers of financial services. These costs are particularly high for small business borrowers, who rely heavily on bank credit.

The Treasury Department is acting on both the administrative and legislative fronts to reduce unnecessary regulatory costs that constrain credit. We are being especially vigilant to ensure that depository institution capital standards are not applied in a counterproductive manner.

The need for regulatory reform.

As you recently stated, Mr. Chairman, "it will be impossible for us to revive our economy unless we restore some balance to the regulation of our financial institutions." It is beyond dispute that balance is lacking. The time and money that depository institutions devote to federal regulatory compliance has reached a staggering level. For example:

- The banking industry has estimated that the total cost of complying with federal regulations is over $10 billion per year. This is equal to 59% of the industry's 1991 net income.

- The Federal Reserve recently calculated that banks now make over 180 million regulatory filings each year --

more than 1,400 filings per working day.

Excessive regulation of depository institutions clearly restricts the supply of credit and hobbles economic growth. The time and money spent in meeting paperwork demands is time and money that could otherwise be devoted to the business of banking -- satisfying the credit needs of businesses and consumers. The banking industry estimates that banks could support an additional $20 billion to $30 billion in lending each year if they could redirect just 25% of the resources now exhausted in regulatory compliance. This represents about 17% of small business, non-mortgage related loans extended by banks last year.

This waste imposes a significant cost on borrowers, who are either unable to obtain credit on reasonable terms or, in some cases, to obtain credit at all. Small businesses bear a disproportionate burden, since the cost of regulatory compliance falls most heavily on small banks, which are their primary sources of credit. Community banks devote more of their resources -- as a percentage -- to regulatory compliance. One recent study concluded that regulatory compliance costs for banks with assets of less than $50 million -- which includes half of the banks in America -- equalled 25% of their operating expenses and exceeded their 1991 net income.

Steps taken by the Bush Administration.

A principal goal of the Bush Administration is to ensure that ample credit is available on reasonable terms to satisfy the demands of creditworthy small business and other major consumers of depository institution services. The Administration has taken a number of steps to this end.

For example, the Administration, through the Treasury Department, has:

- o worked with the regulatory agencies to achieve over 30 specific regulatory changes and clarifications -- within the constraints imposed by applicable law -- that will ease the availability of credit;

- o issued guidelines to ensure that each bank's valuation of real estate is based upon income flows rather than liquidation values;

- o eliminated the definition of "highly leveraged transaction;"

- o approved an increase in the amount of purchased mortgage servicing rights and purchased credit card relationships that banks may include in regulatory

capital, thereby expanding the lending base; and

- o conducted scores of meetings with banks, borrowers, regulators and examiners to ensure that depository institution examinations are conducted in a manner that does not discourage sound lending.

Legislation is needed.

The Treasury continues to use every means at its disposal to improve the lending environment. Ultimately, however, Congress has a role in determining the nature and scope of depository institution regulation. The Administration's efforts to reduce excessive regulation are constrained by legislative requirements. Consequently, the Administration consistently has sought to work with Congress to achieve needed reforms.

Last year, the Administration submitted to Congress a comprehensive package of financial system reforms, the Financial Institutions Safety and Consumer Choice Act. This balanced proposal included measures that would have improved the lending environment by strengthening the banking and thrift industries through appropriate geographic and product diversification, and at the same time guaranteed that depository institutions operated with adequate capital and in a safe and sound manner.

Unfortunately, the Administration's comprehensive proposal was rejected, and the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") substituted in its place. FDICIA does not include the badly needed financial system reforms recommended by the Treasury. Moreover, in our view -- and that of bankers, bank regulators and an increasing number of Members of Congress -- FDICIA represents a legislative overreaction.

The Comptroller of the Currency has informed us that he has over 65 working groups meeting currently just to implement the new regulations required by FDICIA. Similar efforts are underway at the Federal Reserve, FDIC and OTS. More importantly, every bank and thrift in the country is expending valuable resources simply to keep up with the flood of new FDICIA regulations.

The Administration has responded in two ways. First, the Administration has re-submitted to Congress -- as part of the President's omnibus reform bill -- its comprehensive financial system reform proposal. The Treasury Department is convinced that enactment of this proposal -- in its entirety -- is vital to the long-term strength of the financial system, and hence to long-term economic growth.

The Administration's regulatory relief proposal.

Second, the President has submitted to Congress a legislative proposal that would significantly reduce the excessive regulatory burden on depository institutions, including the additional regulatory burden imposed by FDICIA. If enacted, CARRA would substantially reduce compliance costs for all depository institutions -- especially small institutions -- freeing up funds and resources for lending.

For example, FDICIA requires the depository institution regulatory agencies to prescribe standards governing:

- o internal operations and management, including standards relating to computers and information systems;

- o asset quality, earnings and stock value, including minimum earnings levels and a minimum ratio of market value to book value for publicly traded shares; and

- o compensation of employees, from the CEO to the back-office staff.

These so-called "tripwire" standards represent precisely the kind of regulatory micromanagement that raises compliance costs for all depository institutions, encourages

second-guessing of business decisions by regulators and examiners, and generally has a chilling effect on lending. Accordingly, CARRA would eliminate these FDICIA requirements.

CARRA includes a number of other provisions that would improve the regulatory environment for small banks and their small business borrowers in particular without increasing risk to the deposit insurance funds or the taxpayers.

Audit costs. FDICIA would turn auditors into policemen -- at substantial additional cost to depository institutions -- by requiring that outside auditors certify depository institution compliance with designated "safety and soundness" laws and regulations. In addition, FDICIA requires each institution to establish an audit committee consisting entirely of outside directors with special financial expertise. This requirement imposes a special hardship on small banks, which often do not have easy access to such outside directors.

CARRA generally would leave intact appropriate audit provisions of FDICIA, including those requiring management attestations concerning the adequacy of internal controls and compliance. CARRA would, however, eliminate those provisions of FDICIA that require auditors to step outside of their normal role and the scope of their expertise. CARRA also would also provide relief for small banks by requiring that only a majority of the

audit committee members of institutions with assets under $1 billion be outside directors.

Small business and farm lending data collection. FDICIA requires all depository institutions annually to collect information for the Federal Reserve concerning their loans to small businesses and farms. We believe there is a need for better information regarding small business lending, and support the development of methods to obtain it. The particular method enacted in FDICIA, however -- especially as it is now being interpreted by the regulators -- is expensive, intrusive, and would require institutions to request otherwise confidential information from small business and farm customers.

CARRA would reduce this paperwork burden while supporting other means of gathering small business and farm lending data. We propose postponing the annual data collection requirement pending the completion of a one-year study to determine the best method or methods of obtaining such information as is necessary to assess the availability of credit to small businesses and farms. The study would include a survey of existing data, and would make recommendations for appropriate administrative and legislative action.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires the federal depository

institution regulatory agencies to examine carefully the degree to which depository institutions meet the credit needs of their entire community.

The CRA imposes a tremendous recordkeeping and paperwork burden on small depository institutions, and rural institutions in particular. The principal CRA-related concern today is whether sufficient credit is available in the inner cities. Rural institutions clearly meet the credit needs of their communities, since they have no other lending opportunities.

CARRA would retain current CRA requirements for all institutions, including small and rural institutions. CARRA would, however, eliminate CRA paperwork requirements for small, rural banks with assets of less than $100 million by permitting such institutions to use modified means of reporting their CRA compliance.

These are only a few of the many provisions in CARRA that would alleviate the regulatory burden on depository institutions and encourage lending. A more detailed summary of CARRA is attached to this testimony.

<u>Current regulatory capital standards</u>.

As you requested, I have spent some time describing the substantial non-capital burdens imposed on depository institutions, their significant effects on credit availability and the Treasury Department's efforts to improve the flow of credit to small business and other borrowers. I would now like to focus on depository institution capital standards and the effects of these standards on lending.

Banks currently are required to meet two regulatory capital standards: a leverage standard and a risk-based standard.

Under the leverage standard, each bank is required to maintain a minimum ratio of Tier 1 capital to total assets. The minimum ratio varies for each bank based upon its examination rating, activities and other factors. As a practical matter, the minimum leverage ratio for most banks is around 4% to 5%.

Under the risk-based capital framework, bank assets are adjusted to reflect the credit risks associated with each category. As of the end of 1992, each bank will be required to maintain Tier 1 capital equal to at least 4% of risk-adjusted assets, and combined Tier 1 and Tier 2 capital equal to at least 8% of risk-adjusted assets.

Leverage ratio. The leverage ratio was designed to supplement the risk-based capital framework established under the

Basle Accord. As originally formulated, the risk-based system principally took account of broad categories of credit risk associated with particular depository institution assets, rather than other banking risks, such as interest rate risk. The leverage ratio was intended to compensate for these gaps in the risk-based capital requirements.

Concern has been expressed recently, however, that the leverage ratio is being applied in a fashion that is inconsistent with its original purpose. For example, Richard Syron, President of the Federal Reserve Bank of Boston, and others — observing that regulators increase leverage requirements for particular institutions based upon their loan loss experience — conclude that this policy forces institutions to downsize in order to meet the higher requirements, reducing the level of available credit and exacerbating regional economic downturns. As a result of this phenomenon, critics contend that the leverage requirement may have supplanted the risk-based requirement as the primary, binding element of capital adequacy.

In general, the Treasury Department believes that the risk-based capital framework provides a more accurate means of determining the appropriate level of depository institution capital, and should be the primary capital measure. Moreover, the regulatory agencies have taken steps recently -- steps that we recommended in our deposit insurance study and proposed

legislation, and that Congress adopted in FDICIA -- to incorporate an interest rate risk component into the risk-based capital regime.

As interest rate risk is incorporated into the risk-based capital framework, rendering this component a more reliable measure of capital adequacy, the regulatory agencies have stated their intention to lower or eliminate the leverage capital requirement. The Treasury Department shares this view.

<u>Capital standards generally</u>. In addition to criticism of the leverage standard, some have expressed the view that capital standards generally are too high, and are restricting credit availability.

The vast majority of banks meet or exceed the current minimum capital requirements. About 97% of all banks -- holding approximately 92% of total industry assets -- meet the fully phased-in risk-based standard.

While there is little doubt that capital requirements can have an effect on lending decisions, the relationship between the current risk-based capital standards and credit availability is very difficult to quantify. Moreover, capital regulation is one of a number of factors that affect the availability of credit, and in the Treasury's view risk-based capital standards

are not the most significant variable.

Commercial lending has declined recently for a variety of reasons. A principal factor is slack loan demand resulting from the unwillingness of business borrowers -- many of which are already quite leveraged or are restructuring their balance sheets to reduce debt and increase equity -- to incur additional debt in an uncertain economic environment. In addition, loan demand has decreased as many borrowers have gone directly to the securities markets.

To the extent that depository institutions have limited the supply of credit, it appears to be primarily in response to factors other than the need to meet risk-based capital standards, including concerns about lending risk and pressures from the market and federal and state supervisors. As stated previously, the Treasury Department has taken a number of steps to eliminate regulatory and supervisory obstacles that discourage lending and aggravate the credit crunch, and continues to use every means at its disposal to encourage sound lending, including the administrative actions outlined above and the submission of CARRA to the Congress.

Finally, banking is now perceived as a more risky, volatile business than it once was. There is considerable evidence that the financial markets are demanding that depository

institutions raise their capital levels generally, regardless of regulatory requirements. As a consequence, it is not clear that any lowering of minimum risk-based capital requirements would result in a commensurate reduction of depository institution capital levels.

Securities investments. Another concern is that the current risk-based capital rules -- which require depository institutions to hold more capital against commercial loans than against certain securities -- discourage lending and encourage securities investments.

At the outset, when considering the effects of bank securities investments on credit availability it is important to recognize that only 38% of the securities in bank portfolios are government securities; the vast majority of the remainder are mortgage-backed pass-throughs or collateralized mortgage obligations. Since bank investments in these types of instruments represent a form of indirect lending, such investments do not have the effect of restricting credit.

Moreover, while bank lending has declined and securities holdings have risen over the last two years, there is no clear cause and effect relationship between the two events. It is more likely that the rise in securities investments reflects supply and demand problems in the lending markets.

These facts aside, some have urged modifications to the risk-based capital standards to reduce the perceived incentive to invest in securities rather than engage in lending. However, any changes to the standards that do not reflect the actual risks associated with securities holdings would result in government credit allocation and could create unintended distortions.

One development that might affect the level and nature of depository institution securities holdings is the incorporation of interest rate risk into the risk-based capital framework. When depository institutions fund long-term securities investments with short-term borrowings, they are exposed to interest rate risk.

As described above, the regulatory agencies have taken steps to improve the risk-based capital rules by extending them to cover interest rate risk. This effort -- to the degree that the structure of depository institution securities investments expose those institutions to significant interest rate risk -- should help correct any distortions in the current environment.

<u>Prompt corrective action</u>. As the Treasury Department recognized in its February 1991 report entitled: "Modernizing the Financial System; Recommendations for Safer, More Competitive Banks," U.S. bank capital levels are low relative to historic

levels and to the capital levels maintained by unregulated financial institutions that do not have access to the federal safety net.

This situation is troubling for a number of reasons. Capital serves as a buffer to absorb losses in bad economic times. Accordingly, banks with higher capital levels pose less of a risk of failure and loss to the deposit insurance funds, and are generally more competitive in the long term.

Even more important, higher depository institution capital levels should actually serve to alleviate or prevent credit crunches. Institutions with higher levels of capital are better able to absorb existing portfolio losses during an economic downturn while continuing to provide the credit that is necessary to stimulate an economic recovery.

In response to these concerns, the Treasury Department proposed a system of "prompt corrective action" as part of its comprehensive financial system restructuring bill, FISCCA. The Treasury proposal would have provided incentives for depository institutions to be or become "well-capitalized" over time, and would have ensured that "undercapitalized," "significantly undercapitalized" and "critically undercapitalized" institutions either were identified early and required to build adequate capital reserves or resolved at a lower cost to the deposit

insurance funds.

It is important to recognize that the Treasury proposal would have achieved higher capital levels over time. The Treasury expressly did not recommend any mandatory increase in regulatory capital requirements, let alone a rapid one. Instead, the purpose of the Treasury proposal was to create a framework of incentives that would encourage depository institutions to rebuild their capital bases within a reasonable amount of time. Recognizing that the proposal "includes fundamental changes to the supervisory system," the Treasury specifically recommended a three-year transition period to allow institutions to adjust to the new rules.

Congress chose not to accept the Treasury's recommendation. Instead, FDICIA requires the regulators to implement the prompt corrective system within one year. It is our view that a longer transition period for the prompt corrective action system makes sense. Accordingly, CARRA would extend for one year -- until December 19, 1993 -- the effective date of the FDICIA prompt corrective action provisions.

An extension of the phase-in period for the FDICIA prompt corrective action provisions would reduce pressure on banks trying to cross the well-capitalized threshold. There can be no assurance, of course, that this action would reduce market

pressures on depository institutions to raise their capital levels.

* * *

In conclusion, Mr. Chairman, the Treasury Department agrees that we need to restore a sense of balance in federal regulation of depository institutions. The burden of complying with unnecessary paperwork requirements is a significant impediment to economic growth. Some adjustments to existing regulatory capital requirements should be considered as well.

The Treasury is doing all that it can to remove obstacles to sound lending, and we encourage the Congress to adopt needed reforms as well.

This concludes my prepared statement. I would be pleased to answer any questions that you may have.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

EPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
July 9, 1992

Contact: Scott Dykema
(202) 622-2960

SECRETARY BRADY WELCOMES BRAZILIAN DEBT ACCORD

Treasury Secretary Nicholas F. Brady today welcomed the announcement that an agreement in principle had been reached between Brazil and its commercial bank creditors on a comprehensive debt and debt-service reduction agreement.

"The agreement announced today between Brazil and its commercial bank creditors underscores the remarkable success of President Bush's debt strategy that was launched at the beginning of this Administration. It represents a milestone in finally putting the Latin American debt crisis behind us," Brady said. With today's announcement, more than 90% of the total commercial bank debt of the major debtor nations has been addressed under the Brady plan.

Brazil's debt accord, which will address some $44 billion in medium and long-term commercial bank debt and overdue payments, is a unique arrangement designed to meet Brazil's special circumstances. The agreement provides for the first time the phased introduction of enhancement resources, including funds needed to collateralize restructured debt.

The accord demonstrates the responsiveness of the international community to the courageous economic reforms implemented by Brazil's economic leadership under the direction of Finance Minister Moreira. It sets the stage for sustained recovery as new financial resources are freed in support of Brazilian economic growth.

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NB-1895

TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

JUL 13 92 001421
DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
Friday, July 10, 1992

CONTACT: RICH MYERS
(202) 622-2930

DAVID J. RYDER NAMED ACTING DIRECTOR OF U.S. MINT
- Kate Todd Beach Named Deputy Treasurer

Treasury Secretary Nicholas F. Brady today announced that David J. Ryder has been named Acting Director of the U.S. Mint, effective immediately.

Ryder was nominated by President Bush to serve as Director of the Mint on July 25, 1991. The Senate Banking Committee has thus far refused to vote on the nomination and the Director's post at the Mint has been vacant for almost a year.

"Despite having no reservations about Dave Ryder's qualifications, the Senate Banking Committee has refused to move forward with the nomination," said Brady. "We simply can't wait any longer to fill this important post at the U.S. Mint."

Ryder has been Deputy Treasurer of the United States since December of 1989. In addition to becoming Acting Director of the Mint, he will also serve as Deputy Treasurer of the United States for Operations.

Kate Todd Beach has succeeded Ryder as Deputy Treasurer of the United States. Beach has been Director of Intergovernmental Affairs at the Treasury Department since April 1989. Prior to her job at Treasury, she served in the U.S. Department of Transportation for eight years. From January 1988 until April 1989, she was Director of Intergovernmental and Consumer Affairs at DOT. She has also served at the U.S. Environmental Protection Agency, the National Alcohol Fuels Commission and the National Transportation Policy Study Commission.

Kate Beach is a native of New Jersey. She and her husband, Samuel F. Beach, Jr., reside in Washington D.C.

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NB-1896

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 13, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,648 million of 13-week bills to be issued July 16, 1992 and to mature October 15, 1992 were accepted today (CUSIP: 912794ZP2).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.21%	3.28%	99.189
High	3.22%	3.29%	99.186
Average	3.22%	3.29%	99.186

Tenders at the high discount rate were allotted 87%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,675	21,675
New York	44,982,670	10,227,210
Philadelphia	21,745	21,745
Cleveland	52,420	52,420
Richmond	55,620	38,620
Atlanta	23,185	21,185
Chicago	2,634,805	243,735
St. Louis	11,005	11,005
Minneapolis	8,385	8,385
Kansas City	28,820	26,820
Dallas	15,975	15,975
San Francisco	1,295,320	148,320
Treasury	811,100	811,100
TOTALS	$49,962,725	$11,648,195
Type		
Competitive	$45,658,515	$7,343,985
Noncompetitive	1,455,410	1,455,410
Subtotal, Public	$47,113,925	$8,799,395
Federal Reserve	2,151,320	2,151,320
Foreign Official Institutions	697,480	697,480
TOTALS	$49,962,725	$11,648,195

An additional $340,620 thousand of bills will be issued to foreign official institutions for new cash.

NB-1897

AUCTION RESULTS

PUBLIC DEBT NEWS

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

DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
July 13, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,698 million of 26-week bills to be issued July 16, 1992 and to mature January 14, 1993 were accepted today (CUSIP: 912794ZZ0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.29%	3.39%	98.337
High	3.31%	3.41%	98.327
Average	3.31%	3.41%	98.327

Tenders at the high discount rate were allotted 65%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,145	30,145
New York	38,603,450	10,030,545
Philadelphia	10,660	10,660
Cleveland	154,425	110,675
Richmond	145,695	71,895
Atlanta	33,045	31,910
Chicago	2,345,200	258,850
St. Louis	9,950	9,950
Minneapolis	7,650	7,650
Kansas City	29,580	28,230
Dallas	13,850	13,850
San Francisco	1,145,765	467,765
Treasury	625,935	625,935
TOTALS	$43,155,350	$11,698,060
Type		
Competitive	$39,042,455	$7,585,165
Noncompetitive	1,114,875	1,114,875
Subtotal, Public	$40,157,330	$8,700,040
Federal Reserve	2,450,000	2,450,000
Foreign Official Institutions	548,020	548,020
TOTALS	$43,155,350	$11,698,060

An additional $279,180 thousand of bills will be issued to foreign official institutions for new cash.

NB-1898

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
July 14, 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 $ 23,200 million, to be issued July 23, 1992. This offering will provide about $ 1,425 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $21,782 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, July 20, 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 $11,600 million, representing an additional amount of bills dated October 24, 1991 and to mature October 22, 1992 (CUSIP No. 912794 YZ 1), currently outstanding in the amount of $24,494 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,600 million, to be dated July 23, 1992, and to mature January 21, 1993 (CUSIP No. 912794 A3 8).

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

The bills will be issued for cash and in exchange for Treasury bills maturing July 23, 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 $ 1,179 million as agents for foreign and international monetary authorities, and $ 4,930 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-1899

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

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DEPT. OF THE TREASURY

DRAFT: Comments appreciated

The Effects of Tax Reform on Charitable Contributions**

by

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** Prepared for presentation at the National Tax Association Symposium in Crystal City, Virginia on May 18-19, 1992. Forthcoming in the National Tax Journal, September 1992. The authors are indebted to Bob Gillette and Gordon Wilson of the EMCA staff and to the IRS Statistics of Income division for extensive data development work. The authors also thank Charles Clotfelter, Robert Chirinko, and others for helpful comments. Any views expressed in this paper are those of the authors and do not necessarily reflect the views or policies of the U.S. Treasury Department or other Treasury staff members.

Introduction

During the 1980's, the top marginal income tax rates for individuals were reduced from 70 percent to 28 percent (33 percent in the "Bubble" income range), and, in general, marginal tax rates for other incomes were also reduced. While these reductions in marginal rates reduced the distortions and excess burdens associated with the individual income tax, they also may have reduced incentives to engage in activities normally favored by the Internal Revenue Code.[1] One of the most widely noted of these is the deduction for charitable contributions. Prior to tax reform, several economists predicted that, other things being equal, the Tax Reform Act of 1986 would result in charitable contributions being about 15 percent below what they would have been under prior law, and that contributions of high-income taxpayers would decline by a much larger percentage.[2]

This paper examines the response of charitable contributions to changes marginal tax rates and other tax law changes over the period from 1979 to 1990. The analysis thus spans three major tax laws affecting charitable giving: the Economic Recovery Tax Act of 1981, the Deficit Reduction Act of 1984, and the Tax Reform Act of 1986.[3]

Tax Changes Affecting Charitable Contributions

Table 1 summarizes some of the key tax changes affecting charitable contributions. The Economic Recovery Tax Act of 1981 (ERTA) reduced individual income tax rates by approximately 23 percent over a 4-year period, thereby reducing the tax subsidy for charitable

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[1]See, for example, Hausman and Poterba (1987) and Steuerle (1992).

[2]For example, Lindsey (1987) estimated a long-run decline of 14 percent for all contributions and 30 percent for contributions for taxpayers with incomes over $200,000. Clotfelter (1987) estimated an overall decline of 15-16 percent and a decline of 31 to 40 percent for cultural organizations that depend primarily on high-income contributors. Both Clotfelter and Lindsey note that their projections were intended to be long-run estimates under the assumption that donor preferences remained unchanged.

[3]See Clotfelter (1990) for an analysis of the early responses of contributions to the Tax Reform Act of 1986.

contributions. At the same time, ERTA provided an offsetting increase in the incentive for charitable contributions by allowing a deduction for charitable contributions by non-itemizers. While this deduction was limited initially, by 1986 non-itemizers were able to deduct the full amount of charitable contributions. The non-itemizer deduction was treated as an experiment and scheduled to expire at the end of 1986. In addition to changing the after-tax cost of giving, ERTA reduced effective tax liabilities, which increased after-tax incomes out of which contributions could be made.

ERTA also changed incentives for corporate contributions. While the top corporate rate remained at 46 percent, tax rates were reduced for the first $75,000 of corporate taxable income and the maximum corporate contribution was increased from 5 percent to 10 percent of adjusted taxable income.

The Deficit Reduction Act of 1984 (DEFRA) tightened compliance provisions for charitable contributions by requiring signed written appraisals for contributions of property of $5,000 or more (other than securities with prices quoted on exchanges). On the other hand, the limitation on certain contributions to private foundations was increased from 20 percent to 30 percent of Adjusted Gross Income.

A number of provisions in the Tax Reform Act of 1986 (TRA 86) affected charitable contributions. First, TRA 86 reduced the tax incentive for contributions by further lowering marginal income tax rates for both individuals and corporations. Second, TRA 86 reduced the number of taxpayers that itemized deductions by increasing the standard deduction and limiting or disallowing certain itemized deductions. The primary changes in itemized deductions were the elimination of the deduction for sales taxes, the phase-out of consumer interest expense deductions, the increase in the income floor under medical deductions, and the new 2 percent floor under miscellaneous deductions. Third, the non-itemizer deduction expired as scheduled at the end of 1986. Fourth, capital gains tax rates were increased by eliminating the exclusion for long-term capital gains. While this would have increased the incentive for charitable contributions, the capital gain portion of contributions of appreciated property was included as

a preference item under the Alternative Minimum Tax (AMT). The interaction of these two provisions meant that TRA 86 increased the incentive to make contributions of appreciated property of modest size, but substantially decreased the incentive to make large contributions of appreciated property. In addition, the AMT provision greatly increased the uncertainty about the effect of charitable contributions because the taxpayer might not know until very late in the year whether a given contribution would bring the taxpayer under the AMT. Finally, TRA 86 lowered income taxes for many individuals, increasing individuals' after-tax incomes out of.[4]

Changes in reporting requirements may also have affected reporting of contributions over this period. In April 1983, the Treasury Department issued proposed regulations that would require taxpayers to have reliable written records of both cash and property contributions and provide information on tax returns about contributions of property valued in excess of $500. Final regulations were adopted December 26, 1984. Proposed regulations with respect to the DEFRA appraisal requirements were published December 31, 1984 and final regulations were adopted in April 1988.

Changes in reporting requirements on Schedule A during the period may also have influenced reported contributions. Prior to 1981, taxpayers listed cash contributions for which they did not have a receipt or cancelled check separately. Beginning in 1981, cash contributions over $3,000 were required to be listed on Schedule A, but other cash contributions were listed on a single line with no separation of contributions without a receipt. Prior to 1985, taxpayers making non-cash contributions of $200 or more to any one donee were required to submit a statement naming the recipient, describing the property and providing other information. Beginning in 1985, taxpayers with total non-cash contributions exceeding $500 were required to file Form 8283, which requires detailed information on the donor's cost basis, the method of determining the fair market value and the donee. These changes in reporting rules, along with higher penalties and several IRS enforcement initiatives, may have affected reported

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[4]The Joint Committee on Taxation Staff (1986) estimated that 58 percent of taxpayers would experience tax reductions averaging $801 by 1988.

contributions, discouraging contributions subject to detailed reporting and perhaps encouraging the reporting of contributions up to the limits, above which more detailed reporting was required.

The effect of tax law changes on the marginal incentive for charitable contributions is frequently summarized in the tax price of giving. For taxpayers contributing cash, the price per dollar of giving is 1 minus the marginal tax rate. Thus for taxpayers in the 50 percent marginal tax bracket before TRA 86, the price, or after-tax cost of giving $1 in charitable contributions was $0.50. Taxpayers who contribute property that has appreciated in value may also be able to save the capital gains tax that would have been paid if the asset had been sold. The effect on the price of giving depends both on the amount of appreciation as a proportion of the value of the asset and on when the taxpayer would have otherwise disposed of the asset. For example, if the taxpayer contributes an asset with appreciation of 100% of the current value and would otherwise have sold the asset immediately (the most extreme case), the price of giving for a taxpayer in the 50 percent tax bracket would have been $0.30, where the additional $0.20 reduction reflects the 20% marginal tax rate that would have been paid on capital gains. If the taxpayer would otherwise have held the asset for a bequest, the price of giving would be $0.50, the same as cash, since there would be no capital gains tax saved because the heirs would have received a step-up in basis. If the taxpayer planned to sell the asset at some future date, the price of giving would reflect the present value of the capital gains tax avoided.

Changes in the price of giving cash and appreciated property are summarized in Table 2 for high income taxpayers and for taxpayers at median family income.[5] During the 1980's the price per dollar of cash contributions increased from $0.30 to $0.72 for taxpayers in the highest income class, and from $0.76 to $0.85 for taxpayers with median income. For high-income taxpayers, ERTA increased the price of cash contributions by 67 percent, while TRA 86 increased it by 44 percent. For taxpayers with median family income and typical deductions,

[5]These calculations do not take state income taxes into account.

TRA 86 increased the price of giving by 9 percent for those who continued to itemize and by 28 percent for those who were already non-itemizers or became non-itemizers.

The price of non-cash contributions rose even more dramatically over the period. Prior to ERTA, the price of giving appreciated property that would otherwise have have been sold immediately could have been as low as $0.02 if the appreciation was equal to the full market value of the asset. ERTA increased the price of such contributions to $0.30. TRA 86 further increased the price to $0.44 for taxpayers not subject to AMT. For taxpayers subject to AMT, there is no advantage to giving appreciated property over selling the asset and contributing cash.[6] In the extreme case shown in Table 2, where the capital gain equals the value of the asset and the asset would otherwise be held for bequest, the tax price of giving is $1.00 and there is no net benefit from contributing the asset.

Expected Effects of Tax Changes on Contributions

Increases in the price of giving and increased emphasis on compliance would lead one to expect both timing effects associated with tax rate changes and a decline in reported charitable contributions over the 1979-1990 period. Timing effects would be expected in 1981 and again in 1986 as taxpayers had several months to make gifts before lower tax rates went into effect. Declines in giving would be expected in the early 1980's as a result of ERTA and then again starting in 1987 as a result of TRA 86. The decline would be expected to be greater for high-income taxpayers who experienced the the greatest increases in the price of giving and who are also more likely to make non-cash contributions that have been most affected by compliance measures.

TRA 86 would also be expected to change the form of charitable contributions. The tax price of appreciated property gifts of moderate size decreased relative to the tax price of cash

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[6]The economic cost to a taxpayer of giving appreciated property under the AMT may be higher than the taxpayer's cost of giving cash because there may be an opportunity cost of not giving the appreciated property in a future non-AMT year.

gifts because of higher capital gains tax rates. On the other hand, large gifts of appreciated property would be expected to decline significantly due to the effects of the AMT.

Before turning to the data, we should note that these predictions are based on the effects of tax law changes on donor incentives. But what we actually observe is the combined effect of the demand of donors for charity and the supply behavior of recipients. Charities have budget targets to meet their service goals and may adjust their behavior in response to the expected decline in donor incentives to contribute. They may respond to reduced donor incentives by increased efforts to solicit gifts until their budget goals are met.

Analysis of Cross-Section Data

In order to examine the response of contributions to tax law changes, we first examined IRS Statistics of Income cross-section samples of individual income tax returns for the years 1979-1990. These samples are quite large (generally 80,000 to 110,000 returns) and are designed to oversample high-income tax returns.

Comparisons of reported contributions over time using income tax return data can be misleading because of changes in the measurement of income and in the rules for itemized deductions. In order to make meaningful comparisons, we adjusted the data to constant dollar and constant law standards. The first adjustment was to convert all dollar amounts to December 1991 dollars using the Consumer Price Index. The second adjustment was to limit the sample to include only taxpayers that would have itemized under 1990 law. This adjustment was made because for most years, we are only able to observe contributions made by taxpayers that itemize deductions. However, the real value of the standard deduction amount varied over time as a result of inflation and, in addition, TRA 86 reduced the proportion of itemizers by increasing the standard deduction and reducing some types of itemized deductions. Without adjusting for these changes, some of what we observe would be simply a function of changes in who the tax law allows to itemize. Since the strictest limits on the proportion of taxpayers that itemized deductions during our sample period were imposed under 1990 law, we discarded returns in earlier years for which the filers would not have itemized under 1990 tax law. To do this, the

itemized deductions reported on tax returns for any given year were adjusted to 1990 tax law and then compared to the 1990-law standard deduction. Taxpayers were excluded from the sample if their adjusted itemized deductions did not exceed their inflation-adjusted 1990-law standard deduction.

Our third adjustment was to standardize the measure of Adjusted Gross Income (AGI) over time. We adjusted AGI so that the definition of income is relatively constant from year to year. The most important adjustment was to add back excluded capital gains in years prior to 1987.[7] Even after the adjustments to income, there are difficulties in comparing cross-sections of taxpayers within income classes over time. For example, economic behavior may have changed considerably over the time period under study, particularly with respect to the realization of capital gains and the extent to which income of closely-held corporations is reported by the corporation or by the owners. In addition, our adjustments to AGI cannot account for some tax law changes, such as depreciation rules, that affect reported income.

Our fourth adjustment to the data was to exclude contributions that exceed the deduction limits until they are used as carryover contributions in future years. Generally, taxpayers may not deduct contributions in excess of 50 percent of AGI or contributions of appreciated property of more than 30 percent of AGI, with the excess carried forward to future years. Since we know only the amounts of allowed contribution deductions for some years and not the disallowed amounts, we were forced to impose this limit in order to make the contributions data comparable over time.[8]

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[7]Other adjustments included adding back the dividend exclusion and the untaxed portion of unemployment compensation for years prior to 1987; adding back the two-earner deduction for 1982-1986; adding back the 25 percent health insurance deduction for the self-employed in 1988 and later years; subtracting Social Security income in 1984 and later years; allowing the deduction of passive losses, moving expenses and employee business expenses in 1987 and later years; and adding back excluded foreign earned income and accelerated depreciation preferences.

[8]We also excluded tax returns filed for earlier years and returns for which tax year did not coincide with the calendar year. We experimented with moving non-calendar year year returns into the previous year and with moving late filed returns to the correct sample years. However,

Results of Cross-Section Analysis

Tables 3 and 4 present cross-section summary statistics on contributions for the 1979-1990 time period. Mean and median contributions of all itemizers increased only slightly between 1979 and 1990. As a percentage of after-tax income, contributions rose slightly in the mid-1980's and then declined to their 1979 level by 1989. There were peaks in mean contributions that coincided with the passage of the 1981 and 1986 tax acts, suggesting that taxpayers accelerated contributions when they found out that the tax price of contributions would be going up.[9] There were no peaks in median contributions, suggesting that the law changes either caused only unusually large contributions to be accelerated or caused people to bunch ordinary levels of contributions from several future years. Overall, other than the acceleration of contributions in 1981 and 1986, the effects of tax law changes on overall contributions are not noticable for the aggregate cross-section data with all itemizing taxpayers grouped together. This was in spite of an increase in the mean tax price of contributions of about 10 percent over the time period.

Because the largest changes in the tax price of contributions occurred for the highest income class, and such taxpayers are commonly believed to be more sensitive to changes in tax incentives for charitable giving, any effects of tax law changes should be most apparent in the highest income groups. As shown in Table 3, in the income groups over $200,000, both mean and median contributions fell during the 1980's as did contributions as a percentage of after-tax income. In the top income class, taxpayers with more than $1 million of income in December 1991 dollars, mean contributions declined by about 50 percent from $133,837 in 1979 to $64,299 in 1990. In this income class, mean contributions declined in both the 1979-1985 and

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the results were almost unchanged, although we would have had to exclude the 1990 sample from analysis because it would have been noncomparable to earlier years.

[9] There was also a similar peak in 1983. However, this peak is not found in the 10-year panel data and is much reduced in the published Statistics of Income data. This suggests that the 1983 peak may be a result of the way in which itemizers who would not have itemized deductions under 1990 law are discarded in our analysis. In addition, the 1983 peak seems to reflect large carryover deductions from 1982.

1985-1990 time periods, suggesting reduced contributions in response to both the 1981 and 1986 tax laws. Contributions declined from 7.3 percent of income in 1979 to 5.2 percent in 1985 and 3.8 percent of income in 1990. In the $200,000 to $1 million income class, mean contributions declined over the period by 24 percent from $11,104 to $8,389, but were actually higher in 1985 than at the beginning or end of the period.

The 1981 peak in mean contributions is noticeable in all income classes over $100,000, but the 1986 peak is evident only in the highest income group.[10] When measured as a percentage of income of the highest income group, the 1981 peak is more noticeable than the 1986 peak. As reflected in the observed increase in mean income of high income taxpayers in 1986, this is apparently because they accelerated capital gains realizations in 1986, whereas they did not have a similar incentive to accelerate capital gains in 1981. In 1986, taxpayers were facing higher capital gains tax rates in the following years, but in 1981 the maximum capital gains rate was 20 percent for assets sold after June 9, 1981.

Table 4 shows contributions by whether the contribution is cash or non-cash or a carryover from a prior year. The percentage of non-cash contributions for all itemizers was nearly the same in 1979 and 1990. However, this masks significant changes over this time period. In the highest two income classes, the percentage of non-cash contributions fell dramatically, especially after 1986. In the highest income class, for example, non-cash contributions fell from 45 percent to 24 percent of total contributions and mean contributions fell from $60,576 to only $15,325. This decline is what would have been expected as a result of the increase in the tax price of contributions of appreciated property for high-income taxpayers and the inclusion of the capital gain portion of appreciated property gifts as a preference item under the AMT.

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[10]Auten and Rudney (1990) found that high income taxpayers tend to bunch their contributions over time even in the absence of major changes in tax laws.

It is interesting that the mean, median and percentages of non-cash gifts increased in all income groups under $100,000. These increases occurred throughout the 1979-1990 period rather than simply after the 1986 Act. Since the non-cash category includes donations of used clothing and furniture as well as appreciated property, we are unable to ascertain the source of these increases. They may reflect increasing sophistication of middle class taxpayers about contributions of appreciated and other property, increased generosity, an increase in the charities willing to accept property contributions or increased aggressiveness in claiming deductions. In any case, the increase in non-cash contributions of middle income taxpayers offset the decline in non-cash contributions of high income taxpayers.

The 1981 and 1986 peaks in mean contributions that appear in Table 3, are shown by Table 4 to be the result of peaks in non-cash contributions. This is consistent with the fact that the largest price increases after 1981 and 1986 were for contributions of appreciated assets. Mean cash gifts actually show slight decreases in 1981 and 1986, which suggests that the timing behavior involved some substitution between cash and non-cash contributions. The timing effect for non-cash gifts is found in most income classes, but is most pronounced for the highest income class. In 1986, for example, average non-cash gifts in the highest income class more than doubled from about $36,721 to $89,029 and accounted for 62.7 percent of contributions.

Because the number of taxpayers in the highest income group more than tripled over the 1979-1990 period, it is also useful to examine contributions by taxpayers in the top 1 percent of the income distribution for taxpayers with itemized deductions in order to obtain a high-income group more comparable over time. The income level required to be in the top 1 percent of itemizers was generally about $300,000 in 1991 dollars so that the group includes about one-half of the second highest income class as well as the highest income class.[11] Mean and median contributions of the top 1 percent of itemizers exhibited spikes in 1981 and 1986 (and

[11]Note that the income break for the top 1 percent of itemizers is higher than the break for the break for the top 1 percent of all filers of income tax returns, which would be typically closer to $150,000 in 1991 dollars.

also in 1983), but did not decline over the period. As a percentage of after-tax income, however, mean contributions declined from 6.2 percent of income in 1979 to 3.6 percent of income in 1990 and median contributions fell from 1.9 to 1.1 percent of income.

An additional perspective can be obtained by looking at the change in the number of large contributions over time. As shown in Table 6, the number of contributions of $1 million or more increased from 418 in 1979 to 888 in 1990. The 1981 and 1986 accelerations of contributions are reflected in dramatic increases in the number of million dollar gifts for those years. In 1986, the number nearly doubled to 1,061 million-dollar contributions as compared to 586 in 1985 and 698 in 1987. The proportion of cash and non-cash million dollar gifts also changed after TRA 1986. Before TRA 86 the number and amount of non-cash million dollar gifts generally exceeded cash gifts, but the relative importance of cash gifts increased substantially starting in 1987. It is interesting that the number and amount of million dollar cash gifts did not decline significantly after tax reform, nor did these contributions decline as a percentage of all contributions.

In order to quantify the effects of increases in the tax price on contributions, it is useful to turn to a regression analysis. We used the 1979 cross-section data for itemizers to estimate a regression similar to the most commonly used model of charitable contributions.[12] For the regression, we modelled the logarithm of contributions (plus $10 to account since the logarithm of zero contributions would otherwise be undefined) as a function of the logarithm of income minus taxes before contributions, the logarithm of the tax price, the primary taxpayer's age and

[12]See, for example, the studies reviewed in Clotfelter (1985) and Steinberg (1990). We have generally followed the conventions of such studies with regard to the functional form of the equation, the variables used, and the definitions of income and tax price. One exception to this was our use of the first dollar tax rate as an instrument for the last dollar tax rate rather than using the first dollar tax rate directly in the equation. While our procedure is a more appropriate one, it does not significantly affect the results of the analysis.

age squared, a dummy variable for married taxpayers, and family size. The estimated coefficients were:[13]

Log of income:	0.67 (income elasticity)
	(0.01)
Log of tax price:	-1.11 (price elasticity)
	(0.05)
Age:	0.05
	(0.01)
Age squared:	-0.0002
	(0.0001)
Marital dummy (1 if married)	0.23
	(0.04)
Family size:	0.14
	(0.01)

We used the estimated regression equation to calculate the amount of contributions that taxpayers would have made if the tax price of contributions had stayed at 1979 levels rather than decreased as a result of the 1981 and 1986 tax acts. The predicted baseline levels of contributions thus reflect the changes in the non-tax variables, i.e., age, marital status and family size.

The results are shown in Table 7 for the five years for which detailed tax calculators were available for the cross-section data (1979, 1981, 1983, 1985 and 1989). For taxpayers who itemize in all income classes together, actual mean contributions increased from $1,776 in 1979 to $1,910 in 1985 and $1,940 in 1989. The years 1985 and 1989 may be taken as reflecting the long-run effects of ERTA and TRA 86 since the transition effects should have been largely complete by that time.

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[13]Standard errors are in parentheses. There were 20,095 observations.

In the highest income class, actual average contributions declined from $133,837 in 1979 to $105,129 in 1985 and to $82,113 by 1989. The baseline regression model predicted, however, that contributions would have increased to $142,613 in 1985 and $136,258 in 1989 if the tax price of contributions had stayed at the 1979 level. Thus contributions in 1989 were 39.7 percent below what would have been expected given the changes in income, age, marital status and family size in this income class. Similarly, contributions were 26.3 percent lower than what would have been expected in 1985 and 11.0 percent lower in 1983. The fact that contributions were higher than expected in 1981 can be explained by the acceleration of contributions noted previously in Tables 3 and 4. The result that contributions were lower than predicted baseline contributions may be due to the effects of the higher tax price of giving. It may also be due, however, to other factors such as the use of single-year rather than permanent income, errors in measuring income or the omission of important variables affecting contributions such as changes in wealth. If contributions responded according to the tax price elasticity from the cross-section equation, contributions would have been expected to be 29 percent lower than predicted in 1985 and 43 percent lower than predicted in 1989. Thus the elasticity of -1.11 provides a reasonably good prediction of long-run changes in contributions within the highest income class.[14]

For the second highest income class, with incomes between $200,000 and $1 million, contributions were 27.5 percent below what the baseline model predicted for 1989, but the -1.11 price elasticity predicted that contributions would have been 39.9 percent lower. The reduction in contributions is therefore considerably less than would have been predicted by the -1.11 elasticity. For all the other income classes, contributions were higher than what the model predicted, even though the cross-section elasticity would have predicted a decline due to increases in tax prices. Either the effect of the tax price of giving was overwhelmed by other

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[14]The tax price elasticity from cross-section studies is generally viewed as reflecting long-run behavior. If taxpayers adjust their behavior gradually over time, the appropriate elasticity would be smaller in the short-run. Clotfelter (1990) used an adjustment factor of 60 percent after 2 years and 84 percent after 4 years.

factors or the elasticity of -1.11, or other aspects of the regression model, poorly characterizes the responsiveness of the lower and middle income classes.

For all income classes taken together, the baseline model predicted that if the tax price of contributions had remained at the 1979 levels, contributions would have declined to $1,760 in 1985 and increased only to $1,888 in 1989. Contributions were therefore 2.7 percent higher than predicted in 1989 and 8.5 percent higher than predicted in 1985. If the price elasticity of giving was -1.11, however, actual mean contributions would have been 8.8 percent lower in 1989 and 4.7 percent lower in 1985.

Analysis of Panel Data

In constructing the cross-section samples, we have tried to remove systematic errors that could be introduced by sampling differences that would have occurred between years. The differences are not necessarily a result of sample design, but of changes in the tax code. For example, taxpayer decisions about whether or not to itemize deductions and claim contributions as an itemized deduction changed as a function of the tax law changes, so that the populations of itemizers would not be directly comparable across years. As described above, we corrected for this problem by omitting from the sample taxpayers in each year who would not have itemized deductions under 1990 law, given their reported levels of itemized deductions for the year. Still, our correction is imperfect because it does not account for the fact that the change in itemized deductions and standard deductions introduced by TRA 86 might have induced taxpayers to respond by changing their behavior. For example, taxpayers probably shifted their borrowing away from consumer loans toward home equity and mortgage loans in response to changes in interest deductibility under TRA 86. If so, we will have omitted from the pre-86 samples some taxpayers with large consumer interest deductions who would have itemized their deductions under 1990 law because they would have been instead reporting larger home equity and mortgage interest deductions as a result of their shifts in borrowing. The result would be that the pre-TRA 86 cross sections of itemizers would not be fully comparable to the post-TRA 86 cross sections of itemizers used in our analysis.

In addition to potential sample-selection biases caused by tax-law changes, the demographic makeup of the underlying population of tax filers may have changed over time. As a result, the population may not be fully comparable over time. Furthermore, taxpayers within the particular income groups we used to construct the tables for cross-section analysis might not be comparable over time because incomes vary over time. For example, taxpayers classified in the $100,000 to $200,000 income group in 1983 were not all the same as taxpayers in that group in 1989, and may have had different levels of transitory income, permanent income, and wealth than taxpayers in the earlier year.

Panel data, which follow the same taxpayers over time, can be used to remove some of the noncomparability problems of cross-section sampling. In this section, we examine a panel sample of taxpayers followed from 1979 through 1988. First, we use a permanent income measure, based on 10-year average real income, to group taxpayers and construct aggregate statistics by permanent income group. We then compare the changes in contributions by group members to the changes predicted by the 1979 cross-section regression estimates of taxpayer behavioral responses to statutory changes in tax prices.

The Panel Sample

The panel sample was constructed by combining two panel samples that follow taxpayers from 1979 through 1988.[15] The first part of the sample was constructed as a subsample of the 1981 IRS Statistics of Income (SOI) cross-section sample of returns designed to oversample taxpayers who had high incomes in 1981. The second part of the panel sample is based on a simple random sample of tax returns. The combined sample size is about 19,000 tax returns for each year.[16]

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[15]Later years were not yet available.

[16]Weights for the combined sample were constructed by using information about the full-SOI sample design for 1981. The weighted observations for the combined panel-data sample within SOI stratum for 1981 add up to the 1981 population totals for the stratum.

To construct a sample of itemizers, we subsampled tax returns in the same way as we did when examining the cross sections, retaining only taxpayers who filed tax returns and itemized deductions (under 1990 law) for all ten years. In addition, we excluded the relatively few 10-year itemizers whose 10-year average real pre-tax income fell below $20,000, measured in December 1991 dollars. This procedure left us with a panel sample of 4,230 taxpayers in each year for which charitable contributions deductions and other variables could be observed for all 10 years.

Panel Data Results

Table 8 shows 10 years of panel statistics for levels of deductible contributions and after-tax income. Taxpayers were grouped for analysis according to their levels of 10-year average real pre-tax incomes. The statistics shown within each income group apply to the same taxpayers for all 10 years.

From the table, one can not readily discern the effects of the tax law changes because the taxpayers grew older and their incomes, on average, increased over time. Under such circumstances, average contributions might be expected to increase over time even if taxpayers would have reduced their contributions in response to tax price changes following ERTA and TRA 86. Nevertheless, some of the statistics in Table 8 are interesting. First, after-tax income appears to vary considerably relative to its over-time trend in the highest income groups, especially for years just before and after the passage of TRA 86. There were relative spikes in income for the high income groups in 1986, which probably reflect accelerated capital gains realizations induced by passage of increased capital gains tax rates three months before the higher rates took effect in January 1987. There was a slight decrease in income of the highest income group in 1987, which probably resulted from several factors, including capital gains acceleration in 1986, postponement of ordinary income to 1988, and the stock market crash of October 1987. The relatively large increase in income in 1988 for the highest income groups appears to be a positive transitory deviation from the general upward trend in after-tax income.

According to the table, for all panel members grouped together, contributions as a percentage of after-tax income actually exhibited a slight increase over the time period. This trend appears inconsistent with the fact that the average tax price of contributions increased over the period, which should have by in itself caused a decrease in contributions. However, because both income and tax prices increased over the period, the upward trend in mean contributions might be explained by increases in income and relatively large behavioral elasticities of the contributors' demand for making contributions with respect to changes in income.

Consistent with a behavioral response to tax price increases, the highest income groups show a decline over time in the ratio of contributions to after-tax income, but there is too much variation over time to draw an immediate conclusion from Table 8 about the importance of the tax law changes. The data need to be examined in a way that measures taxpayer responses to tax-law changes while controlling for changes over time in taxpayer characteristics and incomes, as we did for the cross-section analysis of Table 7.

Table 9 shows how contributions would have been expected to change for taxpayers in the panel sample as a result of changes in income, tax prices, and other characteristics. The first column shows a baseline calculated using the 1979 cross-section regression estimates of the relation between contributions, income, tax prices, age, marital status, and family size.[17] The baseline was constructed by measuring the change in contributions from 1979 levels predicted by the actual changes of right-hand side variables, holding tax prices constant at their 1979 levels.[18] So, for example, based on the observed changes in income, age, marital status, and family size for the panel of taxpayers, the regression estimates suggest that mean contributions by the panel taxpayers would have increased from $2,347 in 1979 to $3,775 in 1988 if the tax price of giving had not changed from its 1979 level.

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[17]The regression estimates are presented in the discussion of Table 7.

[18]Note that this method does not succeed in fully holding the tax law constant because after-tax income could also have changed as a result of tax law changes. However, to fully account for such changes would require far more complicated simulations than the ones we present.

The second column shows the actual mean contributions for the panel of taxpayers. Actual contributions reflect not only the changes in variables used to estimate the baseline, but should also reflect behavioral responses to changes in tax prices, and possibly the effects of variables not accounted for in the regression such as the difference between current-year income and permanent income.

According to the third column in Table 9, which measures the percentage difference of actual contributions from the baseline, the actual contributions by taxpayers in the panel were 5.6 percent less in 1988 than they would have been if tax prices hadn't changed from 1979 levels. In contrast, in all previous years, actual contributions were actually higher than the baseline.

The fourth column shows how much the change in tax prices should have caused contributions to change relative to the baseline if taxpayer responsiveness to tax price changes could be characterized by a -1.11 tax price elasticity, which is the estimate from the 1979 cross-section regression. For example, as a result of the tax price increase from $0.69 in 1979 to $0.75 in 1988, the -1.11 elasticity implies that contributions should have been 8.5 percent lower than the baseline in 1988, but were actually only 5.6 percent lower.[19] Likewise, contributions should have been 2.3 percent lower in 1985 as a result of the tax price change under ERTA, but were actually 10.1 percent higher than the baseline in 1985.

Contributions observed for the highest income group, shown separately on the second page of Table 9, exhibited more consistency with the predictions of the regression model, but mean contributions still do not appear to have been as responsive to tax price changes as suggested by the -1.11 elasticity. For example, the highest income taxpayers would have been expected, based on a -1.11 elasticity, to have contributed 57.7 percent less than the baseline in

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[19]Tax prices in the table are rounded, so that percentage changes in the rounded tax prices are slightly different than percentage changes in the unrounded tax prices used to calculate the predicted responses.

1988, but only contributed 36.5 percent less. Furthermore, the highest income taxpayers would have been expected to contribute 37.4 percent less than the baseline in 1985, but actually contributed only 11.3 percent less. For the second highest income group, we observe even larger differences between the predicted effects of tax price changes and the actual deviations of contributions from the baseline.

Results of the panel data analysis shown in Table 9 warrant two general conclusions. First, taxpayers with the highest incomes, measured as 10-year averages, appear to have decreased their contributions in response to increases in the tax prices of giving that followed ERTA and TRA 86. Their responses, however, were not as large as would have been predicted by a typical cross-section regression using pre-1980's data. Second, the typical cross-section regression model appears to have some weaknesses that need to be addressed in future research. One problem with the regression model is that it does not predict the increases in contributions in 1981 and 1986 that resulted from taxpayer responses to changes in future tax prices. The model does not account for taxpayer expectations about the future, and does not distinguish between transitory and permanent statutory tax price changes. Another problem of the regression model is that it predicts that taxpayers respond the same way to transitory income fluctuations. This problem could have a critical effect on the ability of the model distinguish the effect of transitory income fluctuations from the effect of tax price changes, which is important if the model is to be used in the future to forecast taxpayer responses to policy changes.

Analysis of Corporate Contributions

There are a number of theories as to why corporations make charitable contributions. These include explanations that relate to profit maximization (such as public image, good advertising, developing a market for products such as by computer donations, improving labor relations), explanations that the involve the principal-agent problem (executives pursuing their own preferences), and the notion of corporate responsibility, independent of its impact on profits. While we are not going to try to examine these explanations further, the idea that corporate contributions may be linked to profit-maximization and the more sophisticated tax

planning advice available to corporations suggests that tax law changes may have affected corporate as well as individual giving.

As shown in Table 10, Corporate contributions increased from $3.9 billion in 1980 to $5.4 billion in 1989 (in December 1991 dollars) and from slightly under 1 percent of taxable income to 1.13 percent of taxable income. The long-term rise in contributions was irregular rather than smooth, but there are clear relationships to changes in tax policy. There appears to have been a substantial rise in contributions in the early 1980's that coincided with the increase in the deduction limit from 5 to 10 percent of income. Contributions increased from 1.04 percent of income in 1981 to 1.66 percent of income by 1983. While part of this increase was due to the recession-induced decline in corporate profits, total real contributions increased by 32 percent over a two year period and contributions rose from 0.036 to 0.051 percent of gross receipts. While overall contributions are well below even 5 percent of corporate income, some firms have made contributions above the old limit. For example, in 1989 about 116,000 firms or 27 percent of those with contributions gave at least 5 percent of adjusted taxable income. In addition, about 58,000 firms or about 16 percent of firms making contributions appeared to be at or very close to the 10 percent limit.

The reduction in the corporate tax rate from 46 percent to 34 percent in TRA 86 would be expected to affect both the timing and the level of contributions. Corporations appear to have accelerated contributions from 1987 into 1986. Many corporations have established foundations that permit them to make contributions when it is most adventageous to do so. There is some evidence that corporations have taken advantage of such timing opportunities in the past (Clotfelter, 1985a). Real contributions increased by 14 percent in 1986 and then declined in 1987 and 1988. While we have not attempted to quantify the effect, corporate contributions appear to be below the trend increases that might have been expected by 1989. Real contributions were slightly lower in 1988 and 1989 than in 1985, even though corporate income continued to increase.

Conclusions

In this paper, we have examined the effects of tax reform by looking at charitable contributions over the period, 1979-1990, by taxpayers who would have been eligible to itemize deductions under 1990 law. Data were adjusted for changes over time in inflation, legal changes in the measurement of income, and changes in the rules for itemized deductions. From the analysis, we conclude the following.

- Total deductible contributions rose steadily during the 1980's, partly due to population increases. However, average contributions also increased in spite of tax law changes that made it generally less tax-favorable for taxpayers to give to charity.

- The observed effects of ERTA and TRA 86 on charitable contributions were most evident for the highest income taxpayers, for whom the tax incentives changed the most. Our evidence suggests that high income taxpayers responded to increases in the tax price of giving by decreasing their contributions relative to what they would have been absent the tax changes. However, high income taxpayers do not appear to have decreased their contributions as much as predicted by the cross-section regression estimates.

- The reduction in mean contributions relative to median contributions by high income taxpayers suggests that the reduction in mean contributions mainly reflects a decrease in untypically large gifts rather than a decrease in "average" gifts. However, the number and relative importance of contributions of $1 million or more actually increased slightly.

- In response to changes in the relative tax prices of cash and noncash contributions, taxpayers in the highest income groups increased their cash giving relative to noncash giving toward the end of our sample period.

- The general patterns we observe in the cross-section analysis also appear in the panel data analysis, in spite of the fact that the cross sections are not fully comparable over time.

- The typical cross-section regression model does not fully predict some of the observed systematic taxpayer behavior. Most notably, the regression does not account for the short-term timing effects observed in 1981 and 1986. The regression also does not distinguish between single-year income and permanent income. Further research is needed to learn how such model weaknesses affect the model's ability to measure and predict behavioral responses to changes in tax law.

- The regression model predictions account for changes in income, the tax price of giving, taxpayer ages, marital status, and family sizes. The regression does not account for changes in other factors that may have important effects on contributions behavior, such as changes in preferences, changes in fundraising behavior, and changes in other taxpayer characteristics.[20] For example, donor tastes for making contributions may have shifted if they perceived that charities were adversely affected by the changes in deductions under TRA 86. Charitable organizations may have responded to expectations of a decline in contributions by increasing their fundraising efforts. In addition, an increase in the market values of corporate stocks and real estate may have affected contributions. Each of these factors could help explain why the regression model seems to have overpredicted the effects of statutory increases in the tax price of giving during the 1980's.

[20]See Clotfelter (1985b) for a discussion of the limitations of the standard contributions model in predicting responses to tax law changes.

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Table 1:
Tax Changes Affecting Deductions for Charitable Contributions

Economic Recovery Tax Act of 1981

1. Reduced marginal income tax rates from range of 20–70% to range of 14–50% over a 4–year period.
2. Lowered average effective tax rates, thereby increasing after–tax income.
3. Introduced charitable deduction for non–itemizers for 1982–1986.

	% Deductible	Contribution limit
1982	25	100
1983	25	100
1984	25	300
1985	50	no limit
1986	100	no limit

4. Reduced tax rates on first $75,000 of corporate income.
5. Increased limit on corporate contributions from 5% to 10% of net income (effective 1982).
6. Allowed deduction for scientific property used for college or university research of the basis plus 50% of the capital gain. (Previously only for medical equipment.)

April 1983 – **Preliminary regulations on substantiation requirements for contributions.**

Deficit Reduction Act of 1984

1. Required signed qualified written appraisals for contributions of property valued at $5,000 or more (except securities with prices quoted on exchanges).
2. Increased penalties for inflated appraisals.
3. Increased limit on gifts to private foundations from 20% to 30% of AGI.
4. Added a 51 percent corporate "bubble" rate to phase out the benefits of lower rates on the first $100,000 of corporate income.
5. Increased mileage allowance for use of passenger cars in performing services for charities from 9 cents to 12 cents per mile.

December 1984 – **Final substantiation regulations and temporary regulations for appraisal requirement for property donations in excess of $5,000.**

Tax Reform Act of 1986

1. Reduced marginal income tax rates to range of 15–38.5% in 1987 and 15–33% thereafter.
2. Generally lowered average effective tax rates, thereby increasing after–tax income.
3. Reduced number of itemizers by increasing standard deduction and reducing certain itemized deductions.
4. Capital gains in gifts of appreciated property included as a preference under the Alternative Minimum Tax.
5. Capital gains tax rates increased due to elimination of exclusion.
6. Charitable deduction for non–itemizers allowed to expire (no specific provision).

April 1988 – **Final regulations on appraisal requirement for property donations exceeding $5,000**

Omnibus Budget Reconciliation Act of 1990

1. Excluded capital gains on contributions of tangible personal property (such as art or antiques) from the AMT for 1991. Capital gains on stock, real property and conservation easements, etc, still subject to AMT.
2. Increased top individual income tax rate to 31 percent and altered "Bubble" rates.
3. Introduced phaseout of itemized deductions for taxpayers with incomes over $100,000.
4. Increased alternative minimum tax rate to 24 percent.

Tax Extension Act of 1991

1. Extended exclusion of capital gains on contributions of tangible personal property to June 1992.

TABLE 2: Changes in the Price of Charitable Giving, 1979–1991

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Price of Giving Cash													
High income	30	30	30.88	50	50	50	50	50	61.5	72	72	72	69
Bubble range										67	67	67	69
Median Income	76	76	76.3	75	77	78	78	78	85	85	85	85	85
Subject to AMT	75	75	80	80	80	80	80	80	79	79	79	79	76
Price of Giving Appreciated Property													
Otherwise Sold Immediately													
High income	2	2	10.88	30	30	30	30	30	33.5	44	44	44	40.07
Bubble range										34	34	34	38.19
Median income	66.4	66.4	56.3	65	67.8	69.2	69.2	69.2	70	70	70	70	70
Subject to AMT	50	50	60	60	60	60	60	60	79	79	79	79	76
Held for bequest													
High income	30	30	30.88	50	50	50	50	50	61.5	72	72	72	69
Bubble range										67	67	67	69
Median income	76	76	76.3	75	77	78	78	78	85	85	85	85	85
Subject to AMT	75	75	80	80	80	80	80	80	100	100	100	100	100
Marginal Tax Rates													
Ordinary Income Tax Rates													
High income	70	70	69.13	50	50	50	50	50	38.5	28	28	28	31
Bubble range										33	33	33	31
Median income	24	24	23.7	25	23	22	22	22	15	15	15	15	15
Capital Gains Tax Rates													
High income	28	28	20	20	20	20	20	20	28	28	28	28	28.93
Bubble range										33	33	33	30.81
Median income	9.6	9.6	20	10	9.2	8.8	8.8	8.8	15	15	15	15	15
AMT Tax Rate	25	25	20	20	20	20	20	20	21	21	21	21	24

Notes:
The sold–immediately appreciated property case represents an extreme situation as the gain is assumed to be 100 percent of value and it is assumed that the asset would otherwise have been sold immediately. In 1991, the high income taxpayer is assumed to be subject to the phaseout of itemized deductions. The 1991 Bubble rate phaseout of personal exemptions assumes four exemptions. The 1991 phaseouts of exemptions and itemized deductions are relevant for capital gains rates but not for charitable deductions in most cases, since AGI is not affected.
Assumed gain to value ratio for calculation of tax price of appreciated property: 1.0

Table 3

Deductible Contributions of Itemizers, by Income Class,[1] Adjusted for Changes in Legal Definitions of Income, Allowable Itemized Deductions, and Standard Deductions
(Tabulations from Statistics of Income Cross–Sections, December 1991 Dollars)

Year	Returns	Mean after–tax income	Deductible contributions		Deductible contributions as percentage of after–tax income	
			Mean	Median	Mean	Median
			All income groups			
1979	20,630,036	$53,486	$1,776	$748	3.3%	1.6%
1980	22,477,982	$49,641	$1,708	$703	3.4%	1.7%
1981	24,703,586	$48,490	$1,789	$683	3.7%	1.6%
1982	23,717,360	$49,699	$1,712	$715	3.4%	1.7%
1983	25,166,587	$50,387	$1,920	$713	3.8%	1.7%
1984	26,392,590	$52,745	$1,779	$718	3.4%	1.7%
1985	27,755,037	$54,195	$1,899	$737	3.5%	1.7%
1986	29,114,315	$59,767	$2,068	$749	3.5%	1.7%
1987	30,074,280	$55,734	$1,856	$753	3.3%	1.7%
1988	30,624,137	$59,225	$1,886	$780	3.2%	1.7%
1989	31,092,597	$58,098	$1,940	$806	3.3%	1.7%
1990	31,584,281	$56,795	$1,851	$786	3.3%	1.7%
			Pre–tax income: $0 under $20,000			
1979	1,160,517	$12,737	$792	$228	6.2%	1.7%
1980	1,670,922	$13,403	$788	$285	5.9%	2.0%
1981	1,718,755	$13,527	$878	$303	6.5%	2.3%
1982	2,296,090	$12,912	$783	$272	6.1%	2.0%
1983	2,230,538	$12,556	$886	$208	7.1%	1.6%
1984	2,199,825	$12,706	$849	$292	6.7%	2.1%
1985	2,172,921	$13,369	$875	$333	6.5%	2.4%
1986	2,302,678	$13,242	$733	$316	5.5%	2.4%
1987	2,343,966	$12,898	$867	$334	6.7%	2.5%
1988	2,556,371	$13,271	$890	$388	6.7%	3.1%
1989	2,549,226	$13,031	$870	$334	6.7%	2.7%
1990	2,784,126	$13,049	$859	$306	6.6%	2.4%
			Pre–tax income: $20,000 under $50,000			
1979	8,517,115	$33,884	$1,108	$513	3.3%	1.5%
1980	10,034,722	$33,043	$1,039	$502	3.1%	1.6%
1981	11,453,837	$32,809	$1,048	$493	3.2%	1.5%
1982	10,408,071	$32,992	$1,084	$533	3.3%	1.6%
1983	10,942,473	$33,249	$1,172	$547	3.5%	1.6%
1984	11,512,858	$33,364	$1,110	$526	3.3%	1.6%
1985	11,900,251	$33,296	$1,146	$552	3.4%	1.7%
1986	11,869,387	$33,407	$1,092	$560	3.3%	1.7%
1987	12,511,250	$33,202	$1,168	$573	3.5%	1.7%
1988	12,725,860	$33,128	$1,173	$583	3.5%	1.8%
1989	12,801,926	$32,809	$1,210	$578	3.7%	1.8%
1990	13,205,229	$32,751	$1,181	$575	3.6%	1.8%
			Pre–tax income: $50,000 under $100,000			
1979	8,895,415	$56,825	$1,545	$916	2.7%	1.7%
1980	8,859,753	$55,583	$1,599	$912	2.9%	1.7%
1981	9,644,773	$54,844	$1,630	$903	3.0%	1.7%
1982	9,141,124	$56,339	$1,693	$955	3.0%	1.7%
1983	9,601,306	$57,520	$1,683	$932	2.9%	1.6%
1984	10,349,457	$58,041	$1,674	$929	2.9%	1.6%
1985	11,040,377	$58,352	$1,686	$936	2.9%	1.6%
1986	11,754,535	$58,828	$1,618	$887	2.8%	1.6%
1987	12,112,731	$58,634	$1,627	$910	2.8%	1.6%
1988	11,930,070	$58,852	$1,697	$938	2.9%	1.6%
1989	12,191,764	$58,752	$1,728	$956	2.9%	1.7%
1990	12,092,262	$58,654	$1,734	$945	3.0%	1.6%

(continued)

Notes: see bottom of next page

Table 3 (continued)

Deductible Contributions of Itemizers, by Income Class,[1] Adjusted for Changes in Legal Definitions of Income, Allowable Itemized Deductions, and Standard Deductions
(Tabulations from Statistics of Income Cross-Sections, December 1991 Dollars)

Year	Returns	Mean after-tax income	Deductible contributions		Deductible contributions as percentage of after-tax income	
			Mean	Median	Mean	Median
Pre-tax income: $100,000 under $200,000						
1979	1,605,324	$101,816	$3,252	$1,766	3.2%	1.8%
1980	1,492,943	$100,065	$3,567	$1,913	3.6%	2.0%
1981	1,492,069	$100,024	$4,080	$1,864	4.1%	2.0%
1982	1,459,167	$102,773	$3,503	$1,868	3.4%	1.9%
1983	1,595,001	$104,954	$4,105	$1,966	3.9%	1.9%
1984	1,812,038	$105,839	$3,372	$1,826	3.2%	1.8%
1985	2,021,550	$106,004	$3,404	$1,833	3.2%	1.8%
1986	2,356,000	$107,839	$3,369	$1,772	3.1%	1.7%
1987	2,303,059	$105,979	$3,520	$1,778	3.3%	1.7%
1988	2,465,506	$107,356	$3,158	$1,749	2.9%	1.7%
1989	2,586,339	$106,465	$3,310	$1,763	3.1%	1.7%
1990	2,546,163	$107,377	$3,158	$1,725	2.9%	1.7%
Pre-tax income: $200,000 under $1,000,000						
1979	432,977	$223,908	$11,104	$3,746	5.0%	2.0%
1980	401,208	$223,358	$11,731	$3,904	5.3%	2.1%
1981	374,146	$230,409	$14,917	$4.166	6.5%	2.1%
1982	388,780	$239,824	$11,622	$4,073	4.8%	1.9%
1983	432,171	$252,595	$15,994	$4,252	6.3%	1.9%
1984	488,077	$251,429	$11,778	$3,824	4.7%	1.8%
1985	573,552	$261,901	$13,755	$3,818	5.3%	1.7%
1986	768,004	$269,317	$12,394	$3,461	4.6%	1.6%
1987	736,691	$260,265	$9,450	$3,321	3.6%	1.4%
1988	834,115	$279,130	$8,263	$3,161	3.0%	1.3%
1989	850,732	$276,750	$8,476	$3,244	3.1%	1.4%
1990	848,611	$279,510	$8,389	$3,358	3.0%	1.4%
Pre-tax income: $1,000,000 or more						
1979	18,684	$1,829,223	$133,837	$17,408	7.3%	1.6%
1980	18,434	$1,649,434	$132,752	$18,473	8.0%	1.7%
1981	20,005	$1,721,626	$164,472	$18,569	9.6%	1.6%
1982	24,128	$1,968,325	$99,703	$12,813	5.1%	1.0%
1983	30,976	$1,931,464	$125,261	$14,138	6.5%	1.1%
1984	30,335	$2,136,588	$102,884	$12,882	4.8%	0.9%
1985	35,916	$2,015,651	$105,057	$18,586	5.2%	1.4%
1986	63,711	$2,521,667	$142,617	$15,867	5.7%	1.1%
1987	47,866	$1,782,458	$90,147	$11,208	5.1%	0.9%
1988	77,552	$2,065,333	$70,950	$9,795	3.4%	0.7%
1989	66,734	$1,987,128	$82,113	$10,942	4.1%	0.8%
1990	64,531	$1,700,903	$64,299	$9,264	3.8%	0.7%

Notes:

[1] The income measure is based on Adjusted Gross Income (AGI), converted to 1991 dollars and adjusted so that its definition does not change across years. The most significant adjustment is to add back excluded capital gains in 1986 and prior years. Other adjustments include adding back the dividend exclusion and the untaxed portion of unemployment compensation in 1986 and earlier years; adding back the two-earner exclusion for 1982-1986; adding back the 25 percent health insurance deduction for the self-employed in 1988 and later years; adding back deductible IRA and Keogh contributions in all years; adding untaxed pension distributions in all years; allowing disallowed passive losses, moving expenses above the line, and (pre-limitation) employee business expenses above the line in 1987 and later years; removing taxable Social Security income in 1984 and later years (not available on Statistics of Income (SOI) files pre-1984); and adding back excluded foreign earned income and accelerated depreciation preferences in all years available.

Table 4

Types of Deductible Contributions of Itemizers, by Income Class,[1] Adjusted for Changes in Legal Definitions of Income, Allowable Itemized Deductions, and Standard Deductions (Tabulations from Statistics of Income Cross-Sections, December 1991 Dollars)

Year	Mean contributions				Percentage of total		
	Total	Cash	Noncash	Carryover	Cash	Noncash	Carryover
All income groups							
1979	$1,776	$1,512	$222	$41	85.2%	12.5%	2.3%
1980	$1,708	$1,416	$250	$41	82.9%	14.7%	2.4%
1981	$1,789	$1,405	$285	$99	78.5%	15.9%	5.5%
1982	$1,712	$1,435	$220	$56	83.9%	12.8%	3.3%
1983	$1,920	$1,502	$306	$113	78.2%	15.9%	5.9%
1984	$1,779	$1,469	$228	$82	82.6%	12.8%	4.6%
1985	$1,899	$1,560	$267	$71	82.2%	14.1%	3.7%
1986	$2,068	$1,540	$426	$101	74.5%	20.6%	4.9%
1987	$1,856	$1,562	$234	$59	84.2%	12.6%	3.2%
1988	$1,886	$1,586	$248	$51	84.1%	13.2%	2.7%
1989	$1,940	$1,630	$264	$46	84.0%	13.6%	2.4%
1990	$1,851	$1,579	$234	$38	85.3%	12.6%	2.0%
Pre-tax income: $0 under $20,000							
1979	$792	$734	$54	$5	92.7%	6.8%	0.6%
1980	$788	$721	$41	$26	91.6%	5.2%	3.3%
1981	$878	$639	$53	$186	72.7%	6.0%	21.2%
1982	$783	$659	$87	$37	84.2%	11.1%	4.7%
1983	$886	$785	$53	$48	88.6%	6.0%	5.4%
1984	$849	$765	$53	$31	90.1%	6.2%	3.7%
1985	$875	$774	$89	$12	88.4%	10.2%	1.3%
1986	$733	$663	$54	$16	90.5%	7.3%	2.2%
1987	$867	$768	$69	$30	88.6%	7.9%	3.4%
1988	$890	$787	$90	$13	88.4%	10.1%	1.5%
1989	$870	$762	$81	$27	87.6%	9.3%	3.1%
1990	$859	$756	$86	$16	88.0%	10.0%	1.9%
Pre-tax income: $20,000 under $50,000							
1979	$1,108	$1,032	$72	$5	93.1%	6.5%	0.4%
1980	$1,039	$961	$71	$7	92.5%	6.8%	0.7%
1981	$1,048	$950	$86	$12	90.6%	8.2%	1.2%
1982	$1,084	$985	$85	$14	90.9%	7.9%	1.3%
1983	$1,172	$1,061	$88	$23	90.5%	7.5%	2.0%
1984	$1,110	$1,012	$90	$8	91.1%	8.1%	0.7%
1985	$1,146	$1,042	$95	$9	90.9%	8.3%	0.8%
1986	$1,092	$981	$103	$7	89.9%	9.5%	0.6%
1987	$1,168	$1,046	$112	$9	89.6%	9.6%	0.8%
1988	$1,173	$1,041	$124	$8	88.7%	10.5%	0.7%
1989	$1,210	$1,067	$129	$14	88.2%	10.6%	1.2%
1990	$1,181	$1,046	$125	$9	88.6%	10.6%	0.8%
Pre-tax income: $50,000 under $100,000							
1979	$1,545	$1,425	$115	$5	92.2%	7.4%	0.3%
1980	$1,599	$1,434	$153	$12	89.7%	9.6%	0.8%
1981	$1,630	$1,452	$164	$14	89.1%	10.0%	0.9%
1982	$1,693	$1,511	$160	$22	89.2%	9.5%	1.3%
1983	$1,683	$1,466	$201	$16	87.1%	11.9%	1.0%
1984	$1,674	$1,482	$172	$20	88.5%	10.3%	1.2%
1985	$1,686	$1,473	$195	$19	87.3%	11.6%	1.1%
1986	$1,618	$1,417	$194	$7	87.6%	12.0%	0.4%
1987	$1,627	$1,432	$179	$17	88.0%	11.0%	1.0%
1988	$1,697	$1,484	$195	$18	87.4%	11.5%	1.0%
1989	$1,728	$1,511	$202	$15	87.4%	11.7%	0.8%
1990	$1,734	$1,510	$207	$17	87.1%	12.0%	1.0%

(continued)

Notes: see bottom of next page

Table 4 (continued)

Types of Deductible Contributions of Itemizers, by Income Class,[1] Adjusted for Changes in Legal Definitions of Income, Allowable Itemized Deductions, and Standard Deductions (Tabulations from Statistics of Income Cross-Sections, December 1991 Dollars)

Year	Mean contributions				Percentage of total		
	Total	Cash	Noncash	Carryover	Cash	Noncash	Carryover
Pre-tax income: $100,000 under $200,000							
1979	$3,252	$2,787	$360	$105	85.7%	11.1%	3.2%
1980	$3,567	$2,921	$583	$64	81.9%	16.3%	1.8%
1981	$4,080	$3,003	$610	$466	73.6%	15.0%	11.4%
1982	$3,503	$2,927	$481	$95	83.6%	13.7%	2.7%
1983	$4,105	$3,150	$687	$267	76.8%	16.7%	6.5%
1984	$3,372	$2,770	$506	$97	82.1%	15.0%	2.9%
1985	$3,404	$2,850	$495	$58	83.7%	14.5%	1.7%
1986	$3,369	$2,737	$552	$79	81.3%	16.4%	2.3%
1987	$3,520	$2,977	$450	$93	84.6%	12.8%	2.6%
1988	$3,158	$2,662	$408	$87	84.3%	12.9%	2.8%
1989	$3,310	$2,803	$465	$41	84.7%	14.1%	1.2%
1990	$3,158	$2,706	$397	$55	85.7%	12.6%	1.8%
Pre-tax income: $200,000 under $1,000,000							
1979	$11,104	$7,713	$2,726	$665	69.5%	24.6%	6.0%
1980	$11,731	$7,348	$3,583	$800	62.6%	30.5%	6.8%
1981	$14,917	$8,174	$5,136	$1,607	54.8%	34.4%	10.8%
1982	$11,622	$7,872	$2,585	$1,166	67.7%	22.2%	10.0%
1983	$15,994	$8,701	$4,965	$2,328	54.4%	31.0%	14.6%
1984	$11,778	$7,112	$2,100	$2,566	60.4%	17.8%	21.8%
1985	$13,755	$8,923	$2,821	$2,011	64.9%	20.5%	14.6%
1986	$12,394	$7,334	$2,341	$2,719	59.2%	18.9%	21.9%
1987	$9,450	$7,209	$1,503	$737	76.3%	15.9%	7.8%
1988	$8,263	$6,598	$1,120	$545	79.9%	13.5%	6.6%
1989	$8,476	$6,846	$1,180	$449	80.8%	13.9%	5.3%
1990	$8,389	$6,927	$1,130	$331	82.6%	13.5%	4.0%
Pre-tax income: $1,000,000 or more							
1979	$133,837	$57,241	$60,576	$16,020	42.8%	45.3%	12.0%
1980	$132,752	$52,461	$64,101	$16,189	39.5%	48.3%	12.2%
1981	$164,472	$58,934	$77,634	$27,903	35.8%	47.2%	17.0%
1982	$99,703	$47,201	$39,577	$12,925	47.3%	39.7%	13.0%
1983	$125,261	$50,647	$46,038	$28,577	40.4%	36.8%	22.8%
1984	$102,884	$52,999	$38,051	$11,834	51.5%	37.0%	11.5%
1985	$105,057	$58,219	$36,721	$10,118	55.4%	35.0%	9.6%
1986	$142,617	$46,148	$89,029	$7,439	32.4%	62.4%	5.2%
1987	$90,147	$52,879	$24,366	$12,902	58.7%	27.0%	14.3%
1988	$70,950	$44,474	$19,663	$6,813	62.7%	27.7%	9.6%
1989	$82,113	$50,425	$24,812	$6,876	61.4%	30.2%	8.4%
1990	$64,299	$43,206	$15,326	$5,766	67.2%	23.8%	9.0%

Notes:

[1] The income measure is based on Adjusted Gross Income (AGI), converted to 1991 dollars and adjusted so that its definition does not change across years. The most significant adjustment is to add back excluded capital gains in 1986 and prior years. Other adjustments include adding back the dividend exclusion and the untaxed portion of unemployment compensation in 1986 and earlier years; adding back the two-earner exclusion for 1982-1986; adding back the 25 percent health insurance deduction for the self-employed in 1988 and later years; adding back deductible IRA and Keogh contributions in all years; adding untaxed pension distributions in all years; allowing disallowed passive losses, moving expenses above the line, and (pre-limitation) employee business expenses above the line in 1987 and later years; removing taxable Social Security income in 1984 and later years (not available on Statistics of Income (SOI) files pre-1984); and adding back excluded foreign earned income and accelerated depreciation preferences in all years available.

Table 5
Contributions of Highest Income One Percent of Itemizers
(December 1991 Dollars)

Year	Number of Returns	Contributions Mean	Contributions Median	Mean After-Tax Income	Contributions as Percent of After-Tax Income Mean (percent)	Contributions as Percent of After-Tax Income Median (percent)
1979	209,317	$27,166	$5,594	$439,158	6.2%	1.9%
1980	228,753	$25,858	$5,205	$399,221	6.5%	1.9%
1981	249,974	$31,447	$5,628	$400,473	7.9%	2.1%
1982	241,111	$24,399	$5,337	$483,563	5.0%	1.8%
1983	255,648	$36,075	$6,064	$528,544	6.8%	1.8%
1984	268,241	$28,252	$5,673	$569,883	5.0%	1.6%
1985	281,083	$35,104	$6,423	$608,213	5.8%	1.7%
1986	295,104	$46,104	$7,442	$905,083	5.1%	1.4%
1987	304,775	$27,551	$5,037	$611,133	4.5%	1.2%
1988	310,781	$28,196	$5,382	$863,158	3.3%	0.9%
1989	314,058	$29,609	$5,547	$814,577	3.6%	1.0%
1990	315,473	$27,929	$5,676	$784,778	3.6%	1.1%

Notes:
The table includes the one percent of returns with itemized dedcutions with the highest before-tax Adjusted Gross Income adjusted so that its definition does not change across years.

Table 6
Contributions of $1 Million and Over in 1991 Dollars, 1979–1990
(December 1991 Dollars)

Year	Number of Returns			Amount of Contributions (millions of dollars)			Percentage of Total Contributions		
	Total	Noncash	Cash	Total	Noncash	Cash	Total	Noncash	Cash
1979	418	184	126	904	355	301	2.5%	7.8%	1.0%
1980	420	188	124	874	383	238	2.3%	6.8%	0.7%
1981	662	313	144	1,793	900	289	4.1%	12.8%	0.8%
1982	382	134	136	794	277	272	2.0%	5.3%	0.8%
1983	717	316	193	1,990	1,283	418	4.1%	16.7%	1.1%
1984	502	200	185	1,215	431	459	2.6%	7.1%	1.2%
1985	586	241	225	1,433	549	539	2.7%	7.4%	1.2%
1986	1,061	538	346	2,698	1,257	926	4.5%	10.1%	2.1%
1987	698	213	311	1,993	541	939	3.6%	7.7%	2.0%
1988	876	272	431	2,265	697	1,058	3.9%	9.2%	2.2%
1989	914	307	466	2,448	802	1,147	4.1%	9.8%	2.3%
1990	888	246	509	2,291	575	1,227	3.9%	7.8%	2.5%

Notes:
The last three columns show the amounts of million dollar contributions as percentages of the total, non–cash and cash contributions of taxpayers who would have itemized under 1990 law.

Table 7

Actual Deductible Contributions of Itemizers Compared to Predictions of 1979 Cross–Section Regression Estimates
(Tabulations from Statistics of Income Cross Sections, December 1991 Dollars)

Year	Mean deductible contributions by itemizers: Baseline, no change in tax price[1]	Actual	Percentage difference from baseline	Predicted effect of tax price, –1.11 elasticity[2]	Mean after–tax income[3]	Mean tax price	Mean Age	Percent married	Mean family size
				All income groups					
1979	$1,776	$1,776	0.0%	0.0%	$52,859	$0.71	43	79%	3.2
1981	$1,693	$1,789	5.7%	3.3%	$47,857	$0.69	44	78%	3.1
1983	$1,628	$1,920	17.9%	–4.4%	$49,824	$0.74	43	75%	2.9
1985	$1,760	$1,910	8.5%	–4.7%	$53,601	$0.75	44	73%	2.9
1989	$1,888	$1,940	2.7%	–8.8%	$57,649	$0.78	46	71%	2.7
				Pre–tax income: $20,000 under $50,000					
1979	$1,108	$1,108	0.0%	0.0%	$33,671	$0.78	40	71%	3.0
1981	$1,119	$1,048	–6.4%	3.9%	$32,573	$0.75	42	71%	3.0
1983	$1,054	$1,172	11.2%	–1.2%	$33,019	$0.79	40	67%	2.8
1985	$1,085	$1,158	6.7%	–2.4%	$33,070	$0.80	42	63%	2.7
1989	$1,101	$1,210	9.9%	–5.3%	$32,626	$0.82	44	59%	2.5
				Pre–tax income: $50,000 under $100,000					
1979	$1,545	$1,545	0.0%	0.0%	$56,332	$0.68	43	92%	3.4
1981	$1,547	$1,630	5.4%	8.5%	$54,237	$0.63	44	90%	3.3
1983	$1,509	$1,683	11.5%	–1.1%	$56,994	$0.68	43	89%	3.2
1985	$1,512	$1,691	11.9%	–2.8%	$57,830	$0.69	43	88%	3.2
1989	$1,550	$1,728	11.5%	–8.4%	$58,321	$0.73	45	87%	3.0
				Pre–tax income: $100,000 under $200,000					
1979	$3,252	$3,252	0.0%	0.0%	$100,276	$0.52	50	91%	3.4
1981	$3,225	$4,080	26.5%	6.4%	$98,177	$0.49	51	90%	3.2
1983	$3,223	$4,105	27.3%	–10.5%	$103,346	$0.58	50	89%	3.2
1985	$3,111	$3,406	9.5%	–14.5%	$104,678	$0.60	49	89%	3.1
1989	$3,050	$3,310	8.5%	–25.0%	$105,451	$0.68	49	88%	3.0
				Pre–tax income: $200,000 under $1,000,000					
1979	$11,104	$11,104	0.0%	0.0%	$217,727	$0.44	53	91%	3.4
1981	$11,108	$14,917	34.3%	–0.3%	$223,186	$0.44	54	87%	3.1
1983	$11,498	$15,995	39.1%	–20.2%	$246,874	$0.54	53	87%	3.1
1985	$11,447	$13,759	20.2%	–23.2%	$255,702	$0.56	53	84%	2.9
1989	$11,696	$8,476	–27.5%	–39.9%	$274,348	$0.69	52	86%	3.0
				Pre–tax income: $1,000,000 or more					
1979	$133,837	$133,837	0.0%	0.0%	$1,747,936	$0.42	57	82%	2.9
1981	$124,621	$164,472	32.0%	–12.0%	$1,645,824	$0.47	56	82%	2.8
1983	$140,799	$125,261	–11.0%	–28.7%	$1,885,752	$0.56	57	85%	2.8
1985	$142,613	$105,129	–26.3%	–28.6%	$1,969,845	$0.56	57	86%	2.7
1989	$136,258	$82,113	–39.7%	–43.3%	$1,964,988	$0.69	55	85%	2.7

Notes:

[1] Baseline predicted using actual changes in non–tax price variables, based on 1979 cross–section parameter estimates from a logarithmic regression. Estimated coefficients of the logarithm of after–tax income, age, age–squared, marital status, and family size were 0.67, 0.05, –0.0002, 0.23, and 0.14, respectively.

[2] Tax price elasticity estimated from 1979 cross–section regression. This column measures the percentage change relative to the baseline resulting from the change in the tax price from its 1979 level.

[3] Income as defined in Tables 3 and 4, minus taxes owed before deducting charitable contributions.

Table 8
Deductible Contributions for Itemizers in a 10-Year Panel of Taxpayers

Year	After-tax income[1]		Deductible contributions		Contributions over income	Median Contributions over income	Contributions over 10-year average income
	Mean	Median	Mean	Median			
			All returns in 10-year sample				
1979	$57,512	$49,276	$2,347	$957	4.1%	1.9%	3.7%
1980	$53,749	$48,309	$2,510	$971	4.7%	2.0%	3.9%
1981	$54,984	$47,200	$2,693	$992	4.9%	2.1%	4.2%
1982	$55,326	$49,891	$2,659	$1,086	4.8%	2.2%	4.2%
1983	$61,541	$51,913	$2,986	$1,155	4.9%	2.2%	4.7%
1984	$64,059	$53,192	$3,088	$1,208	4.8%	2.2%	4.8%
1985	$65,806	$54,077	$3,339	$1,212	5.1%	2.3%	5.2%
1986	$70,719	$55,995	$3,844	$1,345	5.4%	2.3%	6.0%
1987	$73,590	$56,818	$3,353	$1,265	4.6%	2.3%	5.2%
1988	$82,903	$57,081	$3,560	$1,412	4.3%	2.3%	5.6%
			$20,000 under $50,000[1]				
1979	$36,724	$36,335	$1,234	$608	3.4%	1.6%	3.4%
1980	$34,800	$34,308	$1,298	$638	3.7%	1.8%	3.6%
1981	$33,559	$34,294	$1,361	$622	4.1%	1.9%	3.8%
1982	$34,057	$34,582	$1,405	$680	4.1%	2.0%	3.9%
1983	$34,171	$35,183	$1,442	$698	4.2%	2.0%	4.0%
1984	$35,416	$36,046	$1,497	$715	4.2%	2.0%	4.2%
1985	$36,491	$37,466	$1,449	$774	4.0%	2.2%	4.0%
1986	$37,237	$37,907	$1,660	$736	4.5%	2.2%	4.6%
1987	$37,969	$38,319	$1,608	$789	4.2%	2.1%	4.5%
1988	$37,842	$38,710	$1,617	$874	4.3%	2.4%	4.5%
			$50,000 under $100,000[1]				
1979	$54,030	$52,197	$1,823	$988	3.4%	1.9%	3.2%
1980	$52,367	$50,626	$1,840	$992	3.5%	2.0%	3.2%
1981	$51,784	$49,934	$2,015	$1,022	3.9%	2.1%	3.5%
1982	$54,116	$52,932	$2,012	$1,125	3.7%	2.2%	3.5%
1983	$57,223	$54,869	$2,195	$1,181	3.8%	2.2%	3.8%
1984	$58,394	$56,794	$2,224	$1,260	3.8%	2.2%	3.8%
1985	$59,194	$57,833	$2,311	$1,287	3.9%	2.2%	4.0%
1986	$61,480	$59,696	$2,427	$1,453	3.9%	2.4%	4.2%
1987	$64,139	$61,591	$2,359	$1,351	3.7%	2.3%	4.1%
1988	$65,482	$62,723	$2,483	$1,515	3.8%	2.4%	4.3%

(continued)

[1] 10-year average real pre-tax income as defined in Tables 3 and 4. All figures in December 1991 dollars.

Table 8 (continued)
Deductible Contributions for Itemizers in a 10-Year Panel of Taxpayers

Year	After-tax income[1]		Deductible contributions		Contributions over income	Median Contributions over income	Contributions over 10-year average income
	Mean	Median	Mean	Median			
			$100,000 under $200,000[1]				
1979	$85,589	$80,356	$2,947	$1,463	3.4%	2.0%	2.9%
1980	$79,667	$79,005	$3,246	$1,674	4.1%	2.2%	3.2%
1981	$82,713	$79,850	$3,653	$1,631	4.4%	2.1%	3.6%
1982	$81,109	$85,082	$3,670	$1,845	4.5%	2.2%	3.6%
1983	$95,603	$90,416	$4,534	$2,283	4.7%	2.8%	4.5%
1984	$101,224	$96,315	$4,902	$2,434	4.8%	2.6%	4.8%
1985	$107,355	$99,594	$5,278	$2,802	4.9%	2.4%	5.2%
1986	$112,013	$105,309	$5,630	$2,968	5.0%	2.7%	5.6%
1987	$120,884	$111,562	$5,558	$2,633	4.6%	2.3%	5.5%
1988	$147,923	$123,608	$6,043	$2,752	4.1%	2.2%	6.0%
			$200,000 under $1,000,000[1]				
1979	$190,753	$172,356	$15,014	$5,945	7.9%	3.0%	6.4%
1980	$140,934	$154,381	$17,445	$6,580	12.4%	4.6%	7.4%
1981	$178,230	$149,580	$17,982	$7,939	10.1%	5.3%	7.7%
1982	$144,226	$163,715	$16,647	$7,252	11.5%	4.4%	7.1%
1983	$212,447	$183,007	$19,216	$7,915	9.0%	3.9%	8.2%
1984	$227,981	$188,026	$19,412	$8,397	8.5%	4.4%	8.3%
1985	$240,927	$198,001	$23,322	$8,715	9.7%	4.3%	9.9%
1986	$287,554	$208,895	$27,364	$10,082	9.5%	4.6%	11.7%
1987	$304,087	$236,128	$20,339	$8,327	6.7%	4.0%	8.7%
1988	$421,683	$298,710	$19,907	$8,105	4.7%	3.1%	8.5%
			$1,000,000 or more[1]				
1979	$554,657	$495,904	$90,205	$14,341	16.3%	3.2%	6.6%
1980	$502,804	$429,702	$105,060	$19,532	20.9%	4.1%	7.7%
1981	$741,246	$490,717	$107,707	$23,769	14.5%	4.5%	7.9%
1982	$780,631	$611,151	$104,504	$19,033	13.4%	4.1%	7.6%
1983	$1,183,200	$720,028	$126,024	$27,449	10.7%	5.5%	9.2%
1984	$1,398,019	$862,053	$138,760	$50,730	9.9%	4.9%	10.2%
1985	$1,363,625	$836,103	$167,361	$50,363	12.3%	5.9%	12.3%
1986	$2,120,339	$1,303,178	$278,571	$76,657	13.1%	7.8%	20.4%
1987	$1,962,773	$1,090,002	$168,672	$30,607	8.6%	4.3%	12.3%
1988	$3,054,202	$1,761,309	$217,779	$35,305	7.1%	2.8%	15.9%

[1] 10-year average real pre-tax income as defined in Tables 3 and 4. All figures in December 1991 dollars.

Table 9

Panel Sample: Actual Changes in Deductible Contributions Compared to Predictions of 1979 Cross-Section Regression Estimates

(December 1991 Dollars)

Year	Mean deductible contributions by itemizers: Baseline, no change in tax price[1]	Actual	Percentage difference from baseline	Predicted effect of tax price, −1.11 elasticity[2]	Mean after-tax income[3]	Mean tax price	Mean age	Percent Married	Mean family size
				All returns in 10-year sample					
1979	$2,347	$2,347	0.0%	0.0%	$56,537	$0.69	41	84.2%	3.4
1980	$2,306	$2,510	8.8%	2.8%	$52,659	$0.67	42	84.1%	3.4
1981	$2,412	$2,693	11.6%	5.9%	$53,778	$0.66	43	83.8%	3.4
1982	$2,499	$2,659	6.4%	1.2%	$54,314	$0.68	44	85.2%	3.3
1983	$2,761	$2,986	8.2%	−1.9%	$60,449	$0.70	45	85.1%	3.3
1984	$2,904	$3,088	6.4%	−2.8%	$62,944	$0.71	46	84.5%	3.2
1985	$3,032	$3,339	10.1%	−2.3%	$64,574	$0.70	47	84.7%	3.2
1986	$3,251	$3,844	18.2%	−1.6%	$69,238	$0.70	48	84.8%	3.1
1987	$3,403	$3,353	−1.4%	−5.1%	$72,549	$0.72	49	84.5%	3.0
1988	$3,772	$3,560	−5.6%	−8.5%	$81,975	$0.75	50	84.3%	3.0
				$20,000 under $50,000[4]					
1979	$1,234	$1,234	0.0%	0.0%	$36,458	$0.77	40	73.9%	3.0
1980	$1,238	$1,298	4.9%	1.1%	$34,509	$0.76	41	74.3%	3.0
1981	$1,240	$1,361	9.7%	2.3%	$33,230	$0.75	42	72.9%	3.0
1982	$1,291	$1,405	8.8%	−0.3%	$33,740	$0.77	43	72.2%	3.0
1983	$1,345	$1,442	7.2%	−3.4%	$33,877	$0.79	44	72.2%	3.0
1984	$1,406	$1,497	6.4%	−3.4%	$35,116	$0.79	45	71.3%	3.0
1985	$1,480	$1,449	−2.1%	−2.8%	$36,188	$0.79	46	71.1%	3.0
1986	$1.536	$1,660	8.1%	−2.6%	$36,871	$0.79	47	71.7%	2.9
1987	$1,587	$1,608	1.3%	−5.4%	$37,674	$0.81	48	71.7%	2.8
1988	$1,612	$1,617	0.3%	−6.1%	$37,566	$0.81	49	70.9%	2.7
				$50,000 under $100,000[4]					
1979	$1,823	$1,823	0.0%	0.0%	$53,434	$0.69	41	87.9%	3.6
1980	$1,836	$1,840	0.2%	3.2%	$51,728	$0.67	42	87.8%	3.5
1981	$1,881	$2,015	7.1%	7.0%	$51,032	$0.65	43	88.4%	3.5
1982	$1,995	$2,012	0.8%	3.1%	$53,427	$0.67	44	90.1%	3.5
1983	$2,124	$2,195	3.3%	0.0%	$56,519	$0.69	45	90.1%	3.4
1984	$2,207	$2,224	0.8%	−1.2%	$57,693	$0.70	46	89.9%	3.4
1985	$2,278	$2,311	1.5%	−0.8%	$58,481	$0.69	47	90.2%	3.3
1986	$2,387	$2,427	1.7%	0.1%	$60,698	$0.69	48	89.9%	3.2
1987	$2,491	$2,359	−5.3%	−2.3%	$63,463	$0.70	49	89.4%	3.1
1988	$2,592	$2,483	−4.2%	−5.8%	$64,842	$0.73	50	89.7%	3.1

(continued)

Notes: bottom of next page

Table 9 (continued)

Panel Sample: Actual Changes in Deductible Contributions Compared to Predictions of 1979 Cross–Section Regression Estimates

(December 1991 Dollars)

Year	Mean deductible contributions by itemizers: Baseline, no change in tax price[1]	Actual	Percentage difference from baseline	Predicted effect of tax price, –1.11 elasticity[2]	Mean after–tax income[3]	Mean tax price	Mean age	Percent Married	Mean family size
$100,000 under $200,000[4]									
1979	$2,947	$2,947	0.0%	0.0%	$84,205	$0.57	43	90.7%	3.7
1980	$2,845	$3,246	14.1%	5.5%	$78,072	$0.54	44	89.3%	3.6
1981	$2,997	$3,653	21.9%	12.6%	$80,846	$0.51	45	87.9%	3.6
1982	$3,078	$3,670	19.3%	1.4%	$79,451	$0.56	46	93.1%	3.5
1983	$3,516	$4,534	28.9%	–3.3%	$93,755	$0.59	47	92.8%	3.5
1984	$3,697	$4,902	32.6%	–4.4%	$99,235	$0.59	48	91.3%	3.4
1985	$3,982	$5,278	32.6%	–3.8%	$105,179	$0.59	49	91.5%	3.4
1986	$4,178	$5,630	34.8%	–3.0%	$109,643	$0.58	50	92.0%	3.3
1987	$4,487	$5,558	23.9%	–11.7%	$118,901	$0.64	51	92.0%	3.2
1988	$5,211	$6,043	16.0%	–19.1%	$146,124	$0.69	52	90.9%	3.1
$200,000 under $1,000,000[4]									
1979	$15,014	$15,014	0.0%	0.0%	$181,281	$0.41	50	89.1%	3.5
1980	$11,724	$17,445	48.8%	6.7%	$130,063	$0.38	51	88.4%	3.1
1981	$14,712	$17,982	22.2%	4.8%	$167,099	$0.39	52	88.5%	3.3
1982	$12,497	$16,647	33.2%	–21.0%	$136,055	$0.50	53	88.5%	2.9
1983	$16,684	$19,216	15.2%	–21.3%	$203,069	$0.51	54	86.2%	2.9
1984	$18,483	$19,412	5.0%	–24.8%	$218,726	$0.53	55	85.2%	3.1
1985	$19,584	$23,322	19.1%	–23.8%	$229,717	$0.52	56	87.0%	3.0
1986	$22,276	$27,364	22.8%	–23.7%	$274,164	$0.52	57	86.8%	2.9
1987	$23,742	$20,339	–14.3%	–36.0%	$296,407	$0.61	58	86.7%	2.8
1988	$30,058	$19,907	–33.8%	–44.9%	$415,999	$0.70	59	86.2%	2.7
$1,000,000 or more[4]									
1979	$90,205	$90,205	0.0%	0.0%	$492,684	$0.32	52	91.7%	3.4
1980	$81,693	$105,060	28.6%	0.9%	$430,993	$0.32	53	91.4%	3.2
1981	$114,110	$107,707	–5.6%	4.7%	$667,879	$0.31	54	91.8%	3.2
1982	$119,637	$104,504	–12.6%	–36.8%	$728,852	$0.48	55	91.7%	3.0
1983	$163,281	$126,024	–22.8%	–36.2%	$1,120,817	$0.48	56	91.3%	2.9
1984	$189,485	$138,760	–26.8%	–37.1%	$1,329,533	$0.48	57	90.7%	3.0
1985	$188,785	$167,361	–11.3%	–37.4%	$1,279,731	$0.49	58	90.3%	3.0
1986	$258,469	$278,571	7.8%	–36.2%	$1,982,889	$0.48	59	90.2%	2.9
1987	$251,924	$168,672	–33.0%	–49.2%	$1,898,815	$0.59	60	88.8%	2.8
1988	$342,779	$217,779	–36.5%	–57.7%	$2,993,607	$0.69	61	88.6%	2.6

Notes:

[1] Baseline predicted using actual changes in non–tax price variables, based on 1979 cross–section parameter estimates from a logarithmic regression. Estimated coefficients of the logarithm of after–tax income, age, age–squared, marital status, and family size were 0.67, 0.05, –0.0002, 0.23, and 0.14, respectively.

[2] Tax price elasticity estimated from 1979 cross–section regression. This column measures the percentage change relative to the baseline resulting from to the change in the tax price from its 1979 level.

[3] Income as defined in Tables 3 and 4 minus taxes before deduction of contributions.

[4] 10–year average real pre–tax income as defined in Tables 3 and 4. All figures in December 1991 dollars.

Table 10
Charitable Contributions of Corporations, 1980–1989

Year	Contributions	Taxable Income	Adjusted to $Dec. 1991 Contributions	Adjusted to $Dec. 1991 Taxable Income	Percentages of: Taxable Income	Percentages of: Receipts
	(millions of dollars)					
1980	2,359	246,598	3,947	412,693	0.96%	0.037%
1981	2,514	241,496	3,815	366,362	1.04%	0.036%
1982	2,906	205,175	4,153	293,199	1.42%	0.041%
1983	3,626	218,686	5,020	302,780	1.66%	0.051%
1984	4,057	257,054	5,385	341,172	1.58%	0.052%
1985	4,472	266,061	5,731	340,983	1.68%	0.053%
1986	5,179	276,173	6,516	347,483	1.88%	0.060%
1987	4,980	311,841	6,045	378,546	1.60%	0.051%
1988	4,893	383,202	5,704	446,691	1.28%	0.048%
1989 p	4,835	427,821	5,377	475,778	1.13%	0.045%

Notes:
Contributions are adjusted to December 1991 dollars using the Consumer Price Index.
Source: Statistics of Income, Corporation Income Tax Returns. 1989 data are preliminary.

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WHITE HOUSE

Office of the Press Secretary
Warsaw, Poland

For Immediate Release July 5, 1992

FACT SHEET

U.S. Assistance to Poland

Poland is the largest recipient of U.S. assistance to Central and Eastern Europe. The three categories of U.S. assistance are development of democratic institutions, improvements in basic living standards, and economic restructuring and privatization.

I. ECONOMIC RESTRUCTURING AND PRIVATIZATION

This program, 90% of total U.S. assistance to Poland, supports the transformation of a centrally planned economy to a market-based economy led by the private sector.

Stabilization Fund. In 1989, the U.S. contributed a $200 million grant to the Fund as part of a U.S.-led multi-donor $1 billion reserve to support limited convertibility of the zloty. The Fund was renewed for another year in January 1992.

Polish American Enterprise Fund. The Enterprise Fund is the flagship U.S. bilateral assistance program. U.S. contributions will total $188 million by September 1992. The Fund has disbursed $111.7 million for development of the private sector through equity investment, loans, technical assistance and other measures. It has made $108.5 million in loans to some 1100 Polish small businesses and 30 larger entities. The Fund recently established the Polish Private Equity Fund with $50 million of its own resources and $50 million matching funds from the European Bank for Reconstruction and Development.

Polish Debt Reduction. In 1991, the U.S. reduced Poland's official bilateral debt burden by 70% (20% beyond the 50% Paris Club terms) and led the way in securing Paris Club agreement for an overall reduction of more than 50% of Poland's official debt burden. The U.S. supports similar efforts to reduce Poland's commercial debt through the London Club.

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<u>Trade Enhancement Initiative</u>. This initiative provides substantially expanded market access to Polish exporters through greatly expanded textile quotas and elimination of many others, expanded ($182 million) duty-free benefits under the Generalized System of Preferences, and more flexible steel quotas. The U.S. also is providing technical assistance in export promotion through the Capital Development Initiative, whereby specialists residing in Warsaw will help U.S. firms identify projects in Poland. Over 300 American companies have expressed interest. The U.S. Trade and Development Program has funded over $5 million in feasibility studies and training programs.

<u>Privatization</u>. The U.S has undertaken over $8 million in a wide range of privatization assistance activities. Projects include privatization of LOT Airlines and the sectoral privatization of the furniture and glass industries. The U.S. has initiated two regulatory assistance projects with the Polish Securities Commission and the National Bank of Poland.

<u>Banking and Finance</u>. The U.S. is providing advisors to the Ministry of Finance assisting with domestic debt, tax policy and computerization. Advisors also will be placed in commercial banks in Lodz and Warsaw's Handlowy Bank. Work has begun establishing a Warsaw bank training institute. Under a grant to the International Executive Service Corps, $2 million has funded advisors to firms seeking management assistance. An $8 million project helped U.S. and Polish Universities develop management and marketing economics education.

<u>Agriculture</u>. The agriculture and agribusiness program seeks to develop and strengthen agribusinesses, assisting formerly state-owned enterprises become market-driven, economic units. To this end, over $20 million in assistance has been provided concentrating on the rural, eastern half of Poland.

II. DEMOCRATIC INSTITUTIONS

This program involves assisting the development of democratic institution-building to establish the foundation for enduring political freedom and encourage broad- based participation in civic and economic affairs.

-- The U.S. Senate and House of Representatives have provided $750,000 in equipment to the Polish Sejm and Senate.

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-- The Peace Corps has sent 240 volunteers to Poland for English teaching, small business development and environmental assistance.

-- $1.7 million supports NSZZ Solidarnosc's Economic Foundation and Rural Solidarity through the AFL-CIO's Free Trade Union Institute.

-- The U.S. has provided $1.3 million to Rutgers University for assisting municipal and local governments through Poland's Foundation for Support of Local Democracy and its 16 regional training centers.

-- Additionally, over $7 million has been provided to support increased public participation, local governments, educational reform, civic reform, and independent media.

III. IMPROVING BASIC LIVING STANDARDS

This program focuses on improving or maintaining quality of life standards while Poland undergoes the disruptive processes of economic restructuring and political reform.

Housing. The $25 million Housing Guaranty program will promote private sector housing and entrepreneurship in the housing industry. A $10 million technical assistance program will provide institutional and advisory support for the Housing Guaranty program, and World Bank and EBRD housing sector loans.

Energy. Three U.S. energy experts are part of a joint U.S., E.C., and UK Energy Restructuring Group established to help privatize the energy sector. U.S. energy experts worked in eight industry and district heating plants to identify energy savings opportunities; savings are expected to reach $2.3 million per year in reduced energy costs. A $1 million partnership has been established between Polish Power Grid Company and Commonwealth Edison.

Environment. A $7.7 million program to clean up the air around Krakow is underway at the Skawina Power Plant, along with a $5 million project for air monitoring and wastewater drinking in Krakow. Additional regional projects focus on improving air quality in the "dead zone" of Poland's Upper Silesia and Czechoslovakia's Northern Bohemia.

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Health. Under a $4.8 million grant, U.S. hospitals are working with Polish counterparts in Lodz, Krakow, and Bialystok to facilitate partnerships and the exchange of medical knowledge and technology in the areas of cancer and emergency medical services.

Labor Force. We are providing assistance to transform public employment services in Gdansk and Szczecin, and to improve unemployment compensation payment systems.

# # #

THE WHITE HOUSE

Office of the Press Secretary
Warsaw, Poland

For Immediate Release July 5, 1992

FACT SHEET

Polish Stabilization Fund

The President announced today that the United States is prepared to convert its $200 million contribution to the Polish Stabilization Fund to new uses, once Poland has returned to an IMF-approved economic program and with the agreement of other contributors to the Fund. He informed President Walesa that he has contacted other contributors and hopes they will make similar commitments, so that the entire $1 billion fund can be made available to Poland as it moves to the next stage of its pioneering reforms. The President also endorsed President Walesa's proposal to host a conference of contributing countries, to discuss future uses of the Fund, and will discuss these ideas with G-7 leaders at the Munich Summit that begins tomorrow.

The $1 billion Polish Stabilization Fund (PSF) is a U.S.-led initiative designed to bolster Polish foreign currency reserves and allow Poland to introduce currency convertibility. It was created at the end of 1989 by a group of 17 nations and has been extended twice, most recently in January 1992 for another year. The United States contributed a $200 million grant. Great Britain, Germany, Japan, France, and Italy were other major contributors. When the Fund is terminated, the U.S. contribution will be used for "purposes mutually agreed."

Poland may not draw on the principal amount of the PSF when out of compliance with an IMF arrangement, as it has been since September 1991. Poland may, however, draw on interest earnings on the PSF, which totalled $68.6 million as of January 31, 1992. Poland has drawn down $25.2 million ($9.1 million from the earnings on the U.S. grant). The interest on the U.S. grant can be used without restriction.

Once the Stabilization Fund's original objectives have been achieved, contributions to the Fund could be usefully redeployed for other critical needs as Poland's reforms move into their next phase. For example, some of these monies could be used to

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establish a multilateral Export Financing Facility, modeled after the U.S. Export-Import Bank, to help promote Polish exports and facilitate Poland's integration into the global market. Another option would be to use some of the monies to recapitalize Poland's nine commercial and five specialized banks, so that they could more effectively compete in a market economy, attract foreign partners, and provide essential investment capital to Poland's growing private sector. Either or both options could be pursued, and the United States is open to other ideas from Poland and the other contributors to the Stabilization Fund. The U.S. supports Poland's call for a conference among all contributing countries to consider the best future uses of the Fund.

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THE WHITE HOUSE

Office of the Press Secretary
(Warsaw, Poland)

EMBARGOED FOR RELEASE
UNTIL 2:20 P.M. (Local)
SUNDAY, JULY 5, 1992

TEXT OF REMARKS BY THE PRESIDENT
POLISH CITIZENS

Castle Square
Warsaw, Poland

Barbara and I are honored today to come back once more -- to come home once more -- to the birthplace of the Revolution of '89. And I am especially pleased to come here from America's 4th of July celebration of freedom -- and carry the same spirit here, to a free Poland.

Today is truly a homecoming: The day Poland welcomes home a part of its proud history, a great patriot and patron of freedom, you spoke eloquently of him. Through his long life, Ignacy Paderewski fought for a free and independent Poland. When independence came, Paderewski served as Prime Minister of your new nation When occupation came, he joined the Polish government in exile. And when he died, America gave this great friend of freedom a place alongside our honored dead in Arlington Cemetery: To rest -- in the words of Franklin D. Roosevelt -- "until Poland would be free."
Few knew then how many dark days would come and go, how many lifetimes would pass, until this day. When years passed without fanfare or ceremony -- when a small, simple marker took the place of a larger stone -- Poles understood. In 5 years or 50 years, Paderewski would one day come home to Polish soil.

Today, a patriot has come home. Today, Poland is free. On this Sunday -- from St. John's Cathedral to the village churches of Zakopane -- the bells toll not simply the solemn requiem -- but a new beginning, a new birth of freedom, for Poland and its people.

It is a new beginning not just for Poland, but for all of Europe and the world. It is proper that we mark this new birth in your country. It was here, in Poland, that the Second World War began. It was here, in Poland, that the Cold War first cast its shadow. And it was here in Poland that the people at long last brought the Cold War to an end.

I've said many times that in the deepest sense, the Cold War was a war of ideas, a contest between two ways of life. The rulers of the old regime claimed they saw the triumph of the totalitarian ideal written in the laws of history. They failed to see the love of freedom written in the human heart. I recall my last visit to Poland: The fierce defiance and determination in the faces of the workers gathered in what was then called the Lenin Shipyard in Gdansk, the warmth and welcome for America made plain to Barbara and me by you, the good people of Poland.

Think of the new world that's emerged these past 3 years: Europe -- whole and free. Russia -- turning from dictatorship to democracy. Ukraine and the other new nations of the old Soviet empire -- free and independent. Look at this new world, and remember where that revolution began -- here, in Poland.

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Today, Poland stands transformed. Your bold economic reforms have earned the world's admiration and support, and what's more, they are working. Shelves that once stood empty are now stocked with goods. Gone is the old Communist Party headquarters -- now home to the Warsaw Stock Exchange, and the Polish-America Enterprise Fund, providing seed capital to help Poland's private sector growth and prosper. Gone are the slogans and the sham reality. Everywhere, you hear new voices, new hope. Freedom has come home to Poland.
For all that is new, there are things that have not changed, things that sustained you through your darkest days: Polish strength -- Polish spirit -- Polish pride.

Reaching your dreams will be difficult. I know that the sheer volume of new voices can sometimes be deafening, but from the clamor of new voices must come democracy, a common vision of the common good.

Of course, in many places, and for many people, there is more pain than progress. But we must take care to separate cause from consequence: Poland's time of trial is not caused by private enterprise, but by the stubborn legacy of four decades of communist mis-rule. Make no mistake: The path you have chosen is the right path. And as you say Mr. President, it is the path of pioneers. Free government and free enterprise have helped Poland overcome a crippling past. Free government and free markets will bring Poland a bright future.

Poland is no stranger to sacrifice. Many times before, you were asked to "do without" for the greater good of the State. Today is different: This time, yours is a sacrifice blessed by freedom, the sacrifice of a nation determined to make its destiny democracy.

Poland has made great progress in its reforms, moving this this country to a new stage in its economic revolution. As always, America stands ready to help. In 1989, the United States worked with Poland and other to establish a $1 billion fund to help support a free currency for a free Poland. Now we need to consider new uses for that fund, to help Poland as it faces today challenges. That's why I am proposing that once Poland is back on track with the IMF that we make that fund available for other uses, perhpas to finance Polish exports or to help capitalize banks to support new businesses. The U.S. contribution alone will amount to $200 million. This is a Polish and American idea that I will bring to the Economic Summit at Munich. There, I will urge the leaders of the world's great democracies to join with us, to seek new ways to help Poland toward progress and prosperity.

Let there be no doubt: America shares Poland s dream. America wants Poland to succeed.

We mark today not simply the memory of a great Polish patriot, we celebrate the men of moral courage who sustain this nation: Lech Walesa. Father Popieluszko. Pope John Paul II. But Poland could not have come this far -- Poland could not have won its freedom -- if only a few had the courage to stand against the State.

Freedom was won by the every-day heroes of the underground: The men and women who kept faith when faith was forbidden, who spoke the truth against a wall of lies. The true heroes of democracy: The people of Poland.

Your strength of spirit drives away all doubt: Poland will succeed. Poland will succeed because Poles have made this

- more -

journey before. In a strange new world called America, in the stockyards of Chicago, in the steelworks of Cleveland, in a thousand towns thousands of miles from this land they loved, Poles worked and worshipped and built a better life. Polish hands, building the American Dream. Now at long last, Poles can build that dream, here at home.

As President, as a fellow democrat, as friend of a free Poland, I bring this message: America stands with you. America wants Poland to succeed. America wants Poland to prosper. America wants Poland -- now and forever -- to be free.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 15, 1992

Contact: Peter Hollenbach
(202) 219-3302

SAVINGS BOND REGIONAL DELIVERY SYSTEM NOW OPERATING NATIONWIDE

The Bureau of the Public Debt announced today that the transition to the Regional Delivery System for savings bonds sold through financial institutions was completed on July 1, 1992. RDS represented the first major change to the way savings bonds are delivered to investors in the program's fifty year history. The transition began in 1989 following the conclusion of a successful pilot program in the state of Ohio

Under RDS, savings bonds buyers complete a bond order form at their financial institution and pay for their bonds. Financial institutions forward the orders and payments to the regional service center at the Federal Reserve Bank, where the bonds are issued and mailed. Bonds are delivered within three weeks of the day they were purchased. Many financial institutions are sending order information to the Federal Reserve electronically which accelerates the delivery of bonds to their customers.

RDS quickly gained acceptance as it was introduced across the country. Financial institutions have reacted favorably to RDS as it allows them to serve their customers while eliminating the expense of maintaining and accounting for savings bond stock. Tellers are also able to complete the customers' bond purchase transactions more quickly.

Commenting on the success of the transition Commissioner of the Public Debt Richard L. Gregg said "The completion of RDS is an important milestone in our effort to modernize savings bond program operations. Financial institutions find that it is more convenient to participate in the savings bonds program. Sales of savings bonds through financial institutions have shown impressive growth over the past several years and investor acceptance of RDS has been rapid and positive."

Gregg added, "RDS strengthened the savings bond program by reducing the burden on financial institutions who sell bonds to their customers and by reducing Treasury's cost of processing savings bonds transactions. By receiving bond information electronically, the bureau has set the stage for modernizing its internal savings bonds systems, which will allow Public Debt to improve service to bond owners."

Public Debt is the Treasury bureau charged with administering the Treasury's debt financing operations. Among its responsibilities is the administration of the U. S. Savings Bonds Program.

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PA-102

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
July 17, 1992

CONTACT: RICH MYERS
(202) 622-2930

TREASURY ANNOUNCES REVIEW OF MODEL INCOME TAX TREATY

The Treasury Department today announced it is beginning a project to review and revise its Model Income Tax Treaty (last published by the Treasury, in draft form, in 1981). The Treasury also announced today the withdrawal of the proposed Model Income Tax Treaty of June 6, 1981, and the Model Income Tax Treaty of May 17, 1977, both of which are significantly out of date.

The U.S. Model generally has served as the starting point for U.S. negotiators in the negotiation of income tax treaties with developed countries. The Treasury Department is requesting the assistance of those in the private sector with an interest in this project. The Treasury would welcome written comments from interested persons on all aspects of the model, but particularly on those policy areas identified below. The Treasury intends to examine each of them, and, in addition, review the purposes that are served by a published U.S. Model.

There are certain issues in connection with which the private sector views are of particular interest. They are listed in the order in which they appear in the 1981 Draft U.S. Model:

a) The permanent establishment/business profits and capital gains rules (for example, rules applicable with respect to gains on the alienation or deemed alienation of property used in a permanent establishment, and rules affecting offshore drilling and other mineral exploration activities).

b) Clarification of the rules affecting partnerships.

c) The treatment of income from the rental of ships and aircraft, and from the rental or use of containers, in international traffic.

d) The appropriate withholding rate for dividends, interest and royalties, whether a uniform rate for all such categories of income is appropriate, and whether special rates are appropriate in the case of interest or royalties where the payment is to a related person.

(more)

NB-1900

e) The treatment of income from various new types of financial instruments, and possible methods of providing in a treaty for the treatment of income from instruments not yet developed.

f) Appropriate classifications for different types of royalty income (e.g., software royalties, royalties from theatrical performances).

g) The treatment of various classes of personal services income.

h) Rules to combat treaty shopping, and other anti-abuse rules.

i) Issues arising under nondiscrimination provisions.

j) Possibilities, in the U.S. Model, for improving the functioning of the competent authority process.

Background

The U.S. Model is patterned after the OECD Model Double Taxation Convention, with those modifications necessary to reflect specific U.S. policy concerns. Treaties with developing countries raise additional policy considerations, and, therefore, tend to differ in some significant respects from the U.S. Model. This project will not be concerned with these issues.

Need to Review the U.S. Model

There are a number of factors that can lead to a change in a country's income tax treaty policy, many of which have been present since the publication of the 1981 Draft U.S. Model. There have been important changes in U.S. statutory international tax rules since 1981, including the 1986 Tax Reform Act. Some of these new rules are expected by Congress to be preserved in all U.S. income tax treaties. Other changes in treaty policy may be needed to modify these rules in ways that are appropriate in certain bilateral contexts. Some changes in treaty policy grow out of directions given by the Senate in the process of its consideration of other treaties.

(more)

Finally, there are changes in treaty policy that result from changes in focus by policy makers in the Administration. These changes may be in response to developments in international capital markets, in response to issues brought to the attention of policy makers by the private sector or by other governments, or they may grow out of prior negotiating experience.

Private Sector Contributions

Persons who wish to contribute suggestions for the new U.S. Model, or discussions of U.S. Model issues, are asked to submit their contributions, in writing, to the International Tax Counsel, Department of the Treasury, 3064 Main Treasury, Washington D.C. 20220.

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TREASURY NEWS

Department of the Treasury | Washington, D.C. | Telephone 202-622-2960

FOR IMMEDIATE RELEASE
Friday, July 17, 1992

CONTACT: RICH MYERS
(202) 622-2930

KATE TODD BEACH NAMED DEPUTY TREASURER OF UNITED STATES
Oldwick, NJ, Native Appointed By Secretary Brady

Treasury Secretary Nicholas F. Brady has appointed Kate Todd Beach, a native of Oldwick, New Jersey, as Deputy Treasurer of the United States. In her new position, Beach will be involved in formulating policy and overseeing the operations of the Treasurer's office, which includes the U.S. Mint, the Bureau of Engraving and Printing, and the U.S. Savings Bond Division.

From April 1989 until her appointment last week, Beach had been Director of Intergovernmental Affairs at the Treasury Department. Prior to her job at Treasury, she served in the U.S. Department of Transportation for eight years. From January 1988 until April 1989, she was Director of Intergovernmental and Consumer Affairs at DOT. She has also served at the U.S. Environmental Protection Agency, the National Alcohol Fuels Commission and the National Transportation Policy Study Commission.

Beach and her husband, Samuel F. Beach, Jr., reside in Washington D.C.

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NB-1901

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

EPT. OF THE TREASURY

FOR RELEASE AT 2:30 P.M.
July 17, 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 $ 14,250 million of 364-day Treasury bills to be dated July 30, 1992 and to mature July 29, 1993 (CUSIP No. 912794 D 92). This issue will provide about $ 1,600 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $12,651 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, July 23, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Daylight Saving 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 July 30, 1992. In addition to the maturing 52-week bills, there are $ 21,695 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 $ 2,669 million as agents for foreign and international monetary authorities, and $ 7,882 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 $ 205 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-1902

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE UPON DELIVERY
Expected at 10:00 a.m. EDT
July 21, 1992

STATEMENT OF
FRED T. GOLDBERG, JR.
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

It is a pleasure to be here today to discuss H.R. 5270 (the "Foreign Income Tax Rationalization and Simplification Act of 1992"), introduced by Chairman Rostenkowski and Mr. Gradison on May 27, 1992. Before discussing the provisions of the bill, I would like to put my remarks in perspective by offering some general thoughts.

GENERAL REMARKS

We understand that H.R. 5270 was introduced to prompt a reexamination of our international tax rules, with a view more towards the discussion of important policy issues than the immediate enactment of reform legislation. We applaud the spirit in which the bill was offered and are pleased to join in the discussion.

The radical economic changes of recent years demand a reexamination of our international tax provisions. In the past decade alone, the integration of the European Community, the emergence of new democracies in Central and Eastern Europe, and the economic development of Latin America and the Pacific Rim have profoundly affected the dimensions and integration of our global economy. The United States is now a net importer of capital -- a shift from our traditional position, held as recently as 1976, as the world's largest capital exporter -- and cross-border investment flows are at historic highs in relation to the size of our economy. As these developments continue, our international tax system may no longer be based upon or reflect economic reality. The fundamentals of that system were enacted decades ago, under very different economic conditions, and it is time that they be reassessed. As Secretary Brady announced on June 3 of this year, the Treasury Department has launched its own study with precisely this objective.

A central focus of the Treasury study will be to articulate the goals of our international tax system and to assess the present system in relation to those goals. Since any significant change may entail substantial administrative and compliance costs, any reform that we enact should represent a meaningful advance toward one or more of these goals. Moreover, since some goals can be achieved only at the expense of others, we must carefully assess the relative importance of each in the context of today's economy.

This process will require extensive discussions among Congress, taxpayers and the Executive branch. The introduction of H.R. 5270 provides a valuable opportunity to begin this process, and it is our hope that the forthcoming Treasury study will further advance our shared objectives. As a starting point, I would like to propose five goals for consideration. In no particular order, they are administrability and simplicity, efficiency, competitiveness, preservation of the U.S. tax base, and compatibility with appropriate international tax norms. My intent today is to describe these goals in general terms, without attempting to rank them in importance. That will be the function of the Treasury study, the future work of this Committee, and other interested parties.

First is the goal of administrability and simplicity. As you know, I have long been an advocate of simplifying the tax system. Simple rules are essential for four reasons: (1) They are less expensive for taxpayers to apply; they reduce the waste and burden that result in higher costs to consumers and erode our competitive posture. (2) Simple rules minimize friction and transaction costs; they facilitate the free flow of capital and promote economic growth. (3) Simple rules facilitate compliance and foster a respect for our tax system in general. The more complex a rule, the less likely it is to be applied and the more likely to encourage an attitude of disrespect and the unequal treatment of similarly situated taxpayers. (4) Simple rules increase voluntary compliance and reduce the extent to which scarce government resources must be devoted to administration. Simplification of our tax rules is now a top priority at Treasury and IRS, in both the domestic and international areas.

A second goal for our international tax system is "efficiency." By "efficiency," we mean that U.S. firms are encouraged to allocate resources to the most productive and efficient investments. The role of tax considerations in the investment decision generally should be minimized. While tax rules may provide incentives for certain activities, these incentives should arise by conscious decision rather than as unintended consequences of the basic rules. In a purely domestic context, the tax system generally should not favor one industry or activity over others. In an international context, U.S. firms should not be influenced by tax considerations to invest abroad,

when a domestic investment would otherwise be more productive. On the other hand, when non-tax considerations would otherwise favor a foreign investment (*e.g.*, to better service a foreign market), tax considerations should not discourage that investment or lead an investor to choose one foreign country over another. For example, to achieve efficiency, our tax rules should seek to avoid double taxation (U.S. and foreign) of foreign source income.

A third goal, "competitiveness," generally denotes the ability of U.S. firms to compete successfully with foreign firms in both domestic and international markets. In this context, the U.S. tax system should not place U.S. firms at a disadvantage when they compete in foreign markets. In addition, the U.S. tax system should maintain a level playing field in the U.S. market.

A fourth goal of our international tax system must be the preservation of the U.S. tax base. To achieve this goal, (a) our tax base must be clearly defined, and (b) we must not subsidize foreign governments with tax rates higher than our own. The former requires that our sourcing rules for both income and deductions must permit accurate measurement of income generated by economic activity in the United States. In addition, where our domestic rules deviate from a pure measure of economic income, we must consider whether these deviations warrant reflection in our international rules. Once the tax base has been defined, safeguards against the erosion of the U.S. tax base must be applied equally in the context of both inbound and outbound investment. The latter requires foreign tax credit limitations and rules to prevent circumventing those limits.

Fifth, our international tax system should be compatible with appropriate international tax norms. The elimination of double taxation, the principle of non-discrimination and the similar treatment of similarly situated taxpayers, the arm's length standard, and the exchange of information between taxing authorities -- these concepts are essential features of the international landscape. There is little to gain, and much to lose, if we deviate from these norms. Having said as much, however, it is equally clear that the world economy is undergoing revolutionary change, and nations must be willing to question assumptions that have guided their relations for decades.

The threshold question for our review of the present system is to determine the extent to which these five goals are achieved. I would suggest that the provisions of H.R. 5270 be considered with these goals in mind, within the overall context of our international tax system, and that our efforts be directed toward finding a solution to improve the balance inherent in our current rules. In my opinion, the Committee is correct to regard H.R. 5270 as a discussion draft. Reform of our international tax rules will involve complex determinations to reconcile the

divergent interests of different taxpayers, while respecting the legitimate interests of foreign governments. It will also require substantial efforts to collect and evaluate the empirical data that we need to assess the operation of the current rules and the likely impact of any reform package.

Finally, although we agree that it is time to consider fundamental reform, we believe that it is also wise to proceed with caution. Any significant change to current law, even if justifiable on a policy basis, is costly for both taxpayers and the government to implement. Thus, care should be taken to make only those changes for which the expected benefits in terms of the policy goals discussed above are substantial in relation to the inherent value of stability in the law.

Before turning to the provisions of H.R. 5270, I would like to re-emphasize two points. First, the goals we have identified are sometimes in conflict, and our current system embodies a patch-work compromise. For example:

- Historically, efficiency has argued for capital export neutrality; competitiveness has argued for capital import neutrality. In a world where countries maintain different tax systems, it is not possible to achieve both capital import and capital export neutrality. At present, we "split the baby" by taxing worldwide income while permitting (some) deferral.

- Efficiency and competitiveness require that we eliminate double taxation; protecting the U.S. tax base requires that we properly define our tax base. In a world where countries maintain different tax systems, and in the absence of bilateral agreements, it is unlikely that we can do both. At present, we have generally opted for policies designed to protect the U.S. tax base, sometimes at the expense of double taxation.

- International norms are generally reflected in our network of bilateral treaty arrangements. Worldwide capital markets and the emergence of trading blocks suggest that goals ranging from efficiency to protecting the U.S. tax base require a broader focus.

The second point has to do with the state of our collective knowledge. Each of us comes to these issues with our own views regarding the balance we have achieved, and the changes that may be warranted. For example, some would strike a different balance between the goals of capital import and export neutrality; others believe we pay too much deference to international norms; still others believe that the current balance is generally appropriate. My personal opinion is that certain rules designed to protect the

U.S. tax base have been of limited benefit in achieving their intended objective, but have imposed excessive costs in relation to the goals of simplicity, efficiency and competitiveness.

The fact remains, however, that none of us is able to address these and myriad other questions with certainty. Our models, methodology and data have not kept pace with the global economic revolution. It is essential that we develop the appropriate analytical models and collect and evaluate the empirical data we need to assess the operation of the present system and the likely impact of any reform package.

The remainder of my statement consists of a discussion of the individual provisions of H.R. 5270. Because of the bill's discussion draft approach, and because our own study has just begun, I will not take a position at this time on every proposal in the bill. Moreover, I will address only the broader policy issues presented by the bill, and not the many technical issues that would invariably arise during consideration of these proposals. Since we understand that the sponsors' ultimate goal is to offer a legislative package that may or may not include all of the provisions of H.R. 5270, I will generally address each of the bill's components as a separate proposal. Nonetheless it is clear that the merits of each proposal would depend significantly on the other elements of the reform package and on any significant changes that might also be made to relevant domestic rules. Finally, I should note in this context that Treasury support for any particular proposal that loses revenue is always conditioned on the availability of an acceptable revenue offset.

TITLE I. TREATMENT OF U.S. BUSINESSES OPERATING ABROAD

Subtitle A. Interest Allocation Rules: Revise Application of Interest Allocation Rules (Sec. 101).

Worldwide Fungibility of Interest Expense

Current law. Section 864(e) of the Code, enacted in 1986, generally requires a U.S. multinational group of corporations to allocate and apportion its interest expense on the basis of assets in accordance with a "water's edge fungibility" principle. In other words, the interest expense of a taxpayer is treated as attributable to all activities and property of the taxpayer, regardless of any specific purpose for incurring an obligation on which interest is paid. An affiliated group of domestic companies is generally treated as a single taxpayer for purposes of this allocation, and a multinational group may not take into account the interest expense of foreign subsidiaries when apportioning interest of domestic group members. The stock of a foreign subsidiary is treated as a foreign asset, however, that may attract interest expense of the domestic group.

<u>Proposal</u>. The bill would permit taxpayers to take into account the interest expense and assets of their foreign subsidiaries for interest allocation purposes. A U.S. multinational would first perform a hypothetical allocation and apportionment of the interest expense of its "expanded affiliated group" (including 80-percent owned foreign corporations) to U.S. and foreign source income, on the basis of the assets of the expanded group. Interest expense incurred by foreign group members would be stacked first against the amount of expanded group interest expense allocated and apportioned (hypothetically) to foreign source income. Interest expense incurred by domestic members of the group would be apportioned to foreign source income only to the extent that the amount of expanded group interest expense allocated and apportioned (hypothetically) to foreign source income exceeds the amount of interest expense incurred by foreign group members.

<u>Discussion</u>. The interest allocation provisions of section 864(e), and the expense allocation rules of current law in general, have grown increasingly controversial since enactment of the Tax Reform Act of 1986 (the 1986 Act). Some background on the complexities of the foreign tax credit is required to place this provision, and other issues raised by H.R. 5270, in context.

U.S. persons are taxed on their worldwide income, <u>i.e.</u>, taxable income from both U.S. and foreign sources. U.S. persons may claim a credit against their U.S. income tax liability for foreign income taxes paid. This credit reduces U.S. taxes on a dollar-for-dollar basis.

The foreign tax credit is provided to avoid double taxation (U.S. and foreign) of U.S. persons on their foreign source income, and thus to advance the general goal of efficiency. A fundamental premise, however, of the present foreign tax credit regime is that the foreign tax credit should not offset U.S. tax on U.S. source income. In other words, the foreign tax credit regime should not erode the U.S. tax base. Thus the foreign tax credit is currently limited, by statute, to the taxpayer's U.S. tax liability on its foreign source income. Without this limitation, foreign taxes paid at rates higher than the U.S. rate would reduce U.S. tax liability with respect to U.S. source income; the effect would be similar to a refund of higher foreign taxes. This would undermine the basic goal of maintaining the U.S. tax base.

The foreign tax credit limitation is computed by multiplying the taxpayer's total U.S. tax liability (determined without the credit) by a fraction equal to the ratio of the taxpayer's foreign source taxable income to its total worldwide taxable income (in each case, determined by U.S. tax principles). In most cases, this formula reduces to 34 percent (the U.S. corporate tax rate) times the taxpayer's foreign source taxable

income. Thus, a taxpayer's foreign tax credit limitation amount (i.e., its ability to use foreign tax credits) increases with the amount of its foreign source taxable income.

A taxpayer may have "excess" foreign tax credits -- i.e., credits in excess of its limitation -- because it earns income, directly or through foreign subsidiaries, in countries that impose higher levels of income tax than does the United States. Many U.S. multinationals are presently in a "chronic" excess foreign tax credit position. As a result, the foreign tax credit limitation often does not permit full crediting of foreign taxes paid.

A taxpayer in an "excess credit position" will benefit if U.S. source taxable income can be recharacterized as foreign source taxable income, because this will increase the taxpayer's limitation and therefore the amount of foreign tax credit that it can claim for the year. Stated differently, for every extra dollar of taxable income that is assigned a foreign source, the taxpayer will be entitled to claim an extra $0.34 of foreign tax credit (until all excess credits have been claimed). The effect of this extra amount of credit is to exempt the dollar of income from U.S. taxation, because the taxpayer will be permitted to avoid $0.34 of U.S. tax. Conversely, for every extra dollar of deduction that is assigned a foreign source, the taxpayer in an excess credit position will lose $0.34 of foreign tax credit. The effect of this reduction in credit is often viewed as similar to a denial of the deduction. This is because the effect of the foreign sourcing of the deduction is to increase, by $0.34, the amount of U.S. tax that the taxpayer will pay after claiming the foreign tax credit.

These rules obviously make the definition of foreign source taxable income a matter of great practical concern to the government, as well as to taxpayers with excess credits. If the measure of foreign source taxable income falls short of the correct amount (because too little gross income or too many deductions are allocated to foreign sources), the United States will fail to grant the proper amount of foreign tax credit, and will in effect impose double taxation on the taxpayer's income. On the other hand, if the measure of foreign source taxable income is too great (because too much gross income or too few deductions are allocated to foreign sources), the United States will grant too large a foreign tax credit, and will in effect allow the credit to offset U.S. tax on U.S. source income.

This tension between denial of deduction and exemption of income is inherent in any tax system that attempts a proper

measurement of foreign and U.S. source income.[1] Any attempt to assist a taxpayer with excess credits who complains about "lost deductions" will necessarily result in the exemption of additional income from U.S. tax. Conversely, too restrictive a limit will result in double taxation. Traditionally, the rules for determining a taxpayer's foreign and U.S. source taxable income have traditionally been understood to require the application of proper tax accounting principles to match, where possible, an item of expense with the income that it is incurred to produce. An item of expense that is attributable to the production of all of the taxpayer's income is apportioned to all income categories.

With this as general background, let me return to the question of the allocation rules for interest expense. The proper theoretical approach to interest expense may well be a worldwide fungibility rule, as the bill would provide. Worldwide fungibility is justifiable on the bases that money is fungible and that a taxpayer's interest expense generally is attributable to all of its business activities and assets, whether such activities and assets are within a domestic or foreign affiliate. In this sense, a worldwide fungibility rule would advance the general goal of efficiency. Tax considerations would no longer influence the location in which debt was incurred. If structured properly, it may also promote simplicity, administrability, and compliance.

It has been argued, however, that a worldwide fungibility rule for interest expense is not appropriate when the worldwide profits of a U.S. multinational group are not subject to current taxation (i.e., deferral is available). This argument is met, in turn, by the response that fungibility is simply an economic principle for matching income and expense, and its applicability does not depend on whether profits of foreign subsidiaries are subject to current U.S. tax. Moreover, it can be argued that the question of expense allocation is only of concern to taxpayers in an "excess credit" position. In this context, the consequences of deferral (or the lack thereof) are less significant, since the United States has no tax claim, current or deferred, with respect to foreign profits that are fully sheltered by excess foreign tax credits.

In summary, there are substantial arguments in favor of a worldwide fungibility rule for interest allocation. Clearly, consideration of this issue must proceed within the context of an entire reform package. Furthermore, it is essential to consider

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[1]The remainder of my statement consists of a discussion of the individual provisions of H.R. 5270. The problem is not specific to a foreign tax credit system for relieving international double taxation; an "exemption" system contains the same tension.

the administrability of such a rule and the costs of taxpayer compliance. In the event that such a rule were adopted, it would be necessary to review whether asset-based apportionment would be feasible in a worldwide context.

Expansion of Separate Financial Group

Current law. As noted above, section 864(e) generally requires that a U.S. multinational group treat all of its domestic affiliates as a single taxpayer in allocating and apportioning interest expense of the group between U.S. and foreign source income. Notwithstanding this general rule, section 864(e)(5) requires a domestic group that includes both financial and nonfinancial affiliates to apportion the interest expense of the financial affiliates separately, on the basis of the assets of this subgroup. This rule is designed to prevent apportionment of the interest expense of financial institutions, which are typically highly leveraged, to the foreign source income of affiliates conducting low-leveraged nonfinancial businesses. Only section 581 banks, section 591 savings and loans (both required by law to be operated separately from other entities) and affiliated bank holding companies may be included in a separate financial group.

Proposal. The bill would expand the definition of "separate financial group" under section 864(e)(5) to include group members engaged in a "banking, financing or similar business" (other than insurance) if operated separately from nonfinancial affiliates. This would permit inclusion in the financial group of members not legally required to be operated separately from nonfinancial affiliates. Interest expense of financial group members would be attributed to the nonfinancial group if financial assets were made available to nonfinancial affiliates through dividends, capital contributions, loans, or other transactions to be identified in regulations.

Discussion. The existing separate financial group rule represents a deviation from the basic fungibility principle underlying our interest allocation rules. While Treasury supports this basic economic principle, we also recognize that it may be appropriate in certain other cases for the interest allocation rules to accommodate substantial differences in capital structure across different lines of business. Such accommodation is only appropriate, however, if clear and administrable lines can be drawn between those different businesses and if the proceeds of debt incurred in one business are not used to fund activities of another.

Our principal concerns with this provision, therefore, relate to administrability. The existing separate group rule has been manageable thus far, because it is limited to commercial banks, savings and loans, bank holding companies and their

financial subsidiaries. Under current Federal or State regulations, these institutions are generally required to operate independently from nonfinancial affiliates. An expansion of the existing rule to include financial institutions that are not subject to a legal requirement of independent operation could make the rule far more difficult to administer. Although the bill includes protective measures to prevent inter-group transfers of borrowing proceeds through dividends, capital contributions and loans, they could be difficult to administer and there are other less detectible means to accomplish a sharing of funds.

It should be noted, moreover, that if ongoing reforms in the area of bank regulation ultimately permit greater integration of banking with non-banking businesses, a reexamination of the existing rule will be warranted. In addition to making the existing rule more difficult to administer, these reforms could erode its underlying rationale.

Subtitle B. Foreign Tax Credit Rules

Repeal of 90-percent Limitation on Alternative Minimum Tax Foreign Tax Credit (sec. 111)

Current law. Taxpayers are liable for an alternative minimum tax (AMT) to the extent that their AMT liability exceeds their regular tax liability. AMT liability generally may be reduced by an AMT foreign tax credit. Current law limits the AMT foreign tax credit, however, to 90 percent of AMT liability, computed with certain adjustments. There are exceptions to the 90 percent limitation for certain domestic corporations operating exclusively in a country with which the United States has a treaty.

Proposal. The bill would repeal the current law provision that limits the AMT foreign tax credit to 90 percent of AMT liability. This would allow the credit to offset the entire amount of AMT liability.

Discussion. Treasury opposed enactment of the 90 percent limitation in 1986 on the grounds that there was no policy rationale for imposing such a limitation, and we have continued our opposition since that time. Many of our treaty partners have also opposed the limitation, maintaining that it constitutes an override that calls into question the United States' willingness to abide by its treaty commitments.

Treasury has recently undertaken a study to consider whether our current AMT system should be retained and, if so, in what form. We may conclude that some general reform is desirable. Even if we do not, repeal of the 90 percent limitation would deserve serious consideration, because it would promote

efficiency by removing incentives to distort behavior and by providing taxpayers who are subject to the AMT and taxpayers who are not with more comparable incentives for U.S. and foreign investment.

Recharacterization of Overall Domestic Loss (sec. 112)

Current law. Under Code section 904(f), where there is an overall foreign loss that reduces U.S. tax on U.S. source income, subsequent foreign source income must be recharacterized as U.S. source income. This rule ensures that a reduction in U.S. tax resulting from an overall foreign loss is restored in later years. The Code does not currently contain a similar recharacterization rule when there has been an overall domestic loss.

Proposal. The bill would recharacterize U.S. source income as foreign source income where the taxpayer has suffered a reduction in the foreign tax credit limitation in a prior year as a result of an overall domestic loss. This treatment would be symmetrical with that provided by section 904(f) under current law.

Discussion. The proposal is conceptually defensible on the ground that it reduces double taxation. Under current law, a domestic loss may be absorbed by foreign source income that is subject to foreign tax. In such circumstances, it can be argued that the benefit of the foreign tax credits associated with such foreign source income has been lost, in the same manner as if the expenses constituting the domestic loss had been incorrectly allocated and apportioned to foreign source income in the first instance. The result is excessive taxation of foreign source income over a period of years.

Assume, for example, that in year 1, a U.S. taxpayer has net foreign source income of $100 subject to foreign tax at a rate of 34 percent and a net U.S. source loss that exactly offsets the foreign source income, so that there is no U.S. tax liability. Because the amount of the foreign tax credit is limited to the amount of U.S. tax liability for the year, the taxpayer will not be able to credit its foreign taxes. Instead, the taxpayer must carry the foreign taxes over or back to another taxable year. Assume further that, in year 2, the taxpayer has $100 of U.S. source income and $100 of foreign source income, and that the foreign income is once again taxed at a rate of 34 percent by the foreign jurisdiction.

The taxpayer has no net operating loss from year 1, because the domestic loss was offset entirely by the foreign source income. Thus the taxpayer must pay tax on the U.S. source income in year 2, even though, on an aggregate basis over the two years, it had no U.S. source income. The bill would recharacterize the

U.S. source income in year 2 as foreign source income, thereby allowing the use of the foreign tax credit carried over from year 1 to offset any net U.S. tax.

In 1983, then Deputy Assistant Secretary (Tax Policy) Ronald Pearlman testified before Congress on a bill that was, in effect, a predecessor to the current proposal. Although we noted arguments in favor of the proposal, we ultimately opposed the bill on policy as well as revenue grounds. Certain of the policy arguments against the proposal have been rendered moot by subsequent amendments to the Code. We are now of the view that, as a policy matter, it may well be appropriate to provide for symmetrical treatment of overall domestic losses and overall foreign losses.

Symmetry can be accomplished, however, in at least two ways. The bill would extend to overall domestic losses the current law treatment of overall foreign losses. Symmetrical treatment can also be achieved, however, by retaining the current rules for overall domestic losses and repealing the overall foreign loss provisions of section 904(f)(1) of the Code.

Assuming symmetry is justified on policy grounds, the goal of simplification would be better served by repealing section 904(f)(1), rather than by enacting recharacterization rules for overall domestic losses. However, it is arguable that the repeal of section 904(f)(1) may erode U.S. taxing jurisdiction over U.S. source income by increasing incentives for taxpayers to use foreign losses against U.S. source income, while claiming foreign tax credits to limit U.S. tax on foreign source income. This could be accomplished by operating foreign, loss-generating businesses through foreign branches, while earning foreign source income through foreign subsidiaries eligible for deferral. In weighing this issue, it is important to consider whether the loss-branch-to-profitable-subsidiary strategy is a realistic concern in view of other possible safeguards such as the branch loss recapture rules of section 367(a)(3)(C). It is also worth noting that if the proposal to end deferral were adopted, there would be little justification for retaining section 904(f)(1).

Extension of Period to Which Excess Foreign Tax Credits may be Carried (sec. 113)

Current law. Sections 904(c) and 907(f) of the Code currently allow a taxpayer to carry excess foreign tax credits and excess oil and gas extraction tax credits back 2 years and forward 5 years. Credits not used within this period "expire" and may not be used to offset the income of the taxpayer in subsequent years.

Proposal. The bill would permit taxpayers to carry excess foreign tax credits and extraction tax credits back 3 years and

forward 15 years. These carryover periods would correspond to the carryover periods now provided for net operating losses. Excess credits would have to be carried first to the earliest possible year.

Discussion. Taxpayers are increasingly concerned about excess foreign tax credits since enactment of the 1986 Act. One aspect of this concern is that they may not be able to absorb all of their excess credits within the existing carryover period. The proposal would extend the carryover period, thereby increasing taxpayers' ability to absorb foreign tax credits.

The proposal represents a tradeoff in which the general goal of competitiveness is favored over the (in this case) competing goal of protection of the U.S. tax base. At this point, we are not prepared to offer our judgment on whether this tradeoff achieves the most desirable balance of policies. I would, however, like to make some general observations.

The legislative history of section 904(c) indicates that the existing foreign tax credit carryover rules were enacted to address the concern that foreign and U.S. accounting rules may differ, causing certain items of income or deductions to be taken into account in different years for foreign and U.S. tax purposes. See H.R. Rep. No. 775, 85th Cong., 1st Sess. 27-28 (1957). In the case of such a difference, the allowance of a carryover period enhances the likelihood that foreign taxes will be creditable against the U.S. tax liability with respect to the foreign source income on which they were imposed, thus promoting the economic matching of income and deductions.[2]

It is not clear whether the current 7-year period is still adequate to deal with the accounting system differences that it was designed to alleviate. This is a complex factual and empirical issue that may prove difficult to analyze, but it should ideally play a role in evaluating any proposal to extend the carryover period. Moreover, it can be argued that a longer carryover period is appropriate to alleviate some of the harshness of a foreign tax credit regime. As explained above, excess foreign tax credits arise, in part, because of the allocation of expenses incurred in the United States to foreign source income. Such expenses may, in effect, become nondeductible in the United States and abroad. Allowance of a longer credit carryover period will mitigate this effect if, as a

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[2]The goal of the net operating loss carryover provisions, in comparison, is not to ensure appropriate economic matching, but to permit the averaging of income in order to reflect more accurately a taxpayer's overall profit experience for a multi-year period.

result of the extension, the taxpayer is allowed to claim a credit in a later year that would have expired unused.[3]

Any rule permitting carryovers of foreign tax credits necessarily allows some averaging of foreign taxes imposed on high- and low-taxed foreign income. The averaging effect is increased, under current law, by the availability of deferral and the operation of the indirect foreign tax credit under section 902.[4] Any expansion of the current carryover period will further increase this inherent averaging effect, thereby reducing the United States' "residual" tax claim on low-taxed foreign income.

Election to Treat Certain Companies as Controlled Foreign Corporations (sec. 114)

Current law. Under current law, dividends received by U.S. shareholders from foreign corporations are subject to different "basket" characterization rules, depending in part upon whether the foreign corporation is a controlled foreign corporation (CFC) with respect to the U.S. shareholder. In general, the foreign tax credit basket character of a dividend received from a CFC is determined on a "look-through" basis. That is, the basket character is determined by reference to the type of income earned by the CFC to which the dividend is attributable. Look-through basket characterization is not available for dividends received from a foreign corporation that is not a CFC with respect to the particular U.S. shareholder. If, however, the U.S. shareholder is entitled to an indirect credit for foreign taxes paid by the foreign corporation (often referred to as a "10/50" corporation, because 10-percent ownership is required for the indirect credit while greater than 50-percent ownership is required for CFC qualification), dividends paid by the corporation are placed in a separate foreign tax credit limitation basket (i.e., they are not

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[3]In this context, however, it should also be noted that certain payments made to U.S. taxpayers that are deductible abroad may in effect constitute income that is exempt from U.S. and foreign tax. See section 904(d)(3). The treatment of such payments may also warrant review as part of a reform package.

[4]Under section 902, the foreign taxes associated with deferred earnings of a foreign subsidiary are not treated as paid by a U.S. shareholder until the earnings are repatriated. The section 902 "pooling" rules, enacted in 1986, provide that the foreign taxes associated with any particular distribution of earnings are not the taxes actually paid with respect to those earnings (determined on an historical basis), but rather a proportionate amount of the total "pool" of previously uncredited foreign taxes paid in any post-1986 year by the distributing foreign corporation.

placed in the passive limitation basket). Dividends from each 10/50 corporation are placed in a separate foreign tax credit basket.

Proposal. The proposal would permit a U.S. shareholder of a 10/50 corporation to elect to treat that corporation as a CFC for foreign tax credit and subpart F purposes. Thus, dividends received from the corporation would generally be placed in foreign tax credit baskets on a look-through basis, and the electing U.S shareholder would be taxable currently on its pro rata share of the foreign corporation's subpart F income. The election would apply to all 10/50 corporations owned by a particular taxpayer and would be revocable only with the consent of the Secretary.

Discussion. In his letter of April 19, 1990, to Chairman Rostenkowski, then Assistant Secretary (Tax Policy) Kenneth W. Gideon listed reform of the 10/50 basket rules as an item deserving attention in any simplification effort. The proposal in the bill is a reasonable way to accomplish this reform. Although it might in theory increase opportunities for taxpayers to average high-taxed and low-taxed income for purposes of computing the foreign tax credit limitation (thereby potentially eroding the U.S. tax base), it would also result in significant simplification in many cases.

The proposal's coupling of foreign tax credit and subpart F consequences, moreover, is consistent with Congressional intent as evidenced by the legislative history of the 10/50 rule (enacted in 1986). That legislative history indicates a Congressional belief that a multiple separate basket approach for 10/50 corporation dividends was appropriate, because 10/50 corporations, unlike CFCs, could not be considered part of the same economic unit as the U.S. shareholder. It would be consistent with this legislative history, however, to permit single economic unit (i.e., CFC) treatment for foreign tax credit purposes, if taxpayers are required to apply CFC treatment for subpart F purposes as well.

It should be noted, however, that the bill's consistency rule may preclude significant numbers of taxpayers from making the CFC election if they cannot obtain sufficient data from one or two 10/50 companies to apply the lookthrough or subpart F rules (e.g., due to substantial majority foreign ownership). The consistency rule properly prevents taxpayers from electing CFC treatment only with respect to 10/50 corporations that have, for example, no subpart F income. However, the rule also limits the utility of the election. Significant simplification might also be achieved through consolidation of the separate 10/50 baskets into a single separate basket for dividends from all 10/50 corporations. This and other alternative reforms of the 10/50 basket rules should also be considered if it appears that a

consistency rule would limit too severely the utility of a CFC election.

Subtitle C. Other Provisions

Regulatory Authority to Exempt Foreign Persons from Uniform Capitalization Rules (sec. 121)

Current law. The uniform capitalization or UNICAP rules of section 263A require the capitalization of certain costs incurred in connection with property produced or acquired for resale. The UNICAP rules apply to foreign, as well as domestic, persons, unless an exception applies.

Under a 1988 IRS Notice (Notice 88-104), foreign persons may elect a simplified method of accounting for costs required to be capitalized under the UNICAP rules (the "U.S. ratio" method). The U.S. ratio method allows a foreign person to determine the amount of costs required to be capitalized for a particular trade or business by reference to accounting data already compiled by a related U.S. person for the same or a similar business. The U.S ratio method has been criticized as inaccurate because of the slower depreciation method required for foreign assets. In addition, taxpayers complain that the method is of limited use, because it cannot be used to capitalize interest expense and because an identical or similar U.S. business often does not exist.

Proposal. The bill would amend section 263A of the Code to give the Treasury authority to write regulations to exempt foreign persons from the UNICAP rules, except for purposes of computing income of a foreign person that is effectively connected with a U.S. trade or business, and for purposes of subpart F. Thus, for example, to the extent that the income of a controlled foreign corporation is taxed currently to a U.S. shareholder under subpart F, the UNICAP rules would continue to apply.

Discussion. The Treasury recently issued proposed regulations under sections 964 and 952 which would simplify the calculation of earnings and profits for controlled foreign corporations and 10/50 corporations in two ways -- first, by generally allowing these companies to use their financial book depreciation figures instead of calculating depreciation according to the Code's rules, and second, by exempting these corporations from the UNICAP rules. The regulations are based on our authority under section 964 to write regulations for the computation of earnings and profits of foreign corporations. Although there is no similar regulatory authority for determining the income of foreign corporations, we believe that our proposed regulations will reduce the compliance burden of many foreign corporations which need not compute subpart F income, but which

must compute earnings and profits (E&P) for foreign tax credit purposes. This is because the section 964 earnings and profits rules are also used for determining the indirect foreign tax credit under section 902.

Taken alone, this provision of the bill would cut back Treasury's regulatory authority under section 964 (and derivatively under section 902) because it would require the UNICAP rules to be used for purposes of computing the E&P (as well as the subpart F income) of controlled foreign corporations. For this reason we view this provision of the bill, standing alone, as contrary to our effort to achieve simplification in the foreign tax credit area.

However, viewed in the context of the entire bill -- which includes a proposal to repeal the deferral of income generally allowed to foreign corporations under current law -- the provision can be seen as an effort to ensure that income that is taxed on a current basis is calculated under similar sets of rules, whether the income is earned by a domestic corporation or a foreign one. We recognize that legislation which supports a repeal of deferral for foreign corporations should consider the second-order changes, such as this one, that might need to be made to avoid distorting incentives. On the other hand, it is important to note that under this proposal, a large percentage of U.S. controlled foreign corporations would obtain no relief from the significant compliance burdens imposed by the UNICAP rules of current law.

TITLE II--TREATMENT OF CONTROLLED FOREIGN CORPORATIONS

Repeal of Deferral for Controlled Foreign Corporations and Election to Treat Controlled Foreign Corporations as Domestic Corporations (secs. 201 and 202)

Current law. Under current law, the profits of a foreign corporation owned by U.S. persons are generally not subject to U.S. tax until they are distributed. There are several exceptions to this general rule, including the rules for passive foreign investment corporations (PFICs) and foreign personal holding companies and the subpart F rules for controlled foreign corporations (CFCs). A CFC is a foreign corporation more than 50 percent of the stock of which (by vote or by value) is owned directly or indirectly by U.S. shareholders. A U.S. shareholder is defined for this purpose as a U.S. person who owns, directly or indirectly, 10 percent or more of the CFC stock (by vote). A U.S. shareholder is required to include on a current basis its pro rata share of "subpart F income" earned by the CFC. Subpart F income is presently defined to include foreign personal holding company (*i.e.*, passive) income, insurance income, and certain types of foreign base company income.

Foreign corporations (including CFCs) are not eligible for inclusion in an affiliated group filing a consolidated U.S. tax return. The primary consequence of this rule is that losses incurred by a foreign subsidiary may not be used to offset the taxable income of a U.S. affiliate.

Proposal. The bill would eliminate deferral for profits earned through a CFC by expanding the definition of "subpart F income" to include all of the earnings of the CFC. Thus, each U.S. shareholder of a CFC would be required to include in its gross income for each year its pro rata share of the CFC's total earnings for the year. A U.S. shareholder would not be required, however, absent a special election, to include in gross income its share of the CFC's earnings accumulated prior to enactment of the bill and not previously taxed to the shareholder under the existing anti-deferral regimes.

CFCs generally would not be treated as domestic corporations, unless a special election were made. Thus, in general, a domestic corporation would not be permitted to file a consolidated U.S. tax return with its CFC affiliates or to claim a deduction for a CFC's losses. The bill would, however, permit a U.S. shareholder to make an irrevocable election to treat all of its CFCs as domestic corporations. If this election were made, tax consolidation would be permitted for 80 percent-owned companies, and regular U.S. tax rules (rather than the rules of subpart F) would apply to determine the taxable income of the CFCs. The conditions imposed by the bill for making the election include that each CFC consent to the election and waive any benefits to which it might otherwise be entitled under a U.S. tax treaty. In addition, each CFC for which an election is made would be treated as having transferred all of its assets, as of the effective date of the election, to a domestic corporation. The gain recognition provisions of section 367 would apply to these deemed asset transfers.

Discussion. The repeal of deferral has been a staple of international tax reform proposals for generations. Treasury has itself proposed the repeal of deferral at least twice, under different Administrations. Most recently, however, in its thorough review of international tax issues as part of the 1986 tax reform effort, Treasury proposed to retain deferral as a general rule.

The primary arguments for repealing or retaining deferral have been often rehashed, and I will restate them here only in summary fashion. Some argue for repeal, claiming that economic efficiency is advanced when U.S. investors bear an equivalent tax burden on investment income, regardless of the country in which that income is earned. This theory is often referred to as "capital export neutrality." Others argue in favor of deferral, claiming that competitiveness is advanced when U.S. firms

investing in a foreign country are taxed in the same manner as foreign investors there. This theory is sometimes called "capital import neutrality."

The question of whether deferral should be repealed or retained is a difficult one, because it requires a choice between these two inconsistent views. These difficulties are compounded to the extent our traditional models fail to reflect the ongoing revolution in the worldwide capital markets.

The U.S international tax regime has embodied a compromise, almost since its inception. The general rule is deferral, but this choice is qualified by anti-deferral rules generally designed to preserve U.S. tax jurisdiction with respect to particularly mobile types of income, and by the foreign tax credit regime, which imposes "residual" U.S. tax upon repatriation of foreign profits that have borne low rates of foreign tax. At the same time, the residual tax may be reduced by the averaging of high-taxed and low-taxed foreign profits allowed by the foreign tax credit system.

Choosing between these different considerations is beyond the scope of my testimony this morning. It is worth noting that the inquiry should encompass not only the tradeoffs among the various economic considerations described above but also numerous other factors, including the degree of complexity involved, the opportunities for simplifying the foreign tax credit "basket" rules, and the effect on taxpayers' incentives to manipulate transfer prices. Given our increasingly globalized economy, it may also be appropriate to take into account the scope of deferral allowed under the tax laws of our various treaty and trading partners. It should also be noted that repeal of deferral will result in a significant shifting of the tax burden from some classes of taxpayers to others. While not necessarily undesirable, this consequence should be clearly understood.

In addition, if deferral were to be repealed, there is the basic question of whether to do so by expanding subpart F or by treating CFCs as branches; this choice would have significant consequences. We expect to give these matters careful attention in the Treasury study of international tax reform announced by Secretary Brady in June.

At this early stage, I would like to offer only general observations. In my opinion, when considering major changes such as the repeal of deferral, the value to taxpayers and tax administrators alike of stability in the system must not be underestimated. Such a significant change should be made, if at all, only if it is ultimately determined that the benefits of repealing deferral would outweigh the associated transition and administrative costs as well as other contravening policy considerations.

In addition, the goal of simplification and administrability should be given great emphasis in any consideration of this issue. That is, would repeal of deferral make the system more or less workable? If the system would be more workable without deferral, this would make repeal significantly more attractive as a reform option. On the other hand, if the system would be significantly more complex without deferral, this should render the proposal a non-starter. In this regard, it is worth noting that the manner in which the bill proposes to repeal deferral would increase the complexity of the current subpart F rules. Because it would retain current law for pre-effective date untaxed earnings, it would require taxpayers to apply both current law and the proposed new law indefinitely with respect to such earnings.

Also in this regard, consideration should be given to whether domestic corporation treatment for a CFC should be mandatory, rather than elective, in the context of a repeal of deferral. In other words, would it continue to make sense to apply analogous but different rules in determining the income of domestic and foreign subsidiaries, if all such income were taxed on a current basis? Moreover, if deferral is not repealed, it is worth considering whether a domestic election could provide meaningful simplification. Although the electability of domestic corporation treatment raises some revenue concerns (as is the case for any elective provision), the importance of these concerns could be reduced by other elements of a reform package.

Source of Income from the Sales of Inventory Property (sec. 203)

Current law. Income earned by a U.S. resident from the sale of inventory property purchased in the United States and sold abroad is sourced either entirely in the United States or entirely abroad, generally depending upon the place where title passes (under the "title-passage rule"). Income earned by a U.S. resident from the sale of inventory property produced in the United States and sold abroad has a split source, determined under either the independent factory price (IFP) method or the 50-50 method.

The 50-50 method sources half of gross export income under the title passage rule. The other half is split between domestic and foreign sources on the basis of the exporter's foreign and domestic property. For this purpose, property of an exporter's branch office is taken into account, but property of a subsidiary is not. The IFP method sources in the United States taxable export income based on the income an exporter earns on sales to an independent distributor. The balance is sourced abroad. In a

reviewed decision last summer, the Tax Court in Phillips[5] held that when an exporter has sales that establish an IFP, it must use the IFP method. Previously, some taxpayers had argued that the 50-50 method could be elected in those cases in which an IFP existed.

The IFP method is unpopular with exporters because it generally sources less export income abroad than the 50-50 method, which sources at least 50 percent of export income abroad, provided the sale is arranged so that title passes outside the United States. U.S. multinationals with excess foreign tax credits (foreign taxes in excess of the Code's limitation amount) ordinarily prefer to source as much of their export income abroad as possible. Export income often bears little, if any, foreign income tax, and it may be combined with high-taxed foreign source income to increase the foreign tax credit limitation and allow a multinational exporter to claim a larger foreign tax credit than it otherwise could have.

Under current law, an exporter also may seek to increase its foreign source income by selling inventory property to a foreign sales subsidiary, often in a low tax country, which then markets the property abroad. The exporter's income from the sale to the foreign subsidiary would be 50-percent foreign source, under the 50-50 method. The income earned by the subsidiary is all foreign source income and is subject to tax either currently under subpart F or later, when distributed as a dividend. Aggressive transfer pricing can further increase the amount of foreign source export income beyond the amount that would be foreign source if the exporter marketed its product through a foreign branch. The result, again, is that the exporter may claim a larger foreign tax credit than it otherwise could have.

Proposal. The bill would amend the rules for sourcing income from the sale of inventory property (the "sales source rules") in two limited ways. First, if a taxpayer produces inventory property and sells it to a related person, the amount of income from the sale to the related-party buyer that is treated as attributable to production (and therefore sourced in the United States in the case of a U.S. exporter) would be that amount of income from the sale that is the greater of the amount attributable to production determined by applying the sales source rules to the seller alone and the amount determined by treating the seller and the related-party buyer as a single person and applying the sales source rules to their combined income.

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[5] Phillips Petroleum Co. v. Commissioner, 97 T.C. No. 3 (July 3, 1991).

Second, the bill would treat as entirely U.S. source the income derived by a U.S. resident from a direct or indirect sale of inventory property to another U.S. resident, if (i) the property is used, consumed or disposed of in the United States and (ii) the sale is not attributable to an office of the seller outside the United States.

Discussion. The rules for determining the source of income from the sale of inventory property are quite old, dating back at least to the 1920's, and have been the subject of debate for some time. Reform in this area was considered by Treasury I and Treasury II, the reports which formed the basis for the Tax Reform Act of 1986. See U.S. Department of the Treasury, Tax Reform for Fairness, Simplicity and Economic Growth, The Treasury Department Report to the President, Vol. 2, at 364-68 (1984); President's Tax Proposals to the Congress for Fairness, Growth and Simplicity, at 402-05 (1985). Also, in 1987 the American Law Institute issued a report reviewing U.S. international tax rules and recommended reform in this area. No change in the law has been made to date.

It is argued by some that the tax benefit provided by the sales source rules to U.S. multinational exporters, via the foreign tax credit, tends to stimulate exports by multinationals and make them more competitive. In response, it is suggested that these rules cause market distortions and are, at best, an inefficient export incentive.

Others argue that it is inappropriate to source so much export income abroad when the activity that produces it often occurs principally in the United States and often bears little, if any, foreign tax. The sales source rules, they argue, permit our tax base to be eroded by countries with higher tax rates. In response, it is suggested that the sales source rules are simple to administer and achieve "rough justice" because they offset other, overly restrictive sourcing and foreign tax credit limitation rules.

We currently are studying the impact of the sales source rules on U.S. tax revenues and exports. We believe that any reform proposals in this area should take a comprehensive view, and should be carefully evaluated in light of our five goals of reform.

We do agree that some U.S. exporters may be taking advantage of the sales source rules and selling to related parties at prices designed to increase their foreign source export income. However, at this time we believe that it would be premature to recommend adoption of this legislative proposal. First, in light of the Phillips decision and Revenue Ruling 88-73, a U.S. exporter with sales that establish an IFP will have to source all (or virtually all) of its income from sales to a foreign sales

subsidiary in the United States. Also, our proposed transfer pricing regulations limit the ability of an exporter to set an artificially low price, whether it uses the IFP method or the 50-50 method, when it sells to a related party. Accordingly, we believe current law, if given a chance to handle this problem, often will reach the same result as the proposal, i.e., branch-subsidiary parity. It is worth noting, however, that in those cases in which an IFP does not exist, applying the 50-50 method to an exporter's sale to a foreign subsidiary, even at an arm's length price, often does create a divergence between the tax treatment of branch and subsidiary operations.

The second proposal deals with a transaction that was the subject of litigation in the Liggett[6] case. In that case, the Tax Court applied the title-passage rule to provide foreign source income treatment when no substantial economic activity was carried on by the seller outside the United States and both the buyer and the seller were U.S. residents. Although the facts in Liggett are rarely encountered, we believe that any comprehensive reform in this area should address them, and we would expect to do so in any recommendations for reform that we would make.

TITLE III--TAXATION OF FOREIGN PERSONS HAVING U.S.-RELATED INCOME

Taxation of Certain Stock Gains of Foreign Persons (sec. 301)

Current law. Under current law, foreign persons generally are not subject to U.S. tax on gain realized on the sale of stock of a domestic corporation. Exceptions apply where the gain is effectively connected with the conduct of a U.S. trade or business, the domestic corporation is a "U.S. real property holding corporation," or, in the case of a nonresident alien, the alien is present in the United States for at least 183 days during the year of the disposition.

Proposal. Under the bill, nonresident aliens and foreign corporations generally would be required to treat gain or loss on the disposition of stock in a domestic corporation as effectively connected, and therefore subject to U.S. tax, if the foreign shareholder has owned 10 percent or more of the corporation's stock (measured by vote or value) at any time during the 5-year period preceding the disposition. The tax would be enforced by requiring the transferee or other withholding agent to withhold 10 percent of the gross proceeds of the disposition.

The tax would not apply to the extent that it is contrary to the provisions of a U.S. tax treaty in effect on the date of the bill's enactment, provided that the shareholder is entitled to

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[6] Liggett Group, Inc. v. Commissioner, T.C. Memo 1990-18 (1990).

treaty benefits under the "treaty-shopping" provision of the bill. However, in a case where an existing treaty precludes the taxation of capital gains, any gain realized by a foreign shareholder on liquidation or redemption of stock of a domestic corporation would be treated as a dividend (to the extent of an allocable portion of the corporation's earnings and profits) taxable under the provisions of the dividends article of the treaty.

Discussion. Although the general issue of the taxation of foreign investors deserves examination in the context of our overall review of the international tax system, we believe that enactment of this provision would be undesirable at this time for several reasons.

First, we are concerned that the provision could have an adverse impact on the domestic economy by increasing the cost of capital and discouraging foreign investment in the United States. In addition, the provision would be complex to administer. Enforcement of the provision would be difficult in cases where shares are sold by one foreign resident to another on a foreign exchange.

Moreover, we have several treaty-related concerns. Although the provision would not apply to the extent contrary to the provisions of an existing treaty, the combination of this provision with the bill's "treaty-shopping" provisions would result in at least a partial override of certain existing treaties which do preclude the taxation of capital gains of this type. With respect to those that do not offer such protection, the provision could invite retaliatory legislation by trading partners such as the U.K. and Switzerland. It would be essential to clarify that this issue could be addressed in future treaty negotiations, and that withholding could be reduced or eliminated through the treaty process.

Finally, some have argued that the proposed recharacterization of gain as a dividend in connection with certain liquidations or redemptions would conflict with the provisions of existing U.S. treaties. The technical explanation of the bill prepared by the Joint Committee on Taxation states that, if such a conflict exists, a treaty override is not intended. However, to the extent that the provision is designed to negate the effect of treaty exemptions for capital gains, we would oppose it.

Limitation on Treaty Benefits (sec. 302)

Current law. Section 894(a) provides that Title 1 of the Code shall be applied "with due regard to any treaty obligation of the United States." Sections 884(e) and 884(f) require that a foreign corporation be a "qualified resident" of a treaty country

in order to claim treaty benefits relating to the application of the branch profits tax and the branch-level interest tax.

Proposal. The bill would limit the availability of benefits under treaties between the United States and a foreign country by: (1) requiring that a foreign entity be a qualified resident of the foreign country (i.e., not a "treaty shopper") to receive treaty benefits granted by the United States; and (2) providing that treaty benefits will not be granted by the United States with respect to income that bears a significantly lower tax under the laws of the foreign country than does similar income derived by its residents from sources within that country. This provision would take effect on January 1, 1993 and would apply to all U.S. tax treaties, whether entered into before, on, or after that date.

Discussion. We oppose this provision of the bill. A unilateral treaty override of this sort calls into serious question the United States' willingness to abide by its tax treaty commitments. Thus, it can be expected to weaken significantly our ability to negotiate future concessions from other countries and invite retaliatory action by our treaty partners. As a result it would undermine the ability of U.S. multinationals to compete abroad and would discourage foreign investment in the United States. The provision therefore entails substantial risks to the competitiveness of U.S. multinationals for the sake of a minimal and speculative revenue gain.

Moreover, we do not believe that legislation is necessary at this time to further the policy objectives of the proposal. Qualified resident rules ("anti-treaty shopping" provisions) have been or are being added in all new or renegotiated U.S. treaties, and we are seeking to deal bilaterally with the very limited circumstances in which it may be desirable to deny a treaty benefit to a qualified resident that benefits from a low-tax regime in the treaty country. We believe that these bilateral measures are sufficient to prevent erosion of the U.S. tax base.

Excise Tax on Certain Insurance Premiums Paid to Foreign Persons (sec. 303)

Current law. Section 4371 of the Code imposes a Federal excise tax (FET) on policies written by foreign insurers or reinsurers to cover risks situated in the United States. Generally speaking, the FET applies at a rate of 1 percent of premiums on direct life and health policies, 4 percent of premiums on direct property and casualty policies, and 1 percent of premiums on reinsurance policies. Several of our income tax treaties waive the FET on certain transactions.

Proposal. The bill generally would raise the rate at which the FET applies in the case of property and casualty reinsurance

from 1 to 4 percent. However, it would allow the reinsurer to qualify for the current 1 percent rate by demonstrating that (1) it is subject to foreign tax on the policy at an effective rate that is "substantial" in relation to the U.S. tax, and (2) the risk is not subsequently reinsured out to a company not subject to a "substantial" tax.

In addition, the bill would hold all parties to any transaction subject to FET responsible for remitting the tax, but would permit the Secretary to waive this obligation by regulation if the parties satisfy requirements (such as a secured closing agreement) to ensure collection of any tax due on further reinsurance.

Discussion. As a general policy matter, we do not oppose the effort to facilitate collection of the FET imposed by the Code on reinsurance of U.S. risks from one foreign insurer to another. However, we do not support the proposal because we do not believe that it can be administered fairly and effectively. For example, we are seriously concerned about the burden of the numerous closing agreements that would be required and about the difficulty of determining the effective rate of foreign tax in a multitude of countries. We believe that the proposal would further the goal of preserving the U.S. tax base to an uncertain extent and only at unacceptable costs to the goal of administrability and simplicity.

In addition, the rate at which the FET should be imposed is an issue of competitive balance. We are not convinced that a general rate increase is warranted at this time. However, if the rate is increased, the provision should be amended to take into account any current U.S. taxation of U.S. shareholders under subpart F.

Special Section 482 Rules for Certain Foreign and Foreign-owned Corporations (sec. 304)

Current law. Regulations under section 482 of the Code, as well as our bilateral income tax treaties, provide that income may be reallocated among related parties on the basis of the arm's length standard. Under that standard, consideration paid between related parties should correspond to the amounts that would have been paid if the parties had been unrelated.

Proposal. The bill provides that, if a 25-percent foreign controlled corporation or a U.S. branch of a foreign corporation has a threshold level of transactions with related foreign parties, its taxable income shall be equal to at least 75 percent of the product of the taxpayer's gross receipts and the "applicable profit percentage." The "applicable profit percentage" is the average ratio of pretax book income over gross receipts earned for the taxable year by domestic corporations in

the same SIC code as the taxpayer. Corporations that enter into a "qualified section 482 agreement" with the Internal Revenue Service would be exempt from this requirement.

Discussion. Some commentators have characterized this provision as imposing a formulary method of taxation on certain foreign-controlled corporations. Others have emphasized the role of the "qualified section 482 agreement" and regard the formulary rule as a penalty to induce taxpayers to enter into agreements with the IRS. We are uncertain whether the sponsors expect that the majority of taxpayers affected by the proposal would be taxed under the formula or would instead enter into agreements. Advance pricing agreements, on which the qualified agreements are obviously based, are a key component of our present section 482 compliance effort, and we are committed to expanding the role of such agreements. Having said this, however, I must emphasize our strong objections to the proposal contained in the bill.

First, the provision would discriminate against foreign-owned businesses in violation of U.S. tax treaties and long-standing U.S. tax policy. The non-discrimination articles of our tax treaties require that foreign-controlled taxpayers be treated in the same manner as similarly situated U.S.-controlled taxpayers. Under the provision, however, foreign-owned U.S. businesses would be subject to a minimum taxable income provision, while their U.S.-owned competitors would not. The technical explanation of the bill asserts that the repeal of deferral for U.S.-controlled foreign corporations would result in all U.S. operations being treated similarly, irrespective of ownership. This assertion rests on the premise that, after the repeal of deferral, U.S. corporations would no longer have incentives to reduce their U.S. tax liability by shifting income through transfer pricing to low-taxed foreign affiliates. In contrast, their foreign-based counterparts arguably would still have the ability and the incentive (in the absence of the proposed legislation) to reduce their U.S. tax liability by adopting transfer pricing practices that shifted income offshore.

The premise of this argument is flawed. Even if deferral were repealed, U.S. corporations with excess foreign tax credits would continue to have an incentive to shift profits to their low-taxed foreign subsidiaries. Specifically, by increasing the profits of those subsidiaries, they would be able to claim a larger foreign tax credit, reducing their U.S. tax burden. Since many U.S. multinationals would continue to be in an excess foreign tax credit position after repeal of deferral, a large pool of taxpayers would continue to have an incentive to shift income offshore through transfer pricing. Because these U.S. taxpayers would be exempt from what effectively is a minimum tax, the United States would be treating its own corporations more favorably than their foreign-owned counterparts. This blatant discrimination against our treaty partners not only would

override our income tax treaties, but also would invite similar measures in retaliation by our treaty partners. In all likelihood, such retaliatory measures would leave the United States in a worse position in terms of tax revenue and competitiveness.

Second, the provision would violate the arm's length standard that is embodied in our tax treaties. As interpreted and applied by most of our trading partners and by the Organisation for Economic Cooperation and Development and the United Nations, that standard requires that transfer pricing adjustments be based on the most closely comparable independent transactions, if available. While the profits of other participants in a given industry can indicate what the profits of a controlled taxpayer would have been had the controlled taxpayer been independent, profits are not the only indicator, nor are they always the most reliable indicator. In this regard, it is important to distinguish the formulary rule in the proposed legislation from the approach taken in the proposed regulations under section 482. Unlike the bill, the proposed regulations give comparable uncontrolled prices priority over profit-based tests. Moreover, when a profit-based test is employed, the proposed regulations require that the profits of the most closely comparable companies for which data is available be used and look to several different indicators of profitability. Finally, the proposed regulations employ a multi-year average that can, in certain circumstances, permit a taxpayer to realize above- or below-average profits in a particular year, while the proposed legislation rigidly and unrealistically requires that each year be analyzed in isolation from all other years.

Third, we believe that it is premature to introduce any major legislation in the area of transfer pricing at this time. As we noted in our testimony before your Oversight Subcommittee in April of this year, Congress introduced several major new provisions in this area in 1989 and 1990. We are beginning to observe the effects of these measures now, as those taxable years are audited. Moreover, in January we released an extensive new set of proposed regulations under section 482 that address transfer pricing issues with respect to both U.S.- and foreign-controlled corporations. We believe that these new measures should be given time to work before we discard all the work of the past several years and adopt a radically different approach in this difficult area.

TITLE IV--OTHER REFORMS

Subtitle A. Individual Provisions

Treatment of Certain Grants (sec. 403)

Current law. Pursuant to Revenue Ruling 89-67, income from scholarships, fellowships, prizes and awards is sourced by reference to the residence of the grantor, on the basis that this is the location of the basic economic nexus. Under prior law, scholarship and fellowship income was sourced by reference to the place of study or research activity, on the basis of an analogy to compensation for services (which is sourced, by statute, to the place of performance). Foreign students are generally treated as nonresidents under a special residency rule, with the result that they are taxable only on their U.S. source income. Thus the sourcing of scholarship or fellowship income effectively determines whether a foreign student will be liable for U.S. tax with respect to such income. Foreign students who are taxable on their scholarship or fellowship income and who are present in the United States may not claim the standard deduction and may claim only one personal exemption. Section 117 provides an exemption, however, for "qualified scholarships" used to pay tuition and related expenses for such items as books, supplies and fees.

Proposal. The bill would source scholarship and fellowship income by reference to the place of study. Thus all foreign students studying in the United States would be subject to tax on their scholarship or fellowship income (in excess of amounts exempt under section 112). The bill would also allow foreign students studying in the United States to claim the standard deduction and more than one personal exemption, limited to the amount of their taxable scholarship income. The bill would source prizes and awards for religious, charitable, scientific, educational, artistic, literary, or civic achievements by reference to the location of the activities that formed the basis for the prize or award.

Discussion. The proposal to source scholarship and fellowship income to the place of study would revive the prior law analogy to the treatment of compensation. While this analogy is persuasive in some respects, strong arguments can also be made for the rationale of the current sourcing rule. Either sourcing rule has certain undesirable results. For example, the grantor-residence rule results in the taxation of foreign students studying overseas on U.S.-funded grants, though these students have only a tenuous connection with the United States. On the other hand, a place-of-study sourcing rule could discourage foreign governments from funding scholarships for their students to study in the United States.

In light of the inconclusive arguments in favor of either sourcing analogy, it may be appropriate to choose a rule on the basis of its practical results, rather than its theoretical justification. Alternatively, the existing exemption for qualified scholarship income under section 117 might be expanded to reduce the importance of the sourcing rules. If, however, a place-of-study rule were ultimately enacted, we believe that it would be appropriate to provide foreign students studying in the United States with the standard deduction and additional personal exemptions for dependents living in the United States. Moreover, we recommend that consideration be given to reducing the administrative burdens now imposed on U.S. Government agencies that must prepare and file U.S. tax returns for foreign students whose scholarships they administer.

In the case of prizes and awards, we believe that the analogy to compensation is particularly weak. The relevant activities are performed in advance of the award and with no assurance that the award will be received. In addition, a "place-of-achievement" sourcing rule would be difficult to administer, because relevant activities may occur in multiple locations. For these reasons, we believe that prize and award income should continue to be sourced to the residence of the grantor.

Estate Tax Marital Credit for Certain Employees of International Organizations (sec. 404)

Current law. Under current law, the gross estate of a U.S. citizen or resident includes all of the decedent's property, wherever situated. The gross estate of a nonresident noncitizen includes only that portion of the decedent's property that is situated in the United States.

Both the estate of a U.S. citizen or resident and the estate of a nonresident noncitizen are allowed a marital deduction for the value of property passing to a surviving spouse, provided that (1) the surviving spouse is a U.S. citizen, or becomes a U.S. citizen before the estate tax return is filed, or (2) the property passes to a qualified domestic trust.

In addition, the estate of a U.S. citizen or resident generally is allowed a unified credit of $192,800, which effectively exempts the first $600,000 of transfers. The estate of a nonresident noncitizen is allowed a unified credit of $13,000, which effectively exempts the first $60,000 of transfers. Certain bilateral estate tax treaties allow the estate of a noncitizen resident in the treaty partner country a pro rata portion of the unified credit allowed to the estate of a U.S. citizen or resident, based on the proportion of the decedent's U.S. gross estate to his or her worldwide gross estate.

Proposal. The bill would provide a marital transfer credit for certain estates subject to U.S. estate tax by reason of the employment of one or both spouses by an international organization. An estate would be eligible for the credit if (1) neither the decedent nor the surviving spouse was a U.S. citizen or a lawful permanent resident of the United States; (2) either the decedent or the surviving spouse was a full-time employee of an international organization and has his or her principal place of employment in the United States; and (3) the executor waives all qualified domestic trust benefits to which the estate would otherwise be entitled under the Code.

Subject to certain adjustments, the marital transfer credit allowed to the estate of a resident decedent would be limited to an exemption equivalent of $600,000. The marital transfer credit allowed to the estate of a nonresident decedent generally would be limited to the same amount, but would be reduced by the amount of any unified credit allowed by Code or by treaty.

Discussion. We believe that the proposed relief is appropriate. We note that the Articles of Agreement of the Bretton Woods institutions (the World Bank and the International Monetary Fund), for example, provide that "no tax shall be levied on or in respect of salaries and emoluments paid ... officials or employees ... who are not local citizens, local subjects or other local nationals." While this provision is silent on the specific issue of estate taxation, we believe that the proposed relief is consistent with the general spirit of the Articles and with the United States' special role as host to these and other international organizations.

Subtitle B. Other Provisions

Reduction of Possession Tax Credit (sec. 411)

Current law. Section 936 of the Code provides a tax credit for certain corporations conducting an active trade or business in a possession. The credit is equal to 100 percent of the corporation's U.S. tax liability attributable to foreign source income earned in such business plus certain qualified investment income.

Proposal. The proposal would reduce the credit allowed under section 936 against the U.S. tax on a corporation's possession-based operations and qualified investment income from 100 percent to 85 percent of the corporation's U.S. tax liability with respect to such operations and income.

Discussion. Although section 936 applies to all of the possessions, any proposal to alter it must be viewed in the context of the unique historical relationship between the United States and the Commonwealth of Puerto Rico. The United States

long ago determined that it should foster economic development in Puerto Rico. Section 936, which was intended to encourage labor-intensive investment in the possessions, is a keystone of this policy. In recent years, section 936 was modified to effectively permit corporations doing business in Puerto Rico to invest those funds tax-free, at a below-market cost to the borrowers, in the Caribbean Basin.

Section 936, however, is not without its flaws. Recent studies indicate that a disproportionate share of the tax benefits attributable to section 936 is realized by intangible-intensive industries that create relatively few jobs in the possessions, rather than the labor-intensive industries that section 936 was intended to encourage. For instance, Treasury data indicates that in 1987 the tax expenditure for each job that pharmaceutical corporations created in Puerto Rico was $70,788, and that the pharmaceutical industry enjoyed 56 percent of the section 936 tax benefits in that year. Data of this nature suggests that while section 936 clearly has created jobs in Puerto Rico, the number of jobs may be too small in relation to the tax expenditure.

While this data could reasonably lead one to question the efficacy of section 936 in acting as a spur to creation of jobs in Puerto Rico, it is difficult to discern a principled justification for the current proposal to scale back the section 936 credit by 15 percent. It is not clear what effect, if any, this reduction would have on Puerto Rico's competitive position in relation to other locations that may be available to potential investors. Without understanding the probable economic effect of the proposal, the 15 percent reduction in the credit appears to be an arbitrary choice.

Before embarking on revisions to section 936 such as that embodied in the current proposal, we need to consider several factors, including the number of jobs attributable to section 936, the cost to the U.S. fisc of creating those jobs, the alternatives that may be available to realize our objectives more efficiently, and the economic impact on Puerto Rico. Finally, we also should take into account the continuing discussions relating to the political future of the Commonwealth. Any changes to the island's political status could require, as a constitutional matter, changes to the tax benefits conferred on investments in Puerto Rico.

<u>Treatment of Passive Income Related to Foreign Oil and Gas Extraction Income and Shipping Income (secs. 412 and 201(f)(9)(B))</u>

<u>Current law</u>. Section 904 of the Code generally places passive income in a separate "basket" for foreign tax credit purposes, to prevent the cross-crediting of the relatively high

foreign taxes on active income against the U.S. tax on passive income (which frequently bears little or no foreign tax). Section 907 generally restricts the credit for foreign oil and gas extraction taxes to the amount of U.S. tax on foreign oil and gas extraction income (FOGEI).

The section 904 definition of passive income explicitly excludes passive income earned in connection with oil and gas extraction activities. Regulations issued under section 907 prior to the 1986 Act amendments to the foreign tax credit baskets treat certain passive income earned in connection with foreign oil and gas extraction activities as FOGEI.

Under section 904, passive income earned from the investment of working capital related to shipping activities is treated as shipping income rather than passive income.

Proposal. The bill provides that passive income earned in connection with foreign oil and gas extraction or shipping activities (e.g., interest on bank deposits or any other temporary investment of working capital) is passive income for foreign tax credit limitation purposes. The bill also would remove all passive income related to oil and gas extraction activities from the definition of FOGEI for purposes of the special foreign tax credit limitation of section 907.

Discussion. The provision would limit the averaging of high-taxed foreign source income with low-taxed passive income earned on working capital. In evaluating this proposal, it is appropriate to consider a number of factors. On the one hand, within the context of the existing foreign tax credit regime, the provision could be viewed as advancing the goal of efficiency by ensuring consistent foreign tax credit treatment for all types of income earned on working capital by taxpayers in all industries. On the other hand, in the context of a general reform of the foreign tax credit rules, thought might be given to whether the goal of efficiency might also be achieved by extending the present law treatment of passive income related to foreign oil and gas extraction and shipping activities to income earned on working capital in other industries.

OTHER PROVISIONS

The remaining provisions of the bill generally reiterate or relate to the provisions of the Tax Simplification Act of 1991. Treasury testified last year in support of that legislation, and we continue to believe that these provisions would advance the important policy goal of simplification and administrability. In connection with our study, we intend to look at additional administrative and transactional simplification measures, including measures with respect to the foreign tax credit, subpart F, and section 367.

CONCLUSION

This concludes my written testimony. I will be pleased to answer any questions which you or other members of the Committee may have.

AUCTION RESULTS

PUBLIC DEBT NEWS

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202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,636 million of 13-week bills to be issued July 23, 1992 and to mature October 22, 1992 were accepted today (CUSIP: 912794YZ1).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.12%	3.19%	99.211
High	3.17%	3.24%	99.199
Average	3.16%	3.23%	99.201

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	27,065	27,065
New York	31,541,810	9,831,370
Philadelphia	15,265	15,265
Cleveland	30,730	30,730
Richmond	31,535	31,535
Atlanta	18,060	18,060
Chicago	1,884,760	482,760
St. Louis	17,035	17,035
Minneapolis	6,695	6,695
Kansas City	31,580	30,860
Dallas	24,055	24,055
San Francisco	694,320	314,720
Treasury	805,955	805,955
TOTALS	$35,128,865	$11,636,105
Type		
Competitive	$31,034,420	$7,541,660
Noncompetitive	1,325,685	1,325,685
Subtotal, Public	$32,360,105	$8,867,345
Federal Reserve	2,229,860	2,229,860
Foreign Official Institutions	538,900	538,900
TOTALS	$35,128,865	$11,636,105

An additional $300,700 thousand of bills will be issued to foreign official institutions for new cash.

NB - 1904

AUCTION RESULTS

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July 20, 1992

CONTACT: Office of Financing
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RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,677 million of 26-week bills to be issued July 23, 1992 and to mature January 21, 1993 were accepted today (CUSIP: 912794A38).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.21%	3.31%	98.377
High	3.24%	3.34%	98.362
Average	3.24%	3.34%	98.362

Tenders at the high discount rate were allotted 56%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	20,985	20,985
New York	33,274,990	10,281,990
Philadelphia	5,325	5,325
Cleveland	24,920	24,920
Richmond	54,950	43,950
Atlanta	36,015	32,815
Chicago	1,789,590	214,990
St. Louis	16,720	14,520
Minneapolis	3,910	3,910
Kansas City	25,540	25,100
Dallas	10,690	10,690
San Francisco	785,760	314,560
Treasury	683,675	683,675
TOTALS	$36,733,070	$11,677,430
Type		
Competitive	$32,419,070	$7,363,430
Noncompetitive	1,053,100	1,053,100
Subtotal, Public	$33,472,170	$8,416,530
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	560,900	560,900
TOTALS	$36,733,070	$11,677,430

An additional $317,300 thousand of bills will be issued to foreign official institutions for new cash.

NB - 1905

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

DEPT. OF THE TREASURY

For Immediate Release July 21, 1992

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of June 1992.

As indicated in this table, U.S. reserve assets amounted to 77,092 million at the end of June 1992, up from 74,587 million in May 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					
May	74,587	11,057	11,315	43,040	9,175
June	77,092	11,059	11,597	45,055	9,381

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-1906

HOUSEHOLD INCOME CHANGES OVER TIME: SOME BASIC QUESTIONS AND FACTS

U. S. Department of the Treasury
Office of Tax Analysis

July 1992

INTRODUCTION

Recent analyses have seemingly told quite different stories about how income groups fared in the 1980s. Some discussions suggest that the rich got richer, the poor got poorer, and the incomes of the middle class stagnated. Others present a quite different picture: one of broad-based income gains with some of the largest gains going to families who were at the bottom of the income ladder in 1980.

What accounts for these strikingly different accounts of income change in the 1980s? Here are three explanations:

- The analyses are addressing different questions about income changes, sometimes without carefully distinguishing among the questions.

- The analyses rely on different facts or data, collected in different ways, and covering different time periods.

- In some cases, articles are misinterpreting the results of technical studies, answering questions with the wrong data. The results are "facts" that are misleading, as opposed to insights about changes in income during the 1980s.

This paper provides a nontechnical guide to basic questions and facts about changes in income over time. The next section of the paper describes typical ways in which the incomes of individuals and households change through time. The following section then describes the different ways that statistical data on incomes are gathered, how households are grouped by income from these data, how typical household income changes will show up in these data, and which questions about income change we can sensibly try to answer with each type of data. The final section compares recently released U.S. Treasury data from tax returns with data from other sources, and attempts to clear up the apparent confusion in some recent press reports about the Treasury data and what they tell us about income changes in the 1980s.

HOW INCOMES CHANGE OVER TIME

Although patterns of change differ from person to person and some individuals remain in poverty for extended periods of time, most of us experience fairly large changes in income over time. Our earnings from work and our investment income are likely to change over our lifetime as we first enter, and then leave, the workforce; we may receive irregular or infrequent sources of income; persons may enter or leave our households; and our incomes are influenced by factors affecting the economy as a whole. This section describes each of these sources of changes in income.

Lifetime Earnings Pattern

Over the course of our working careers, most of us experience fairly substantial income changes as our earnings follow the typical lifetime pattern. We usually begin our working careers at relatively low-paying entry-level jobs. As we gain skills and work experience, move to new jobs that better match our skills and interests, and further our on-the-job training and formal education, we become more valuable as employees and are rewarded with increases in pay. During our working years, we may defer some portion of current earnings for later years. As we near retirement, our pay is likely to peak, and then be partially replaced by pensions and Social Security--forms of deferred compensation--when we fully retire from the work force.

Lifetime Investment Income Pattern

Our incomes also tend to change in a regular pattern as our savings behavior, and therefore our investment income, changes over our lifetimes. We typically do not save much from the relatively low pay we earn when we first enter the labor force. Over time, as our pay increases, we usually begin to save some of our income and to purchase homes and make other investments. The income from these investments added to our increasing pay gives us much higher incomes than we had as young adults. By the time we retire, we often have accumulated investments which provide a source of income which can be drawn down over time.

Fluctuating Patterns of Income

While most of us will have income from earnings and investments that follow the regular lifetime patterns outlined above, others will experience relatively large year-to-year fluctuations in their incomes. For example, workers in economically cyclical industries, such as construction, often have some good years, when income is well above average, and some bad years, when income is well below average. Farmers and other small business owners also often experience wide fluctuations in income.

Further, even workers whose incomes normally follow a regular lifetime earnings pattern may, for a variety of reasons, experience income fluctuations in some years. For example, a spell of unemployment will make income abnormally low in a year, while a large bonus or sales commission will make the year's income abnormally high.

Finally, many of us experience infrequent or one-time large increases in annual income reported for tax purposes, such as when we sell our homes or small businesses or shift our investment portfolios.

Household Membership and Work Patterns

A household's total income will reflect changes in the number of persons in the household. In addition, household income will change when members enter or leave the workforce or change their hours of work.

Marriage and Children. Marriage reduces the number of households and increases household income if both spouses are employed. If the couple at some point decides to have children, one of the spouses may leave the labor market, or both spouses may reduce the number of hours worked, thereby reducing the household's income. Later, when the children are older, both spouses may again work full time and the household's income will increase. The

household's income will also increase when, for example, a teenager works after school or has a summer job.

Death and Divorce. The death of a working spouse or other household member reduces a household's income, sometimes quite substantially. Divorce typically splits a household into two households, and one or both usually have a lower income than that of the original household.

Other Household Changes. There are a number of other changes in household makeup or work patterns which affect household income. For example, when a widow joins her daughter's household or an adult child moves back into his or her parents' household, that household's income typically increases.[1]

Economy-Wide Changes

Broad economic trends as well as lifetime income patterns and other particular circumstances of households cause incomes to change over time. These trends include economic growth, inflation, technological change, international trade flows, and population growth.

Economic Growth. Investment in plant and equipment and other factors increase labor productivity over time. The benefits of higher productivity are generally reflected in higher wages for workers and lower prices for consumers. Thus, economic growth tends to raise the real incomes of all households.

Inflation. Wage increases not matched by productivity growth and price increases not matched by increases in product quality are purely inflationary. Data on incomes in different years must be adjusted for changes in the price level in each year so that comparisons are of "real" or "constant dollar" income changes across years.

Technological Change. There are fewer telephone operators today than there were 30 years ago, even though the volume of telephone calls has grown tremendously. Technological advancements in telecommunications equipment have replaced the need for many operators. On the other hand, technological changes over the past decade or so are responsible for the emergence of the personal computer industry, which has increased demand for workers in computer design and engineering, parts manufacturing and assembly, distribution and sales, repair, software development and support, and related fields. These are only two examples of how technological change shifts the demand for labor with particular skills and training. These shifts in turn are reflected in income changes at the individual and household level.

International Trade Flows. Like technological change, changing patterns of international trade also shift the demand for labor with particular skills and training, and these shifts are reflected in income changes at the individual and household level.

Population Growth. As noted above, household income changes as the young enter the labor force and as older workers retire and leave the labor force. Over time, labor force changes mirror population changes through births and deaths and changes in labor force participation rates.[2] Our population also changes due to people moving to the United States from other countries. Immigration increases the number of households as well as the number of workers, and these in turn affect measures of relative household income changes over time.

STATISTICAL DATA ON INCOME CHANGES

This section describes the different ways that statistical data on incomes are gathered, how households are grouped according to income from these data, how typical household income changes will show up in these data, and which questions about income change we can sensibly try to answer with each type of data.

How Income Data Are Gathered

Income data come from two main sources: questionnaire surveys and government administrative records such as income tax returns. In surveys, a statistical sample of households voluntarily answer questions on the amount and types of income received by all members of the household in the preceding year. One of the largest and most comprehensive surveys is conducted annually by the Census Bureau. The Current Population Survey (CPS) gathers income data for the preceding year from a sample of households each March. Individual income tax returns contain information on income received by tax filers in the preceding year. The Internal Revenue Service (IRS) maintains a master file consisting of all income tax returns filed in a year. However, because the entire population of tax filers in a year is very large, a statistical sample of tax returns is used to study most income data. Data from a sample of Federal individual income tax returns is released in various forms each year by the Statistics of Income (SOI) Division of the IRS.

Both questionnaire survey and tax return samples are designed so that the results can be weighted to represent all households in the population from which the sample was drawn. For example, if the total number of households were 100 million, and the sample randomly included one out of every thousand households, the sample would consist of 100,000 households and the weight assigned to each household in the sample would be 1,000.[3] As discussed below, the various surveys and tax returns differ in which types of income are covered, the definition of what constitutes a "household," and which individuals are omitted from the covered population. They also differ in how much data on household characteristics (for example, the age and education of household members) is gathered, and how well incomes are reported.

How Households Are Grouped by Income

Households are usually grouped according to total household income in one of two ways. Each household in the sample can be assigned to a fixed dollar income class, such as "$20,000 to $30,000" or "$50,000 to $75,000." The lowest income class might be "Under $20,000" while

the highest might be "$200,000 and Over," so that all households can be assigned to an income class. Grouping by income class is relatively easy to do and the groups are easy to understand, but some questions about income growth are harder to answer with this grouping because each income class generally contains a different number of households.

The second grouping, which is used later in this paper, first requires ranking all households in the sample from lowest to highest income. The first 20 percent of households (on a weighted basis) are then grouped together into the first (lowest) quintile, the second 20 percent into the second quintile, and so on, with the last 20 percent grouped in to the fifth (highest) quintile. Thus, each group contains exactly the same number of households.

Once households have been grouped, summary data on the income of each group can be calculated. For example, for each quintile we can compute the average income for all households in the quintile, the total income for all households in the quintile, or the share that total income in the quintile represents of total income of households in all quintiles.

How Income Changes Show Up In These Data

If we examine household income data for a year, such as data from the CPS, ranked by quintile, we find that household heads in the lowest quintile are more than twice as likely as household heads in the other four quintiles to be young people, typically just entering the labor force, or older, retirement-aged people.[4] In addition, some households are only temporarily in the lowest quintile because they are having bad years--experiencing unemployment, business losses, or similar setbacks.

In the highest quintile, household heads are more than twice as likely as household heads in the other quintiles to be aged between 45 and 54, which are typical peak earnings years. Households in the highest quintile are also much more likely (82 percent) than other households (49 percent) to be headed by a married couple.[5] In addition, some households are only

temporarily in the highest quintile because they are having good years--receiving bonuses, having good ...ness year... ...d so on.

These survey data for a year therefore confirm what we would expect from our own experience about the effects on income of lifetime earnings patterns, changing household membership and work patterns, and other factors discussed above. We also would expect from our own experience, however, that the same broad factors that cause households to fall in a particular quintile in a year will also tend to change and therefore move households to different quintiles over time. Thus, we would expect that households headed by young workers will tend to move into higher quintiles as earnings increase over the lifetime of a household head, while households headed by older workers will tend to move into lower quintiles as they retire and earnings cease. We would also expect that households will tend to move up or down the income quintiles as they follow their lifetime investment income patterns, as they experience fluctuations in income, and as household membership and work patterns change. The economy-wide changes discussed above -- economic growth, inflation, technological change, international trade flows, and population growth -- can also be expected to affect households differently, and so to move some households upward or downward in the overall income distribution.

These considerations suggest what we should expect to find if we examine household movements across quintiles over, say, a 10-year period (as the Treasury data discussed below do). We should find that some households in the lowest quintile in the first year of the period are in higher quintiles in the last year of the period. We should also find the reverse: Some of the households in the lowest quintile in the last year were in a higher quintile in the first year. Some households may be in the lowest quintile in the first and last years but not in all 10 years, while others may be in the lowest quintile in all 10 years. Similarly, we should find that some households in the highest quintile in the first year are in lower quintiles in the last year; some of the households in the highest quintile in the last year were in a lower quintile in the first year; some households were in the highest quintile in the first and last years but not in all 10 years; and that some households were in the highest quintile in all 10 years. We would expect to find

the same patterns in the middle three quintiles, with the added fact that unlike the lowest and highest quintiles, households can move both up and down from the middle quintiles.

Which Questions Can We Sensibly Try To Answer?

Survey questionnaire and tax return samples can be designed in one of two ways, and whether we can sensibly try to answer a question using a statistical data set depends critically on which of the two sample designs was used for the data sample.

Annual Sample Design. These samples are meant to be representative of all households in the population in a single year.[7] The sample is constructed so that all households in the population in that year have a chance of being included in the sample. When an annual sample is weighted, it represents all the households in the population in that year. New annual samples are taken each year, so a household that is actually included in an annual sample in one year will normally not be in the sample in following years.

Panel Sample Design. Panel samples are specifically designed to study change by following the same households or tax-filing units from year to year. In the first year, a panel sample is typically designed to be representative of all households or tax-filing units in the population in that year. The panel sample is a snapshot of the population in the first year of the survey. The panel then follows the people in the snapshot for a number of years. In subsequent years, a basic panel sample continues to represent the population as measured in the first year of the panel, although the sampling process can be designed to add new households over time as the population grows. Since the total population changes in the years following the first year of the panel, however, the most basic type of panel sample will not be fully representative of the entire population of households after the first year.[8] Thus, if a second snapshot were taken of the population in a later year, and this new snapshot were compared to the original panel, as seen in that year, the pictures could be very different.

Which Questions Can Annual Sample Data Help Answer? By design, data from an annual sample can help us answer questions about household income in the year covered by the sample.[9] For example, annual sample data should provide reliable answers to such questions as: What were the total and average amounts of income received by all households in the year? What were the total and average amounts of income received by households in each income group in the year? What share of total income earned by all households in the year was received by households in each income group?

Annual sample data can also be used to answer certain questions about changes in income over time, but these questions must be carefully asked and their answers carefully interpreted. For example, with annual sample data for two years we can ask: What was the percentage change in average income received by all households between the two years? The computed percentage change in average income for all households does *not* equal the average change in income for any group of households. This is because the number and composition of households will have changed between the two years, due to young adults leaving their parents' households to form their own households, marriages and divorces, immigration from other countries, and other factors discussed above. Average household income is affected by these changes, so the computed percentage change in average household income between the two years reflects both changes in income and changes in the composition of the households.

A second question that some have attempted to answer with annual sample data for two years is: What was the percentage change in average income received by households in a particular income group (say, the first quintile) between the two years? The answer to this question must be interpreted with extreme care. Like the computed percentage change in average income for all households, this computation will give a change in the average for all households in the income group, and does *not* measure the average change in income for any household or subgroup of households because the computation is affected by the change in the number and composition of households between the two years. For example, households will have moved out of and into the income group between the two years. Therefore, the computed change in average income for the group does not measure the average change for households which were

in that group in the first year, nor does it measure the average change for households which were in that group in the second year.

Which Questions Can Panel Sample Data Help Answer? Data from panel samples, by design, can help us answer questions about the income changes over time for a household or fixed groups of households.[10] There are three basic types of questions that panel data help us answer. The first is: How much did the income of the household or group change *absolutely* between years? Panel data allow us to answer this type of question by computing the amount or percentage change in income for each household or group of households.

The second type of question is: How did the income of the household or group change *relative to that of other households or groups in the panel* between years? A specific question might be: If we keep households grouped by the quintile they were in the first year of the panel, how much did their average income change by the second year? This is one of the questions that an Urban Institute study, discussed below, used survey panel data to answer. The answer requires computing the average change in income for households grouped by quintile in the beginning year. The average changes can then be compared to see how the different groups fared relative to each other.

The third type of question is: How did the income of the household or group in the panel change *relative to that of all other households or groups in the population* between years? A specific question might be: How much did the income of households represented by the panel sample change on average relative to the change in average income of all households in the population between two years? To answer this question, we must compute the average change in income between the two years for the panel households, and from annual samples for the two years compute the change in average income for all households in the population.

Another specific question is the one the U.S. Treasury data discussed below were used to answer: Between years, how often did households represented by the panel sample move to

higher or lower income quintiles defined for all households in the population? This question lets us distinguish the income changes for a fixed group of tax-filing units (the panel) from changes in the income for the population, which changes are in response to changes in population growth and composition discussed above. To answer the question, we must first determine the income boundaries between each quintile in each year for all tax-filing units in the population using annual sample data. Then, the tax-filing units in the panel sample can be assigned to a population quintile in each year, and we can determine directly how often these units moved to higher or lower quintiles between years. The more the *panel* shows that income changes move household units to different population quintiles in different years, the more skeptical we must be about statements about income changes which make comparisons based on *annual* (cross-section) data. We can also use panel data that contain information on household characteristics (such as the age and education of members of the household, their work experience, occupation, etc.) to try to answer questions about *why* household income changes as it does. For example, we can ask: What effect does the age of family members have on their earnings? What effect does education have? Work experience? Occupation? These questions for the most part can only be addressed using panel data from questionnaire surveys, since income tax returns do not contain much information on household characteristics other than income.

Which Questions Cannot Be Answered by Either Type of Data? Neither annual sample data or existing panel data are well suited to help us answer some basic questions about household income changes. We would like to know: How do individuals' and households' incomes change over their entire lifetimes? We would also like to know: How have lifetime incomes changed across generations? Full answers to these questions will require carefully constructed panel samples that continue for very long periods of time.

THE RECENT U.S. TREASURY STUDY

On June 1, the Office of Tax Analysis released a study, "Household Income Mobility During the 1980s: A Statistical Assessment Based on Tax Return Data." This section briefly describes the data, how the Treasury tax return data differ from questionnaire survey data, the questions

asked and facts presented in the Treasury study, and how the Treasury study results compare to the results of other recent studies.

The Data Used in the Treasury Study

The Treasury study used data from a 10-year panel of Federal individual income tax returns. The sample for this panel was initially selected in 1981 in two parts. The first part is a sample, not directly of all tax returns filed in 1981, but of the annual SOI sample of all tax returns filed in 1981. The second part of the panel sample is a purely random sample of all tax returns filed in 1981. The two parts combined contain about 20,000 tax filing units. All of these tax filing units were then followed backward two years (to 1979), and then forward to 1988.[11] The weights used for the full panel are for 1981, and make the panel represent all 95.4 million tax returns filed in 1981. For the Treasury study, only tax filing units in the panel who filed returns for all 10 calendar years 1979-1988 were used. This left 14,351 tax filing units in the panel, which represent some 58 million returns filed in 1981. The income data for the panel were then adjusted for inflation to constant 1989 dollars and also adjusted for changes in the definition of taxable income over the period.[12]

How the Treasury Data Differ from Survey Data

The tax return data used in the Treasury study differ from most survey data in five important respects: the definition of a "household," the covered population, the definition of "income," the amount of data on household characteristics, and the reliability of the data.

Definition of Household. Surveys such as the CPS generally define a household as all persons, whether or not related, who occupy a housing unit. Household income includes all income received by all members of the household who are over 14 years of age. Income tax returns are filed by each individual with a tax filing requirement, or by married couples filing jointly, and include only the income of the filer(s).[13] Hence, some individuals who live in the same housing unit as a income tax return filer may have their own income, and may be separate

income tax return filers. Conversely, in some circumstances a jointly filed tax return may cover a married couple who occupy separate housing units (for example, some spouses live and work in separate cities for an extended period of time). Further, dependents claimed on a tax return may not occupy the same household as the tax filer (for example, the child of a divorced couple may live with one parent but be supported, and claimed as a dependent, by the other parent).

Population Covered. The CPS and other survey data cover most individuals living in the United States. Not covered in the CPS, for example, are individuals living in military barracks and inmates of institutions. Income tax returns are in most cases only required to be filed when income subject to tax is above the tax filing threshold (generally, the combined amount of the standard deduction and personal exemption(s) for the filing status -- single, joint, etc.).[14] Hence, individuals not required to file tax returns, and their dependents, will not be covered in a sample of tax returns unless the individual files to receive a refund of overwithheld income tax or a refundable earned income tax credit, or voluntarily files for other reasons. However, income tax returns must be filed by individuals living in military barracks or institutions if they meet the filing requirements.[15] The net effect of these differences in the population coverage is that tax returns cover about 90 percent of all individuals in the United States as filers or their dependents, and cover about 80 percent of all households.[16]

Definition of Income. Both survey data and income tax returns cover major sources of money income such as wages and salaries, interest, dividends, and net income from self-employment. The important differences in income coverage are that tax returns, but not most survey data, include income from realized capital gains, and most surveys include income from public assistance and other government transfer payments that are not subject to Federal income tax. Since 1984, a portion of Social Security benefits have been subject to Federal income tax for higher-income recipients, and are reported on income tax returns. For the Treasury study, however, it was necessary to exclude these amounts for 1984 and later years in order to make incomes reported in all years comparable. Therefore, another difference between survey data and the income tax return data, as adjusted, used in the Treasury study is the exclusion from the Treasury data of all Social Security benefits.

Household Characteristics Tax returns contain relatively few data on household characteristics. We can tell from tax returns whether a taxpayer is married, and with supplemental data from the Social Security Administration we can determine a taxpayer's age.[17] Survey data, in contrast, often include detailed data on household characteristics, such as the education of each household member, their work experience, industry and occupation, and other factors that influence income and income changes over time.

Reliability of the Data. Income reporting on tax returns, particularly the reporting of non-wage income (such as interest and dividends) is considerably better than the reporting on surveys. Tax return income data are also more reliable for higher-income households, because nearly all of these households must file tax returns, but relatively few of these households will be included in a random survey sample or even a stratified survey sample unless it is quite large.[18]

Questions Asked and Facts Presented in the Treasury Study

The Treasury study was motivated by the increasing attention and analysis that the distribution of tax burdens has received in the deliberation of tax policy. Discussions of the distributional effects of tax changes (that is, their effect on different income groups) have frequently assumed that households do not often move to a higher or lower income group. The basic question asked in the Treasury study, therefore, was: Over a given number of years, how often do tax-filing units move to higher or lower income quintiles defined for all tax-filing units in the population?[19]

The Treasury study used the 10-year (1979-1988) panel of Federal individual income tax returns described above to answer this basic question.[20] Some of the main facts presented in the Treasury Study are reproduced here in summary form. Table 1 shows how tax-filing units moved across population income quintiles between 1979 and 1988. Table 1 shows that at least one-third of the taxpayers in each 1979 population quintile had moved to a different population quintile by 1988. For taxpayers starting in the lowest three population quintiles in 1979, at least

two-thirds had moved by 1988. For taxpayers starting in the lowest (first) population quinti[illegible] in [illegible], more ha[illegible] [illegible]oved to the highest (fi[illegible] [illegible]opulation [illegible]uintile [illegible] [illegible]88 than re[illegible]ained in the lowest quintile in 1988. These results suggest that there are indeed significant movements of taxpayers to other income groups over time, especially from lower to higher groups.

The Treasury study also examined other questions. One is the effect of age on movements across income quintiles. The study found, as we would expect from lifetime income patterns, that taxpayers who moved to higher quintiles over time tended to be younger, while taxpayers who moved to lower quintiles tended to be older.[21] Another question is how closely income in each year is related to income averaged over the 10 years of the panel. The study found that the two income measures are very imperfectly related.[22] The Treasury study also examined the importance of wages and salaries in income, and found that taxpayers who move to higher quintiles over time tend to have higher than average shares of wage and salary income. This finding indicates that wages and salaries are a major force behind upward income movements.[23]

One further question examined by the Treasury study was the effect of changes in filing status (which correspond in many cases to changes in household membership, as discussed above) on movements across income quintiles. The study presented summary data which indicated that changes in filing status did account for some movements, as we would expect, but that significant movements remained when the sample was restricted to taxpayers who had no change in filing status over the 10-year period.[24] Table 2 shows the results for the restricted sample, confirming the summary data presented in the Treasury study.

How the Treasury Results Compare to Results of Other Recent Studies

The Urban Institute Study. The Urban Institute study released a study of household income mobility shortly after the Treasury study was released. As demonstrated below, when the data from the two studies are used to address the same questions, the answers are very similar.

The Urban Institute study "Is U.S. Income Inequality Really Growing?: Sorting Out the Fairness Question" was written by Isabel V. Sawhill and Mark Condon.[25] The study uses data from the Panel Survey of Income Dynamics (PSID) which has followed all members of a sample of households since 1967. Sawhill and Condon selected from the PSID all individuals aged 25 to 54 in two years, 1967 and 1977, and then calculated the change in their family income *relative to the other families in this age-restricted group* in the following 10 years (1967 to 1976 or 1977 to 1986).

The second 10-year period (1977-1986) corresponds closely to the 10-year period covered by the Treasury study, so it is possible to compare the results of the Urban Institute and Treasury studies. Urban Institute results are reproduced here in Table 3, which shows how PSID families with members aged 25 to 54 in 1977 moved across income quintiles between 1977 and 1986.[26] Table 3 shows considerable income movements: nearly half of all families in each 1977 quintile had moved to a different quintile by 1986, and in the middle three quintiles in 1977 two-thirds had moved by 1986.

A comparison of the Urban Institute and Treasury study results (Tables 1 and 3) indicates that the Treasury data show more upward income movements. However, the Urban Institute data in Table 3 differ from the Treasury data in Table 1 in two important respects, because different questions were being asked. First, the Urban Institute calculated income changes relative to other families represented by their sample, whereas the Treasury study calculated income changes relative to all tax returns. Second, the Urban Institute restricted its sample to families with members aged 25 to 54 in 1977, whereas the Treasury study placed no age restriction on its sample. To determine the importance of these two differences between the studies, we first restricted the Treasury sample to tax returns with filers aged 25 to 55 in 1979, and also recomputed the income breaks for each quintile from the annual samples of tax returns representing the entire population of tax filers, who were aged 25 to 64 in each year.[27] This step tells us how important the age restriction alone is, because we are still computing income movements relative to the (age-restricted) population of all tax returns, rather than only to tax returns represented by the (age-restricted) panel. The results are shown in Table 4, which

generally indicates more income movements than found in the Urban Institute study (Table 3), but less than was found in the Treasury study (Table 1).

We then computed income breaks for each quintile from the age-restricted Treasury panel, eliminating both differences from the Urban Institute study. The results, shown in Table 5, are virtually identical to the Urban Institute results in Table 3. Table 5, therefore, confirms that if we ask the same question of the Treasury panel that the Urban Institute asked of the PSID panel, we get the same answer.

The Urban Institute study also asked how much average incomes changed between 1977 and 1986 for (age-restricted) families grouped by their starting quintiles in 1977. The results are shown in Table 6, which indicates that the largest dollar increase, as well as percentage increase, in average family income between 1977 and 1986 was realized by families in the first (lowest) quintile in 1977. The increases become smaller for each higher quintile, with the smallest increases realized by families in the fifth (highest) quintile. These results mean that income differences narrowed considerably for these groups of families over the 1977 to 1986 period.

The Top 1 Percent Calculation. Other recent news articles have reported that the top 1 percent of families (by income) received 70 percent of the increase in after-tax income between 1977 and 1989. The calculation underlying this "fact" is based on annual survey data.[28] As we saw above, such a result is a meaningless statistical artifact if it is interpreted as measuring the average change in income of any fixed group of households.[29] The Treasury income tax return panel data allow us to make this calculation in a more statistically meaningful way, by calculating the share of the change in after-tax income between 1979 and 1988 for the top 1 percent of taxpayers *in 1979*. This group's share is 11.3 percent of the total change in income over the period, not nearly so much more than this group's 6.1 percent share of after-tax income in 1979 as the "fact" discussed above would imply. Thus, this fixed group of taxpayers, the top 1 percent in 1979, fared better on average over the 10-year period than many other taxpayers covered by the Treasury panel, but not as much better as that suggested in the calculation referred to above.

CONCLUSIONS

- *Income mobility* for persons or households is a concept with many legitimate definitions. In empirical studies of income mobility, it is important to select data which are appropriate for analyzing the question being asked.

- Data from an annual sample of households can be used to answer questions about household income in the year covered by the sample. It is inappropriate, however, to make statements about the income mobility of groups over time based on such data.

- Panel data can be used to answer questions about how th ...comes of households or groups change relative to those of all other households or groups in the population between years.

- The Treasury study asked: Over a given number of years, how often do tax-filing units move to higher- or lower-income quintiles (defined for all tax-filing units in the population)? The study found evidence of significant movements of taxpayers to other income groups over time, especially from lower- to higher-income groups. Significant movements remained when the sample was restricted to taxpayers who had no change in filing status over the sample period.

- The Urban Institute study asked: Over a given number of years, how often do (an age-restricted sample of) families move to higher- or lower-income quintiles defined for the sample? The Urban Institute data indicate substantial mobility in family incomes. If the Treasury data are used to address the same question as that posed in the Urban Institute study, the answer is very similar.

- Recent calculations based on comparisons of annual data of the share of the increase in after-tax income received by the "top 1 percent" of households are both technically incorrect and misleading.

ENDNOTES

[1]In addition, there will usually be one fewer household.

[2]The labor force has also grown fairly substantially in the post-war period due to increased participation rates of women.

[3]More complicated sampling designs apply higher sampling rates to analytically important, but relatively rare households (for example, those with very high incomes), so these households receive a smaller weight when the sample is weighted to represent the population. This "stratified" sampling design is used, for example, in the SOI samples of individual income tax returns.

[4]In 1990, householders (a Census term essentially synonymous with "head of household") in the lowest quintile were more than twice as likely (9.2 percent) as the rest of the household population (4.2 percent) to be aged between 15 and 24. Likewise, householders in the lowest quintile were more than twice as likely (40.5 percent) as the rest of the householder population (17.1 percent) to be aged 65 or older. Households in the lowest quintile were less than a third as likely (20.8 percent) as the rest of the population (63.9 percent) to be headed by a married couple. Source: Computations based on Table 3 of "Money Income of Households, Families, and Persons in the United States: 1990," U.S. Department of Commerce, Bureau of the Census.

[5]Ibid., U.S. Department of Commerce.

[6]These samples are often referred to as "cross-sections."

[7]In a large or highly stratified sample, some households may appear in the sample in following years simply because they have a high probability of being included in the sample. However, they are not otherwise purposely included in the sample.

[8]It is sometimes possible, with proper weighting, to make a panel resemble the population in later years in certain respects.

[9]Recall that income data usually are for the year preceding the year the sample is conducted.

[10]Panel data can also be used to answer the annual data questions for the first year of the panel, and with proper weighting or other design features certain annual data questions in following years.

[11]On joint returns, only the primary taxpayer, the taxpayer whose Social Security number was listed first on the return filed in 1981, were followed.

[12]The Treasury study provides additional details on the construction of the panel sample and the adjustments for inflation and the tax code definition of income.

[13]There is a minor exception for parents who in certain circumstances can include a child's income on their return in lieu of the child filing and paying tax. However, this exception began in 1989 so does not affect the data used in the Treasury study

[14]For example, in 1988 (the last year covered by the Treasury panel data on income tax returns), the standard deduction (for taxpayers under age 65) on a single return was $3,000 and $5,000 on a joint return, and the personal exemption amount was $1,950. Hence, the filing threshold for a single filer was therefore $4,950 and for a joint return, $8,900.

[15]In some circumstances, a return must also be filed by a U.S. citizen living abroad.

[16]The percentage coverage of households is smaller because nonfilers tend to be in smaller households than filers.

[17]Occupations are reported on tax returns, but this reporting is difficult to use for statistical purposes.

[18]In addition, even if a higher income household is sampled, non-response is more likely than for lower- and middle-income households.

[19]Given that the constant-dollar breakpoints for the population quintiles did not change much over the period (see Table A2 in the original Treasury study), another way to ask this question is: How often do tax-filing units move relative to fixed-dollar breakpoints in the populations income distribution?

[20]Recall that income tax filers generally exclude households with incomes below the tax-filing threshold. Hence, the Treasury data do not represent income changes for such households.

[21]See Figure 4 of the Treasury study for additional details.

[22]See Table 4 of the Treasury study for additional details.

[23]See Figure 5 of the Treasury study for additional details.

[24]See page 6 of the Treasury study.

[25]The study appeared in the Urban Institute's *Policy Bites* for June 1992.

[26]As indicated in the footnote to Table 3, the Urban Institute results have been rescaled (by multiplying them all by five) to make them comparable to the tables containing Treasury Study results.

[27]The quintile income breaks are for taxpayers aged 25 to 64 in each year because in the first year (1979), the youngest taxpayers in the (restricted) Treasury panel are aged 25, whereas in the last year (1988), the oldest taxpayers are aged 64.

[28]For a careful statement of the calculation and its limitations, see the CBO Staff Memorandum, "Measuring the Distribution of Income Gains," March 1992.

[29]This issue is also explored in Michael J. Boskin, "Letter to the Editor," *The Wall Street Journal*, July 3, 1992.

Table 1

Percentage Distribution Across Income Quintiles in 1988 of Taxpayers Grouped by Their Income Quintiles in 1979[1]
(Quintiles defined for all taxpayers)

Quintile in 1979	Quintile in 1988				
	First	Second	Third	Fourth	Fifth
First	14%	21	25	25	15
Second	11	29	30	20	11
Third	6	14	33	32	15
Fourth	3	9	15	38	35
Fifth	1	4	9	20	65

[1] Reproduced from Table 1 in "Household Mobility During the 1980s: A Statistical Assesment Based on Tax Return Data," U.S. Department of the Treasury, Office of Tax Analysis, June 1, 1992.

Table 2

Same as Table 1, but only for Primary Taxpayers who did not Change Tax Filing Status Between 1979 and 1988

Quintile in 1979	Quintile in 1988				
	First	Second	Third	Fourth	Fifth
First	18%	27	28	20	7
Second	13	36	31	15	5
Third	6	15	36	33	10
Fourth	3	10	15	38	35
Fifth	1	4	9	19	67

Table 3

Percentage Distribution Across Income Quintiles in 1986 of Families with Members Aged 25 – 54 in 1977 by the Income Quintile the Family was in in 1977.[1]
(Quintiles defined for families in the PSID panel with members aged 25 to 54 in 1977)

Quintile in 1977	Quintile in 1986 First	Second	Third	Fourth	Fifth
First	53%	25	11	7	4
Second	22	30	26	15	9
Third	15	19	30	24	13
Fourth	5	15	22	34	25
Fifth	6	11	13	21	50

[1] Reproduced from Table 1, "Is U.S. Income Inequality Really Growing? Sorting Out the Fairness Question," by Isabel V. Sawhill and Mark Condon, in Policy Bites, The Urban Institute, June 1992. For comparison to the Treasury Study, numbers have been rescaled to add to 100 for each 1977 quintile. Data are from the Panel Study of Income Dynamics (PSID).

Table 5

Same as Table 4, but Taxpayers in the Panel Aged 25 to 55 in 1979 Compared to Each Other Rather than to all Taxpayers Aged 25 to 64 in Each Year
(Quintiles defined for all taxpayers in the panel aged 25 to 55 in 1979)

Quintile in 1979	Quintile in 1988 First	Second	Third	Fourth	Fifth
First	50%	26	13	7	3
Second	25	36	20	13	6
Third	12	19	32	26	11
Fourth	8	12	23	33	24
Fifth	[illegible]	7	[illegible]	[illegible]	[illegible]

Table 4

Percentage Distribution Across Income Quintiles in 1988 of Taxpayers Aged 25 to 55 in 1979 Grouped by the Income Quintiles They were in in 1979[1]
(Quintiles defined for all taxpayers aged 25 to 64 in each year)

Quintile in 1979	Quintile in 1988 First	Second	Third	Fourth	Fifth
First	33%	31	16	13	7
Second	14	28	32	18	9
Third	7	12	27	36	18
Fourth	3	8	15	37	37
Fifth	2	4	8	18	68

[1] Based on tax return panel data described in "Household Mobility During the 1980s: A Statistical Assessment Based on Tax Return Data," U.S. Department of the Treasury, Office of Tax Analysis, June 1, 1992.

Table 6

Average Family Income and Change in Average Family Income, 1977–1986, of Families Grouped by Their Income Quintile in 1977[1] (1991 Dollars)

(Quintiles defined [illegible] families in [illegible] PSID panel with members aged 25 to 54 in 1977)

Quintile in 1977	Average family income		Change in average family income	
	1977	1986	Amount	Percentage
First	$15,853	$27,998	$12,145	77%
Second	$31,340	$43,041	$11,701	37%
Third	$43,297	$51,796	$8,499	20%
Fourth	$57,486	$63,314	$5,828	10%
Fifth	$92,531	$97,140	$4,609	5%

[1] Reproduced from Table 1, "Is U.S. Income Inequality Really Growing? Sorting Out the Fairness Question," by Isabel V. Sawhill and Mark Condon, in Policy Bites, The Urban Institute, June 1992. Data are from the Panel Study of Income Dynamics (PSID).

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
July 21, 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 $ 23,200 million, to be issued July 30, 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 $ 21,695 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, July 27, 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 $ 11,600 million, representing an additional amount of bills dated April 30, 1992 and to mature October 29, 1992 (CUSIP No. 912794 ZQ 0), currently outstanding in the amount of $ 11,426 million, the additional and original bills to be freely interchangeable.

182 -day bills for approximately $ 11,600 million, to be dated July 30, 1992 and to mature January 28, 1993 (CUSIP No. 912794 A4 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 July 30, 1992. In addition to the maturing 13-week and 26-week bills, there are $ 12,651 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 $ 2,447 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $ 2,652 million as agents for foreign and international monetary authorities, and $ 7,882 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 bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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FOR RELEASE AT 2:30 P.M.
July 22, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $25,500 MILLION

The Treasury will auction $15,000 million of 2-year notes and $10,500 million of 5-year notes to refund $12,492 million of securities maturing July 31, 1992, and to raise about $13,000 million new cash. The $12,492 million of maturing securities are those held by the public, including $793 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $25,500 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $1,478 million of the maturing securities that may be refunded by issuing additional amounts of the new 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.

oOo

Attachment

NB-1908

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED JULY 31, 1992

July 22, 1992

Amount Offered to the Public ...	$15,000 million	$10,500 million
Description of Security:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series AC-1994 (CUSIP No. 912827 G2 2)	Series P-1997 (CUSIP No. 912827 G3 0)
Maturity date	July 31, 1994	July 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	January 31 and July 31	January 31 and July 31
Minimum denomination available .	$5,000	$1,000
Terms of Sale:		
Method of sale	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $5,000,000	Accepted in full at the average price up to $5,000,000
Accrued interest payable by investor	None	None
Key Dates:		
Receipt of tenders	Tuesday, July 28, 1992	Wednesday, July 29, 1992
a) noncompetitive	prior to 12:00 noon, EDST	prior to 12:00 noon, EDST
b) competitive	prior to 1:00 p.m., EDST	prior to 1:00 p.m., EDST
Settlement (final payment due from institutions):		
a) funds immediately available to the Treasury ...	Friday, July 31, 1992	Friday, July 31, 1992
b) readily-collectible check ...	Wednesday, July 29, 1992	Wednesday, July 29, 1992

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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FOR RELEASE UPON DELIVERY
Expected at 10:00 a.m. EDT
July 23, 1992

STATEMENT OF
EVELYN A. PETSCHEK
BENEFITS TAX COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to present the views of the Department of the Treasury on the consequences for workers, employers, and the Federal government of the misclassification of employees and independent contractors for Federal tax purposes. As requested by the Subcommittee, I will limit my remarks to these issues and will not address, for example, the related issue of possible changes in the rules for determining whether a worker is an employee or independent contractor.

Overview

The proper classification of workers as employees or independent contractors is significant for both Federal income and employment tax (i.e., Social Security, Medicare, Federal unemployment insurance and withholding) purposes. For example, income, Social Security and Medicare taxes on employees are collected mainly by employers through the withholding system, whereas the same taxes on independent contractors are collected mainly through self-assessment under the estimated tax system. Similarly, fringe benefits provided to employees are eligible for a number of tax preferences that are not available to independent contractors. The proper classification of workers as employees or independent contractors is also significant under certain Federal and State labor and related laws, such as wage and hour and workers' compensation laws.

Worker misclassification results when taxpayers misapply the factors used to distinguish employees from independent contractors. Under long-standing Internal Revenue Service (IRS) procedures, the status of workers as employees or independent contractors for Federal employment and income tax purposes is

generally determined by an analysis of 20 factors derived from the common law.

Misclassification may be either inadvertent or deliberate. Inadvertent misclassification occurs when taxpayers lack sufficient guidance to determine a worker's correct classification. Deliberate misclassification occurs when taxpayers try to exploit differences in the treatment of employees and employers, on the one hand, and independent contractors and their clients, on the other, for Federal tax or other purposes. Current Federal tax law does not consistently favor a worker's status as either an employee or an independent contractor. Depending on individual circumstances, however, misclassification (either as an employee or an independent contractor) may sometimes be advantageous to the worker, the worker's client or employer, or both.

The consequences flowing from misclassification for workers, employers and the Federal government vary depending on the particular circumstances involved. In general, misclassification results in the misapplication of various tax rules that are deliberately targeted at either employees or independent contractors. Such misapplication can have positive or negative effects on businesses and workers; in many cases, it will have opposite effects on the business and the worker, although in some cases it may have a positive or negative effect on both. In addition, misclassification can in some circumstances result in a net revenue loss to the Federal government.

Misclassification of an employee as an independent contractor can also have significant consequences for the employer once the misclassification has been discovered: at that time, the employer may face significant liabilities for back taxes, interest and penalties. This is particularly true if the misclassification was deliberate or involved a lack of compliance with applicable information reporting requirements.

Sources of Employee Misclassification

Inadvertent misclassification. A wide variety of relationships exists between businesses and their workers in the modern economy. They differ with respect to the degree of control exercised by the business, whether the services are full-time or part-time, the method of compensation (*e.g.*, salaried versus hourly), the level of material support provided by the business, and many other factors. Nevertheless, for Federal tax purposes, workers must almost always be grouped into one of two categories: employees and independent contractors.

As noted above, the status of workers as employees or independent contractors is, with few exceptions, determined for Federal tax purposes under the common law tests for determining

whether an employment relationship exists. These tests focus on whether the business has the right to direct and control the worker, not only as to the result to be accomplished by the work, but also as to the details and means by which that result is accomplished.

The common law tests, like most facts-and-circumstances tests, lack precision and predictability. So far, however, despite years of effort by many talented people, no clearly better tests have been developed. Until better tests are developed, or the remaining differences in treatment between employees and independent contractors are completely eliminated for Federal tax purposes, the best alternative is improved guidance with respect to the existing rules.

Unfortunately, section 530 of the Revenue Act of 1978 (section 530) generally prohibits the IRS from issuing regulations or publishing revenue rulings addressing the status of workers as employees or independent contractors for employment tax purposes.[1] Labor markets have undergone significant changes since the enactment of section 530 in 1978, during which time the IRS has been unable to issue any general guidance reflecting its interpretation of the common law tests. This has made it difficult for taxpayers and IRS personnel alike to analyze employment relationships consistently, and has reduced employers' ability to predict when the common law tests require a particular worker to be treated as an employee or an independent contractor. For this reason, one of the legislative options for further consideration described in the Treasury Department's recent report to the Congress, Taxation of Technical Services Personnel: Section 1706 of the Tax Reform Act of 1986 (March 1991) (Treasury Report) was to repeal the prohibition in section 530 against the IRS' issuance of guidance concerning employee status.

Deliberate misclassification. As noted above, current Federal tax law does not consistently favor status as either an employee or an independent contractor. However, employers and employees are treated differently than independent contractors

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[1] The IRS increased its employment tax enforcement activities in the late 1960's, when independent contractors faced a much lower Social Security and Medicare tax rate than the combined rate for employers and employees. There was a substantial increase in the reclassification of independent contractors as employees, sometimes resulting in large retroactive employment tax assessments against employers. Taxpayer complaints led Congress to enact section 530, which provides statutory relief for certain employers and prohibits the IRS from issuing regulations or revenue rulings addressing the status of individuals as employees or independent contractors for employment tax purposes.

and their clients under a number of Federal and State laws. Thus, depending on individual circumstances, misclassification may sometimes be advantageous.

Prior to 1984, compensation earned by independent contractors was taxed at substantially lower rates than wage income under the Social Security and Medicare tax provisions of the Internal Revenue Code (Code). This created a significant incentive for misclassification. Subsequent legislation has essentially eliminated this important difference. The income and employment tax provisions of the Code may still favor classification as an independent contractor, however, where a worker has a small or variable cash flow or significant employee business expenses. This is primarily because independent contractors face significantly fewer restrictions on their ability to deduct trade or business expenses than employees. Also, the estimated tax system used to collect Social Security, Medicare, and income taxes from independent contractors largely avoids the problem of overwithholding that can result when an employee incurs large business expenses, has net income that fluctuates during a year, or is employed for only part of a year.

Independent contractors may also have more opportunity than employees to be less than fully compliant with the tax laws. Employees are subject to withholding, and the amount of their wage income is reported with great precision to the IRS. Independent contractors may find it easier to omit some of their income on their tax returns without detection, although under-reporting of income becomes more difficult when an independent contractor's gross income is reported to the IRS on information returns. However, even if an independent contractor's gross income is reported to the IRS on information returns, and the independent contractor reports 100 percent of his income, he may be able to reduce his reported tax liability by overstating his deductible business expenses.

The unemployment insurance tax provisions of the Code and corresponding State laws, and State and Federal labor and related laws such as workers' compensation, workplace safety, age discrimination and wage-hour laws, may in some cases also favor classification as an independent contractor. This is because employees may not value coverage under these laws as highly as the associated tax or other costs, and they and their employers can avoid these costs by recharacterizing their status as that of independent contractors.

On the other hand, the income and employment tax provisions of the Code may favor classification as an employee. This situation typically occurs where a worker prefers to receive some of his compensation in the form of fringe benefits rather than cash. This is because, under the Code, an employer may provide fringe benefits, such as pensions, accident and health and group-

term life insurance, on a tax-favored basis to its employees but not to independent contractors. Such benefits are generally excluded from employees' gross incomes subject to income tax as well as wages subject to Social Security and Medicare taxes.[2] Although amounts used to purchase these benefits can, to some extent, be deducted or excluded from gross income subject to income tax by independent contractors, they cannot be deducted or excluded from compensation subject to Social Security and Medicare taxes. In addition, quite apart from their tax treatment, the greater economies of scale available to employers in the provision of fringe benefits compared to independent contractors may make fringe benefits considerably cheaper for an employee than for an independent contractor.

The existing differences in treatment between employees and independent contractors may create opposite incentives for businesses and workers. For example, the withholding system involves overhead costs for businesses, which they may seek to avoid by classifying their workers as independent contractors, but the estimated tax system involves comparable overhead costs for workers, which they may seek to avoid by being classified as employees. Similarly, fringe benefit and related labor laws impose certain obligations on businesses with respect to their employees, which they may seek to avoid by classifying their workers as independent contractors, but provide significant tax and other benefits to employees, which workers may seek to obtain by being classified as employees.

The various differences in tax treatment between employees and independent contractors discussed above, which may create incentives for deliberate misclassification, are summarized in the table attached hereto.

Consequences of Misclassification for Workers, Employers, and the Federal Government

Misclassification of workers for Federal tax purposes can have a number of positive or negative consequences for workers, employers, and the Federal government. Some of these consequences, such as the availability of employer-provided fringe benefits to an independent contractor, result directly from the misclassification. Others arise only when the

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[2] Certain of the most significant benefits, including pensions and accident and health insurance, may be available to independent contractors on a limited basis. The Treasury Department recently transmitted legislation to Congress that would implement the President's proposal in his Comprehensive Health Reform Program to increase the current 25-percent deduction for health insurance premiums for the self-employed to 100 percent, and make it permanent.

misclassification is discovered. For example, where a worker has not been correctly classified for Federal tax purposes, the worker and her client or employer may be assessed back taxes, interest, and penalties by the IRS, which is charged with enforcing most Federal tax laws. This is generally true even if the misclassification was inadvertent, although the severity of the consequences often depends on whether the misclassification was inadvertent or deliberate and whether there are any associated violations of the information reporting or similar requirements.

Consequences for workers. When a worker is misclassified as an employee or independent contractor, the immediate consequences may be positive or negative, depending on the circumstances. For example, when an employee is misclassified as an independent contractor, she generally becomes unable to benefit under employer-sponsored pension and fringe benefit plans, and (depending on whether the misclassification extends to these areas) may lose the protection of Federal and State labor and related laws. She will have to pay Social Security, Medicare and income taxes on her own behalf through the estimated tax system, and will have to pay the employer portion of Social Security and Medicare taxes, regardless of whether she has been able to bargain for an offsetting increase in compensation from her client. On the other hand, she is subject to fewer restrictions on the deduction of any business expenses, e.g., the expenses may be deducted "above-the-line" and are not subject to the 2-percent floor on miscellaneous itemized deductions.

When an independent contractor is misclassified as an employee, she can become eligible to participate in employer-sponsored pension and fringe benefit plans, and may gain the protection of Federal and State labor and related laws. On the other hand, she is subject to income and employment tax withholding on her gross compensation, generally may not maintain her own fringe benefit plans, and may be prevented from deducting some legitimate business expenses.

When a worker is discovered to have been misclassified as an employee or independent contractor, she may be reclassified but generally will not be liable for any back taxes, interest or penalties if she was fully compliant with the tax laws applicable to her status as an employee or independent contractor, respectively. On the other hand, if a worker misclassified as an independent contractor took advantage of her greater opportunity as an independent contractor to be less than fully compliant with the tax laws, she may be required to pay back taxes, interest and perhaps (depending on the seriousness of the violation) penalties. For example, an employee who uses her classification as an independent contractor to understate and therefore pay less than the full amount of tax on her gross income may be subject to penalties for substantial understatement of income taxes,

negligence, or even fraud. In such a case, however, the negative consequences result more from the employee's lack of compliance than from misclassification per se.

Consequences for employers. When an employee is misclassified as an independent contractor, the immediate consequences to the employer are often beneficial. For example, the employer is generally relieved of any withholding obligation or possible obligation to provide pension or other fringe benefits to the employee, and may also be relieved of any obligations under Federal and State labor and related laws if the misclassification extends to these areas.[3] In some cases, however, an employer may prefer a worker to be classified as an employee. For example, an employer is generally considered the author of any work prepared in the course of an employee's employment for purposes of the Federal copyright laws; no such presumption exists with respect to work prepared by an independent contractor.

In contrast to the immediate consequences of misclassification, when an employer is discovered to have misclassified an employee as an independent contractor, the worker will generally be reclassified, and the employer will generally be liable for back taxes, interest, and penalties based on its failure to withhold income taxes and the employee's portion of Social Security and Medicare taxes from the employee's wages, and be required to pay the employer portion of Social Security, Medicare and Federal unemployment insurance taxes. Additional penalties may apply if the employer has not complied with the tax laws applicable to the worker's status as an independent contractor. For example, an employer must generally pay a $50 penalty for each failure to report the correct amount of compensation paid to an independent contractor to the IRS on Form 1099. This penalty is increased to the greater of $100 or 10 percent of the amount required to be reported if the failure is due to the employer's intentional disregard of the filing requirements.

An employer may be liable for back taxes, interest, and penalties in this situation even if the misclassification was inadvertent. For example, the penalties for the late deposit of withheld income and Social Security taxes generally apply regardless of fault. As explained below, however, Congress has enacted two important relief provisions that significantly limit an employer's liability when it is found to have misclassified an employee if it was fully compliant with the tax laws applicable

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[3] These benefits may ultimately be partially or completely offset, however, by the need to provide additional compensation to the employee to compensate him for his own increased tax and administrative expenses.

to the worker's status as an independent contractor; and that, in certain limited cases, waive the liability altogether if the employer had a reasonable basis for its position.

Effect of section 3509. Prior to 1982, when the IRS reclassified a worker as an employee, the employer was generally held liable for the full amount of unwithheld income taxes and the unwithheld employee share of Social Security and Medicare taxes for all years open under the statute of limitations. In addition, the employer remained liable for Federal unemployment insurance tax and the employer share of Social Security and Medicare taxes. Penalties and interest could also be assessed. The employer's liability for under-withholding could be abated if the employer could demonstrate that the misclassified worker had paid income and Social Security and Medicare taxes on the compensation he received. Data to support this determination were often difficult to obtain, however.

In 1982, section 3509 was added to the Code to mitigate the problem of large retroactive employment tax assessments in reclassification cases. Section 3509 generally limits an employer's liability for failure to withhold income, Social Security or Medicare taxes on payments made to an employee whom it has misclassified as an independent contractor to 1.5 percent of the wages paid to the employee plus 20 percent of the employee's portion of the Social Security and Medicare taxes on those wages. If the employer has not complied with the information reporting requirements associated with the treatment of the worker as an independent contractor, however, these percentages are doubled to 3.0 and 40 percent, respectively. In addition, the relief provided by section 3509 is not available if the employer has intentionally disregarded the withholding requirements with respect to the employee.

The rules of section 3509 were developed in an attempt to place employers and the Federal government in approximately the same position, on average, as they would have been in if the amount of taxes actually paid by the misclassified employees had been determined and used to abate the employers' liabilities, without the need actually to determine those amounts. Thus, section 3509 has no effect on an employer's own liability for Federal or State unemployment insurance taxes, or the employer portion of Social Security or Medicare taxes. Also, in return for limiting the employer's liability for failure to withhold employee taxes, section 3509 prohibits the employer from reducing its own liability by recovering any tax determined under the section from the employee, and gives it no credit for any income taxes ultimately paid by the employee. Section 3509 subjects the full amount of the misclassified worker's gross compensation to tax, even though, if the worker had always been treated as an employee, the employer would presumably have negotiated to reduce

his compensation to reflect its liability for the employer portion of Social Security and Medicare taxes.

Effect of section 530. Congress has also provided general statutory relief from IRS reclassification of employees as independent contractors for certain taxpayers. Section 530 of the Revenue Act of 1978, mentioned above, prohibits the IRS from challenging an employer's treatment of a worker as an independent contractor for employment tax purposes if the employer has a reasonable basis for such treatment. Reasonable reliance on any of the following is treated as a reasonable basis for this purpose:

- judicial precedent, published rulings, or letter rulings or technical advice memoranda issued to, or with respect to, the taxpayer;
- a past IRS audit (not necessarily an employment tax audit) in which there was no assessment attributable to the employment tax treatment of the worker or of workers holding positions substantially similar to that of the worker;
- a long-standing recognized practice of a significant segment of the industry in which the worker was engaged; or
- some other reasonable basis for the employer's treatment of the worker.

Section 530 does not merely provide relief from retroactive assessments: as long as these requirements are met with respect to an employee, the IRS is prevented from correcting an erroneous classification of the employee even prospectively.

Section 530 applies solely for purposes of the employment tax provisions of the Code. It has no legal effect on a worker's classification as an employee for income tax purposes, or the worker's own tax treatment for any purpose. In addition, the relief provided by section 530 is not available unless the employer consistently treats the worker, and any other worker holding a substantially similar position, as an independent contractor. For example, it is not available if the employer has failed to comply with the information reporting requirements associated with its treatment of the worker as an independent contractor.

Consequences for Federal government. Misclassification of a worker for Federal tax purposes can adversely affect the Federal government in at least two ways. First, misclassification results in the misapplication of various tax rules that are deliberately targeted at either employees or independent contractors. For example, misclassification interferes with the social goals of pension and fringe benefit rules of the Code, by

denying employees important rights and protections and potentially extending to independent contractors rights and protections that they do not need or want.

Second, misclassification can result in net revenue losses for the Federal government. Because, as explained above and in the Treasury Report, current Federal tax law does not consistently favor status as either an employee or an independent contractor, especially when the tax obligations of both the business and the worker are taken into account, it is impossible to determine a priori whether misclassification tends, on average, to result in a net revenue gain or loss. Deliberate misclassification, however, may tend to result in net revenue losses to the extent the misclassification is undertaken to obtain a net tax benefit for the business and the employer. For example, if an employee is deliberately misclassified as an independent contractor to relieve the employer of its withholding obligation and to allow the worker to take advantage of independent contractors' relatively greater opportunity to be less than fully compliant with the tax laws, the reduction in the employer's tax payments may not be fully offset by the increase in the worker's tax payments under the estimated tax system.

Existing evidence suggests that this kind of deliberate misclassification may pose a problem, especially where the employer also fails to report the independent contractor's gross income to the IRS on an information return. IRS studies cited in the Treasury Report suggest that, while the percentage of gross income voluntarily reported by independent contractors is generally significantly lower when the income is not reported to the IRS on Form 1099 than when it is reported, this negative correlation is much stronger (i.e., the reduction in voluntary reporting in the absence of a Form 1099 is much greater) when the independent contractors are in fact misclassified employees rather than true independent contractors. This correlation is one reason why Congress has limited the relief provided in section 3509 and section 530 where a business has not complied with applicable information reporting requirements.

Proposals Addressing Consequences of Misclassification

Many taxpayers have expressed concern that the consequences to an employer of the IRS' determination that it has misclassified an employee as an independent contractor are unduly severe relative to the harm caused by the misclassification, especially when the misclassification is inadvertent and there is no reason to believe that the workers involved have failed to pay their share of income and employment taxes. They argue that, even when the limitations of section 3509 apply, an employer's liability for back taxes (and interest, if applicable) can be significant.

A number of proposals have been made to address these concerns. The approach taken by many of the recent proposals has been to increase the level of voluntary compliance by independent contractors and their clients, either by extending some form of withholding to income received by independent contractors, or by strengthening the existing compliance mechanisms applicable to independent contractors, which are based on information reporting. Proponents of this approach argue that:

- o the principal harm from misclassification is the potential revenue loss that occurs when independent contractors fail to report and pay tax on all of their income;
- o this compliance problem is significantly broader than the problem of misclassification; and
- o addressing this compliance problem directly rather than through reclassification would be a more efficient use of government resources, reduce pressure on the employee-independent contractor distinction, and permit section 3509 or other applicable rules to be changed to reduce the number of situations in which large back tax liabilities are assessed even though there is no reason to believe that the misclassified workers have failed to pay their share of income and employment taxes.

The Department of the Treasury believes that this approach has merit, and applauds the efforts of those who have helped develop it. The approach has focused attention on the fact that worker misclassification is not problematic per se, but is problematic only to the extent it directly or indirectly undermines other tax policy goals, including but not limited to workers' failure to report and pay tax on all of their income. The approach would also provide the IRS with new tools to help in its ongoing efforts to solve this noncompliance problem. The Department is concerned about certain aspects of the approach, however, and believes that considerable work remains to be done to determine the extent to which it alone would solve either the voluntary compliance problem or other problems associated with worker misclassification.

This concern arises for several reasons. First, the approach poses tough administrative challenges that must be grappled with. For example, because an independent contractor's net income is often significantly smaller than his gross income, and may vary both from year-to-year and in the course of a year, any withholding system for independent contractors must be designed with care to avoid the problem of overwithholding. Similarly, an expansion of information reporting requirements--such as the elimination of the exception for payments to corporations--could potentially impose unnecessary burdens on a large number of service-recipients that are already

fully compliant with the tax laws unless new exceptions are created that would undermine the simplicity of the rule. While we would support proposals such as the creation of a TIN verification system to make information reporting more accurate, such programs must be structured to avoid the possible disclosure of taxpayer information and other privacy concerns.

Second, it may be premature to reduce or eliminate existing sanctions against misclassification, in particular before significant experience is gained with the effectiveness of alternative enforcement tools. While, for various reasons, independent contractors generally have lower voluntary reporting percentages than employees, this problem appears to be concentrated among a relatively small group of noncompliant taxpayers. This is presumably one reason for the apparent correlation noted above between noncompliance and misclassification. In view of this pattern of noncompliance, it might still be reasonable for the IRS to devote a significant amount of its compliance efforts to the misclassification area even if it were given better tools to encourage voluntary compliance in general.

Although the approach would address this core noncompliance problem in part by imposing withholding on independent contractors or basing the penalties on service-recipients for failure to comply with the information reporting requirements on the amount of compensation required to be reported, it is not clear these sanctions could be made strong enough to deter deliberate noncompliance without creating the same potential for overreaching as current law. Presumably these penalties could be increased where deliberate misclassification or noncompliance with the information reporting requirements could be shown. Unfortunately, such a showing is often difficult to make. This difficulty is, in fact, one reason why the IRS has found it hard to apply the existing 10-percent penalty for an intentional failure to report the payment of compensation to an independent contractor.

Instead of simply reducing or eliminating existing sanctions against misclassification, it may be appropriate to consider whether these sanctions (including exceptions like sections 3509 and 530) could be better targeted or otherwise improved. For example, section 3509 has not been amended to reflect changes in compliance patterns or the equalization of the Social Security and Medicare taxes paid by independent contractors and those paid by employees and employers that have occurred since its enactment. Similarly, one of the options for further consideration noted in the Treasury Report was to repeal the prohibition in section 530 against the IRS' issuance of guidance concerning employee status. This prohibition has significantly reduced taxpayers' ability to classify workers as employees or independent contractors with certainty, and its repeal would help

minimize instances in which taxpayers are penalized for inadvertent misclassification. Consideration might also be given to modifying or eliminating features of section 530 that create or perpetuate differences in treatment among otherwise similarly-situated taxpayers, such as the prior-audit safe harbor and the prohibition against prospective worker reclassification.

Finally, the Department believes it is important not to lose sight of the fact that, as noted above, misclassification is not merely a problem of tax compliance. Under current law, a worker's classification as an employee or independent contractor also affects the worker's treatment under those statutory provisions that apply exclusively to either employees or independent contractors, including among others the 2-percent floor on miscellaneous itemized deductions, the fringe benefit and unemployment insurance provisions of the Code, workers' compensation and wage and hour laws. Whether any of these differences in treatment between employees and independent contractors should be reexamined is an issue that is well beyond the scope of this testimony, but, as long as they exist, the IRS and other regulatory agencies must continue to play an important role in the determination of workers' employment status, and must have adequate tools with which to enforce these determinations.

Conclusion

To conclude, worker misclassification is a long-standing and difficult problem of tax policy, which the Treasury Department is very interested in seeing resolved. Defining a simple set of rules that provides tax equity among similarly-situated workers and service-recipients, maximizes compliance with the law, and minimizes interference with legitimate differences in business operations has proven difficult. The Department appreciates the ongoing efforts by the members of this Subcommittee and other individuals to address this problem and would be pleased to work with the Subcommittee to develop these ideas further.

Mr. Chairman, that concludes my formal statement. I will be pleased to answer any questions that you or other Members may wish to ask.

Major Differences in Treatment of Employees and Independent Contractors for Federal Tax and Other Purposes

Employees	Independent Contractors
Fringe Benefits	
Value of many employer-provided fringe benefits excluded from income and employment tax bases	Qualified retirement plan contributions excluded from income but not self-employment tax base
	25 percent of health insurance costs deducted from income but not self-employment tax base
	Few other fringe benefits excluded from income or self-employment tax bases
Trade or Business Expenses	
May be deducted from income tax base only by itemizers and only to the extent expenses exceed two percent of adjusted gross income	May be deducted from income tax base
May not be excluded from employment tax base	May be excluded from self-employment tax base
Certain expenses subject to additional business purpose requirements	
Administrative Costs	
Withholding involves more administrative costs for employer but less for employee	Estimated tax system involves more administrative costs for independent contractor but less for client
	Estimated tax system allows modest delay in tax payments relative to withholding
Compliance	
	Somewhat more ability to be noncompliant due to lack of withholding, larger trade or business expenses, and somewhat more limited business purpose requirements with respect to such expenses
Non-Tax Differences	
Less flexibility in choosing among fringe benefits; value of employer contributions to retirement plan may be lost if worker changes jobs frequently	May be unable to obtain fringe benefits, including statutory fringe benefits such as unemployment insurance and workers' compensation
Administrative (and other) costs associated with Federal and State laws applicable to employees, *e.g.*, minimum wage	May be unable to negotiate worker protections such as minimum wage and overtime

Department of the Treasury
Office of Tax Policy

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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Contact: Claire Buchan
202-622-2910

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before
THE MID-AMERICA COMMITTEE
Chicago, Illinois

July 23, 1992

Thank you, Don Clark. It is a great pleasure to be here in Chicago today with the Mid-America Committee.

On November 3, America will elect a president. But we should not let our familiarity with that idea blind us to the rarity of the event. Since that spring morning over two hundred years ago when Washington first took his oath on the steps of Federal Hall, America has had only 41 presidents. Thus, the decision we make on November 3 will be one of a handful of events in the history of the country that can shape our future. And this year, that choice is particularly important -- for the President who enters the White House in 1993 will be the President who leads America into the post-Cold War era.

The next four months will be a time of intense debate: where have we been? where are we going? how do we get there? who do we trust to take us there? These are serious questions; they demand serious answers. The American people deserve more from those who would lead them than soundbites and saxophones. And if we do not take the time now for some honest reflection, we run the risk of being led in the heat of the coming campaign by nothing but the quest for partisan advantage. So today I would like to set out the Bush Administration's answers.

To begin, we must recognize that in the last four years America -- and the world -- have been through a profound transition, a structural adjustment greater than any we have seen since the end of the Second World War. Let me give you a few examples of this transformation's character:

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- First, during this last four years America and her allies won a war -- a Cold War, but nonetheless the most protracted and expensive war of this century. This great victory has now enabled us to cut spending on defense by 17% in real terms since the Bush Administration took office in January 1989. And that figure will reach 27% by 1997. Our economy will benefit immeasurably from this enormous reduction in the burden of military spending: as Dwight Eisenhower said at the beginning of the Cold War almost half a century ago, "A world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children."

  But our country now shows the stress of having carried the burden of the free world's defense for almost 50 years. The transition to a peacetime economy has meant a difficult adjustment period for defense workers, military families and their communities.

- Second, we are witnessing irreversible changes in the way the world does business. National borders are no longer an obstacle to the conduct of most economic transactions. The information revolution -- together with advances in transportation and logistics -- has made it increasingly easy for a product to be designed in Illinois, financed in London, manufactured in California, and sold in Mexico. And technological and financial innovations continue to improve the operation of our securities markets, directing capital to wherever it will bring the highest return -- whether that is Paris, Texas or Paris, France.

- Third, this transition has occurred at a time when the volume of debt in every segment of society has been at historically high levels. Those levels, however, are now beginning to decline as businesses strengthen their balance sheets and as the baby boomers become the young parents of the 1990s, watching their budgets, saving for their retirement and their kid's education. It is natural and healthy that families and businesses would reduce their debts. This sets the stage for renewed growth in the long term -- even though it has meant slower growth in the short term.

- Finally, the economy has been burdened throughout this transition with a financial system weakened first by overexposure to Third World Debt, then by failed savings and loans, and most recently by declining real estate markets, which have created losses for banks, thrifts and insurance companies throughout the country.

In short, the Bush Administration, from its first days in office, has been faced with an unusually broad array of economic challenges; and from its first days in office it has met these challenges head on. The President has given experienced and level-headed leadership to America and the world as we adjust to the end of the Cold War. To open markets for American products in the new global economy, we have been the world's most outspoken and consistent champion of free and fair trade. And we created effective solutions for both the savings and loan crisis and the Third World Debt restructuring so that we are once again poised to finance investment and job creation.

During a time of such fundamental transformation, it is clear why many Americans would become uncertain about their economic future. Change of this magnitude can unnerve even the strongest. Yet today's uncertainty may be out of proportion to the challenge itself. The economy is growing: short-term interest rates are at their lowest in two decades, and inflation is as low as it was in the mid-60's. We are near the end of the painful though necessary changes that have positioned us to be competitive now and in the years ahead, yet still the doomsayers cry that America has lost its way. What explains this pessimism?

I believe the answer lies in the nature of the economic adjustment we are undergoing. In previous times -- the early 1980s for example -- the economy's problems have seemed subject to domestic control; today many believe that circumstances have placed us at the mercy of events in the broader world. And our media oversimplify and magnify with a ceaseless barrage of reports; reports that the world is leaving us behind. We are told constantly -- and wrongly -- that America is in decline; that our goods are uncompetitive, our managers inefficient, our workers idle and ill-educated; that we can't compete with the Japanese, the Germans, the emerging Asian economic powers, or a united Europe, or anyone else for that matter.

Some would react by circling the wagons, by retreating into isolation and protectionism, by staving off change with a so-called industrial policy that would substitute the choices of the government for those of a free people. It would be ironic indeed if we were to heed those calls -- just as the rest of the world, country by country, adopts our free enterprise system and rejects their government-managed economies.

Instead, it is time to lay aside the ridiculous myth that the United States is somehow on its way to becoming an economic backwater. The United States remains, and **will** remain, the world's preeminent economic power. With one twentieth of the world's population, we produce one fourth of its goods and services. Total U.S. output, measured on a purchasing power parity basis, is about twice Japan's, four times Germany's, and larger than the whole European Community. We lead the world in exports, and in particular we lead in exports of high technology goods, such as aircraft, computers, microelectronics and scientific equipment. Our living standards are 18% higher than Japan's and 15% higher than Germany's. And our productivity, the key to ensuring our living standards remain high, is about 10% higher than Germany's and 30% higher than Japan's.

America is still the world's leader. But to keep our position of leadership, we must follow a clear and determined strategy. What is this strategy? What is our goal?

The goal of the Bush Administration during this transition will be -- as it has been -- not to hide from change, but to anticipate it, to guide our economy through this difficult structural adjustment and assure leadership in the new world now emerging. And in that process, President Bush will be guided -- as he has been -- by three strategic objectives:

First, we must secure the peace. The most important event of our generation -- not just politically, but economically -- is the end of the Cold War. The President elected in November must not allow a generation's effort to be squandered by giving in to the calls to turn inward, to shirk the burdens of world leadership. Instead we must take the initiative now so that our children will grow up in a world of peace and prosperity, where the United States aims its exports, not its missiles, at the former Soviet Union.

Securing the peace is not merely a matter of foreign policy, it is at the heart of our domestic agenda as well. We must recognize that in the post-Cold War world there is no real distinction between foreign policy and domestic policy. Trade negotiations affect domestic employment; education policy affects future competitiveness; peace in the Middle East means secure energy sources to fuel domestic production.

Under the President's leadership, we are reducing the number of nuclear missiles aimed at this country from over 20,000 to around 3,500, and that number will decline even further. Who, sitting with his children or his grandchildren, would argue that this is not domestic policy at its most fundamental? A candidate who divides the complex issues we face today into one box labeled "domestic" and another box labeled "foreign" will quickly find himself in the "out-box."

Second, we must ensure America's economic leadership. In the post-Cold War world, this will mean ensuring free, open and growing markets for our exports. In the 1980s, growth was fueled largely by debt and consumption; in the 1990s, growth must come instead from exports and investment. Our merchandise exports have increased by almost $195 billion over the last 5 years, and every billion dollars in exports supports almost 20,000 new jobs. If we are to take advantage of the opportunity exports represent, we must work with our allies to improve world economic growth, to reduce barriers to trade, and to ensure political stability abroad.

Let me be clear: policies that promote "managed" trade or that steer government benefits to politically connected industries through "industrial policy," simply won't work for America in the new world. In the example of Eastern Europe and the former Soviet Union, we have unambiguous proof of the failure of government-managed economies. If government resorts to picking winners and losers, then sooner or later the American people will be the big loser.

But our trading partners also need to understand: it is no longer acceptable for them to close their markets while expecting us to keep ours open. For decades after the Second World War we offered our markets to sustain the alliance and to promote growth in economies that had been shattered by war. In the post-Cold War era, the rule is that **all** markets must be open, not just **our** markets.

Finally, we must invest in America's future. Investment in education, in technology, in research, is the key to increasing our workers' productivity, and thereby assuring that American products are competitive. We must therefore adopt policies that foster savings and investment and promote job creation.

America's workers must be the best educated and the most productive. That means fixing our education system -- by implementing President Bush's plan to develop schools that are more accountable, expanding parental choice, encouraging states to set meaningful education standards, and rewarding merit in the instruction of our youth. It means providing affordable health care for all Americans while dealing with the rising health costs of business. It means fixing our tax policies -- in particular by reducing the capital gains tax -- to encourage savings and investment. And it means fixing our regulatory policies, to reduce the burden government places on economic activity.

These have been -- and continue to be -- our objectives. They differ from those of our opponents in the coming election in recognizing the effects of foreign affairs on domestic policy; in dealing with the dynamic changes in world markets; and in encouraging individual initiative rather than fueling the engine of big government.

But it is in the implementation of these objectives that the choice facing the American people in November becomes clear.

In choosing the means to achieve its objectives, Democrats believe in a big government that takes an ever increasing share of the national output each year. The Bush Administration, by contrast, believes that we must efficiently manage what we have, reducing the burden on the nation and its people.

In particular, the Bush Administration believes we must control the growth in government spending. That means facing the difficult task of controlling the growth of entitlement spending. It means focusing limited federal resources carefully on key problems -- not throwing money at them. We must measure the success of our programs by the results they produce, not by the dollars they consume.

And it means seeking the line item veto and a constitutional balanced budget amendment. Nearly every bill the President sends to Congress gets larded with a host of Congress's pet projects. Without the line item veto, the President must accept or reject the entire bill as Congress sends it back to him. He does not have the ability to keep the essential and delete the superfluous. If the Congress ran this country's convenience stores, no one in America would be allowed to pick up just a carton of milk; he would also have to buy some motor oil, a deck of cards, three copies of People Magazine and a microwave burrito. It is no wonder the budget is out of control. The President must be given the tools to defend the American public from these senseless shopping sprees.

The problem is one of spending, not of taxes. Americans are **not** undertaxed; their government spends too much. And it hasn't helped to have that same Congress refuse to fix obvious mistakes in tax policy, out of fear that a Republican President would benefit from a stronger economy. They figure that if the boat leaks enough, maybe they'll get a new captain -- so why fix the holes?

In short, the choice the American people are being asked to make in November is a fundamental choice of values. We believe in the people, not in bureaucracy. We believe in traditions like hard work and the entrepreneurial spirit, not government omniscience. We 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 trust the American people, not government, to allocate resources, and we trust the American people to create the strength to take on all comers in the world economy.

These values are the American peoples' values. And to judge from last week's convention, the Democrats' public relations machine has finally come around to understanding that. We have just witnessed a week in which the Democrats adopted the protective coloring of Republicans to shield their traditional "government knows best" philosophy from public view during the election. It is no accident that the Democratic Congressional leaders were virtually invisible at their convention last week. But let's remember something they never mention. When Democrats are on television, they talk like Republicans, but when the plane lands in Washington, they vote like liberals -- for higher taxes and higher spending. These are the economic policies that brought us the 13% inflation and 20% interest rates of the last Democratic administration.

In a time of change, of transition, it is important to remember those constant values and beliefs that have shaped America. We need to remember that America's success is based on the achievements of our people, not on government programs that wax and wane. And not on new slogans, like "New Covenants," that come and go. The beliefs that we share -- our belief in a government that works with and for the people; our belief in the entrepreneurial spirit; our belief in the core family values that have sustained us for generations -- these are principles that have stood the test of 200 years of change. These are the principles that we should choose to guide America in the years ahead.

Thank you.

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Contact: Claire Buchan
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Statement of Secretary of the Treasury
Nicholas F. Brady
on the 1992 Mid-Session Review:
The President's Budget and Growth Agenda

Consistent with the Blue Chip forecast, today's mid-session review anticipates the economy will continue to improve this year. While second quarter growth may slow slightly, it will be positive and consistent with a sustained recovery. Inflation is still under control and interest rates are down.

Although unemployment remains disappointing, 800,000 more Americans are working today than were working in December. Addressing unemployment is one reason why President Bush's growth program -- now delayed by Congress for six months -- must be enacted.

Each of the last three years, President Bush has sent to Congress detailed and thorough programs to create jobs, improve schools, control the budget deficit and prepare our nation for the challenges of the 21st century. He's been making the hard choices which have been thwarted at every turn by Congress. In their political drive to undermine the President, they undermined the American people.

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NB-1911

AUCTION RESULTS

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CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $14,285 million of 52-week bills to be issued July 30, 1992 and to mature July 29, 1993 were accepted today (CUSIP: 912794D92).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.36%	3.50%	96.603
High	3.38%	3.52%	96.582
Average	3.37%	3.51%	96.593

Tenders at the high discount rate were allotted 61%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	15,115	15,115
New York	32,401,815	13,417,775
Philadelphia	6,305	6,305
Cleveland	17,125	17,125
Richmond	19,665	18,495
Atlanta	10,380	8,600
Chicago	1,340,865	192,115
St. Louis	6,685	6,685
Minneapolis	4,265	4,265
Kansas City	16,155	15,765
Dallas	7,340	7,340
San Francisco	730,215	292,075
Treasury	283,565	283,565
TOTALS	$34,859,495	$14,285,225
Type		
Competitive	$31,154,200	$10,579,930
Noncompetitive	500,295	500,295
Subtotal, Public	$31,654,495	$11,080,225
Federal Reserve	3,000,000	3,000,000
Foreign Official Institutions	205,000	205,000
TOTALS	$34,859,495	$14,285,225

An additional $420,000 thousand of bills will be issued to foreign official institutions for new cash.

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TREASURY RAPS BANKS, BREWER FOR LIBYAN SANCTIONS VIOLATIONS

The Bank of New York (BONY), one of the largest banks in the U.S., has paid a civil penalty of $225,000 to the U.S. Treasury Department for violating economic sanctions against Libya; and Credit Lyonnais, New York, a U.S. branch of one of the largest banks in Europe, has paid $92,400.

This totals over a third of a million dollars in penalties assessed this quarter from U.S. banks, companies and individuals for violations of the Libyan embargo.

Treasury's Office of Foreign Assets Control (OFAC) said that BONY had engaged in fund transfers or otherwise dealt in property in which the Government of Libya has an interest, including 174 violations of the International Emergency Economic Powers Act, and the Libyan Sanctions Regulations.

"These penalties should serve notice on the U.S. business community that anyone who transacts business with the Government of Libya will pay a penalty for violating sanctions. Libya should be synonymous with 'too hot to handle' and all corporate employees should be cautioned accordingly," said OFAC Director R. Richard Newcomb.

BONY paid a reduced penalty because of the high level of cooperation it demonstrated in voluntarily disclosing the extent of the violations, and in taking steps to ensure compliance in the future.

Other banks cited in the past three months for Libyan Sanctions violations include: Bankers Trust in New York which paid a civil penalty of $20,000; Citibank which paid $12,500; Philadelphia International Bank which paid $13,738; Chase Manhattan Bank which paid $15,955.

Anheuser-Busch, Inc., paid a civil penalty of $25,000 for the attempted export of beer to off-shore Libyan-owned oil rigs through Malta on three occasions.

(more)

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Economic sanctions were imposed against Libya in 1986 to exert financial pressure against Libya, and to reduce Muammar Quadhafi's ability to promote and finance terrorism. Almost all economic transactions are prohibited, with civil penalties up to $10,000 for each violation. Criminal penalties up to $500,000 per violation for corporations and $250,000 for individuals may be imposed, with prison terms up to 10 years for individuals and culpable corporate officers.

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CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,649 million of 13-week bills to be issued July 30, 1992 and to mature October 29, 1992 were accepted today (CUSIP: 912794ZQ0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.16%	3.23%	99.201
High	3.19%	3.26%	99.194
Average	3.18%	3.25%	99.196

Tenders at the high discount rate were allotted 34%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	23,495	23,495
New York	32,406,610	9,277,025
Philadelphia	14,485	14,485
Cleveland	36,310	36,310
Richmond	37,650	37,585
Atlanta	70,825	32,625
Chicago	2,025,590	745,590
St. Louis	20,565	13,965
Minneapolis	10,970	10,970
Kansas City	34,795	34,135
Dallas	23,850	23,850
San Francisco	1,323,980	767,660
Treasury	630,975	630,975
TOTALS	$36,660,100	$11,648,670
Type		
Competitive	$32,259,615	$7,248,185
Noncompetitive	1,174,885	1,174,885
Subtotal, Public	$33,434,500	$8,423,070
Federal Reserve	2,382,300	2,382,300
Foreign Official Institutions	843,300	843,300
TOTALS	$36,660,100	$11,648,670

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CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,619 million of 26-week bills to be issued July 30, 1992 and to mature January 28, 1993 were accepted today (CUSIP: 912794A46).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.25%	3.35%	98.357
High	3.27%	3.37%	98.347
Average	3.27%	3.37%	98.347

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	22,605	22,605
New York	32,710,035	10,379,590
Philadelphia	7,785	7,785
Cleveland	28,775	28,675
Richmond	54,075	53,755
Atlanta	32,950	29,870
Chicago	1,287,905	82,930
St. Louis	18,420	13,420
Minneapolis	5,375	5,375
Kansas City	32,930	32,850
Dallas	14,945	14,945
San Francisco	663,160	330,800
Treasury	616,755	616,755
TOTALS	$35,495,715	$11,619,355
Type		
Competitive	$30,824,255	$6,947,895
Noncompetitive	1,036,560	1,036,560
Subtotal, Public	$31,860,815	$7,984,455
Federal Reserve	2,500,000	2,500,000
Foreign Official Institutions	1,134,900	1,134,900
TOTALS	$35,495,715	$11,619,355

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CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

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Tenders for $15,177 million of 2-year notes, Series AC-1994, to be issued July 31, 1992 and to mature July 31, 1994 were accepted today (CUSIP: 912827G22).

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

	Yield	Price
Low	4.27%	99.962
High	4.29%	99.924
Average	4.29%	99.924

$3,000,000 was accepted at lower yields.
Tenders at the high yield were allotted 74%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	31,690	31,690
New York	39,207,475	14,304,880
Philadelphia	25,995	25,995
Cleveland	64,145	64,145
Richmond	167,295	54,995
Atlanta	52,085	37,005
Chicago	1,883,440	96,135
St. Louis	57,990	53,965
Minneapolis	17,330	17,330
Kansas City	69,360	68,360
Dallas	23,140	23,140
San Francisco	287,625	52,395
Treasury	347,215	347,215
TOTALS	$42,234,785	$15,177,250

The $15,177 million of accepted tenders includes $1,144 million of noncompetitive tenders and $14,033 million of competitive tenders from the public.

In addition, $528 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,178 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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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 $23,200 million, to be issued August 6, 1992. This offering will provide about $ 1,000 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $22,203 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, August 3, 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 $11,600 million, representing an additional amount of bills dated May 7, 1992 and to mature November 5, 1992 (CUSIP No. 912794 ZR 8), currently outstanding in the amount of $11,859 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,600 million, to be dated August 6, 1992 and to mature February 4, 1993 (CUSIP No. 912794 A5 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 August 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 $1,652 million as agents for foreign and international monetary authorities, and $ 5,332 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 bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

TREASURY NEWS

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Department of the Treasury Washington, D.C. Telephone 202-622-2960

EMBARGOED UNTIL GIVEN
EXPECTED AT 10:00 A.M.
JULY 29, 1992

STATEMENT OF NICHOLAS F. BRADY, CHAIRMAN
THE THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
2128 RAYBURN HOUSE OFFICE BUILDING
JULY 29, 1992

Mr. Chairman, Mr. Wylie, and members of the Committee:

I am pleased to appear today with the members of the Thrift Depositor Protection Oversight Board. It is our sixth testimony before this Committee since FIRREA was enacted.

Accompanying me 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, Vice Chairman of The Taubman Company, Inc., is unable to attend. Alfred DelliBovi, Deputy Secretary of the Housing and Urban Development Department, will testify in his capacity as acting Chairman of The National Housing Advisory Board. Peter Monroe, President of the Board, is also with us today.

When this Administration took office it was faced with a savings and loan crisis that had been in the making for over a decade. Hundreds of institutions were insolvent, losses were increasing daily, the accounts of millions of depositors were at risk and public confidence was deteriorating. Addressing this problem became a priority of the first order.

This Administration seized the initiative in solving the savings and loan crisis. Just eighteen days after being sworn into office the President submitted to Congress a comprehensive proposal for the S&L cleanup. With that impetus, the solution to the crisis was addressed by Congress and by August 9, only six months later, the Financial Institutions Reform, Recovery, and Enforcement Act was passed and signed into law.

Since that time, substantial gains have been made in accomplishing one of the most massive, complex, and difficult tasks any government entity has been asked to carry out. In

three years almost 22 million depositor accounts have been protected, more than 650 bankrupt S&Ls have been closed, over 900 convictions have been obtained, hundreds of millions in fines have been collected, and the private sector thrift industry has been restored to profitability.

To give you an idea of the dimensions of this undertaking, the RTC has taken control of $391 billion of assets of failed thrifts. As comparisons, General Motors' assets are $184 billion, and the combined assets of the two biggest U.S. banks are $353 billion.

Except with the millions of depositors whose accounts have been saved, the thrift cleanup is not popular. RTC is carrying out one of the least understood and most thankless jobs any government agency has been asked to do. The management and personnel of RTC have done a good job under difficult circumstances.

But today we are faced with a different problem. It is not the problem of finding a plan to solve the S&L crisis. That has been done. It is not the problem of creating an organization to implement that plan. That has also been done. It is not the problem of that organization taking hold and getting a substantial portion of the S&L cleanup behind us. That, too, has been done.

The problem today is to <u>finish</u> this job, and the only deterrent to RTC's progress is Congress' repeated refusal to vote the necessary funds. In spite of the leadership of Chairman Gonzalez and Mr. Wylie, House inaction has again brought RTC's resolution of insolvent thrifts to a standstill. This and previous delays have unnecessarily added hundreds of millions of dollars to the bite being taken out of the American taxpayer.

RTC funding is said to be a difficult vote. Perhaps this is understandable because there has been considerable public misunderstanding about the mission of the RTC. But a vote to fund the RTC is a vote to protect people's savings. Millions of depositors savings are now safe, but millions remain to be protected.

It is hard to imagine the financial chaos that would have occurred had the S&L cleanup program not been enacted and funded. Those who voted to fund the RTC voted responsibly. There is simply no logic in delaying funding, creating confusion, and costing the U.S. taxpayer millions of dollars each day.

Obviously, in the end, Congress will have to make good on its pledge to back deposits with the "Full Faith and Credit of the United States". This is not a discretionary matter. The check to depositors has already been written. The only real

difference between a yes and no vote on funding is that a no vote costs the taxpayer an additional $6 million each day.

Funding the RTC

So the critical issue before us today is the urgent need, once again, to fund the RTC. Let me review the funding authorizations to date.

FIRREA authorized $50 billion for the cleanup. In March, 1991, in the RTC Funding Act of 1991, Congress voted another $30 billion.

In July, last year, the Oversight Board asked this Committee to authorize an additional $80 billion to ensure that there would be sufficient funds to complete the cleanup. But in the RTC Refinancing, Restructuring, and Improvement Act of 1991, Congress instead voted $25 billion for use by the RTC from the date of enactment on December 12 last year, until April 1. Of this $25 billion, the RTC was able to use about $7 billion before the cutoff date, leaving about $18 billion unspent.

The $7 billion when added to the previously provided $80 billion, brings the total amount of RTC funds authorized to cover losses to $87 billion. RTC estimates that about $84.5 billion in total has been spent. This leaves about $2.5 billion of unspent loss funds available for emergencies and contingencies.

On March 12 this Committee responded to the need to provide additional funds by reporting H.R. 4241. This bill would have lifted the April 1 cutoff, permitting the $18 billion to be spent, and would have provided an additional $25 billion. It would have allowed the RTC to spend up to $130 billion, the same amount provided in the Senate-passed funding bill. However, even H.R. 4704, which modified HR 4241 to provide only that the cutoff date be lifted, was defeated by the House. Thus, since April 1, the RTC has virtually had to cease resolutions.

Chart I describes Congressional funding actions and RTC quarterly spending from inception of the program to the present.

The Cost of Delay

The Administration is strongly committed to obtaining funding for the RTC. We have repeatedly stated so. We have made more than fifty Congressional appearances since FIRREA was enacted, and we have had hundreds of meetings with members of Congress. As President Bush said in an April 9 letter to Chairman Gonzalez:

> Congress must provide the necessary funds to honor the Government's commitment to millions of American depositors.

RTC Loss Funding Timeline and Fiscal Year Expenditures
($ Billions)

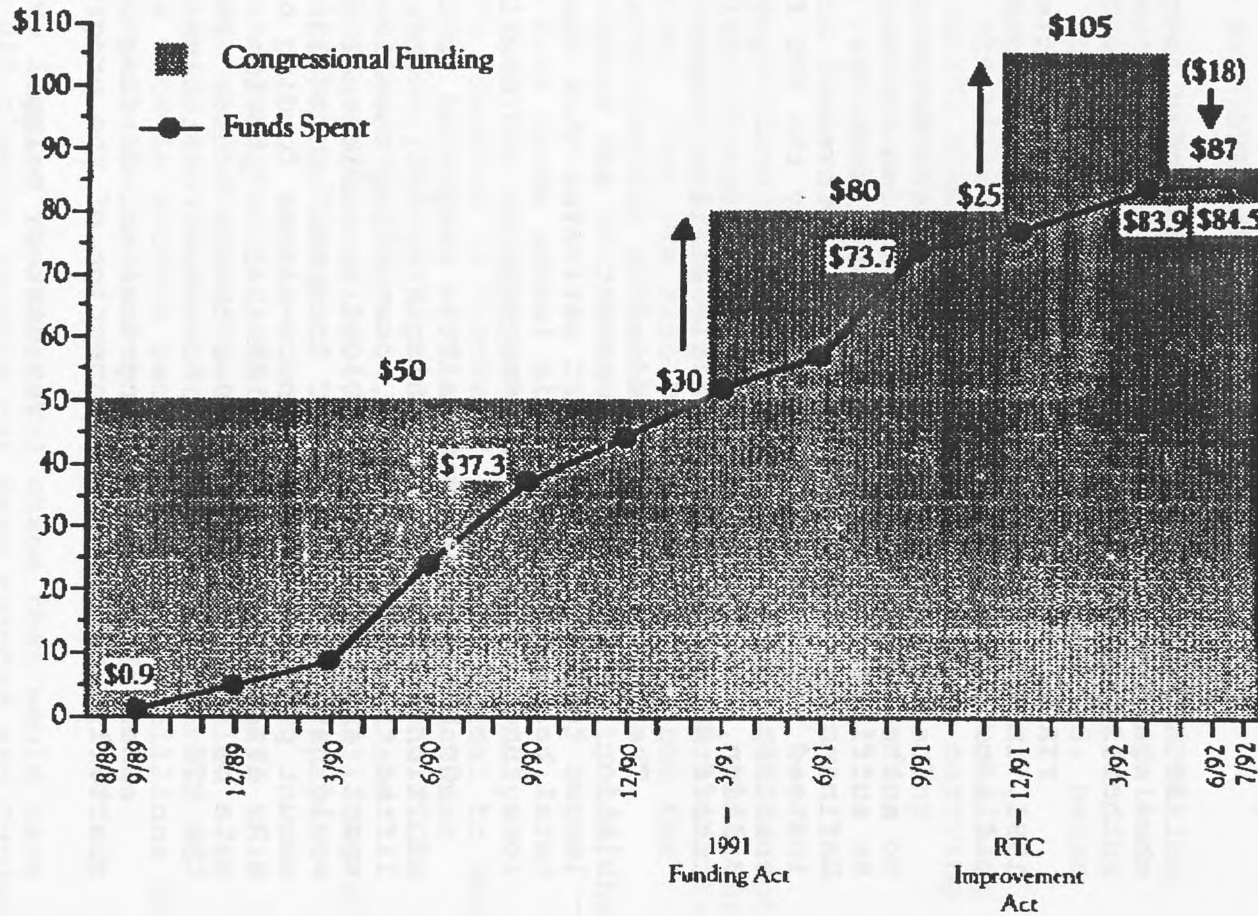


CHART I

I urge you to act promptly to avoid any further delays, which waste millions of taxpayer dollars every day.

Stop and start funding is expensive and disruptive. Nonetheless we are now confronted with the third delay in funding the RTC. RTC estimates the cost of these delays to date to be between $600 and $750 million. If the delay continues until the end of September, RTC estimates the total cost of all delays will be between $1 and $1.4 billion.

RTC estimates that the average daily cost for the first quarter of delay was $2.5 million, and for the second quarter of delay, $6 million. The estimated cost for the second consecutive quarter of delay is more than twice the estimated cost for the first quarter because, as a larger backlog of unresolved institutions is built up in conservatorships, it takes RTC longer to catch up. When funding is delayed two quarters, it is likely to take two to four quarters for RTC to resolve this backlog. During this time, institutions are continuing to operate at a higher cost.

According to the RTC the current cost of delay is about $6 million a day. Mr. Chairman, I submit that incurring these costs is completely unnecessary. It is like someone walking out on the steps of the Capitol each day and setting fire to $6 million.

What will $6 million a day buy? With $6 million the government could award 2,400 Pell Grants this year for needy students to attend college. With $6 million, we could add 1,600 more children to the Head Start program. And, with $6 million, the government could add more than 12,000 persons to the WIC program for care to infants and pregnant women.

Cost of the Cleanup

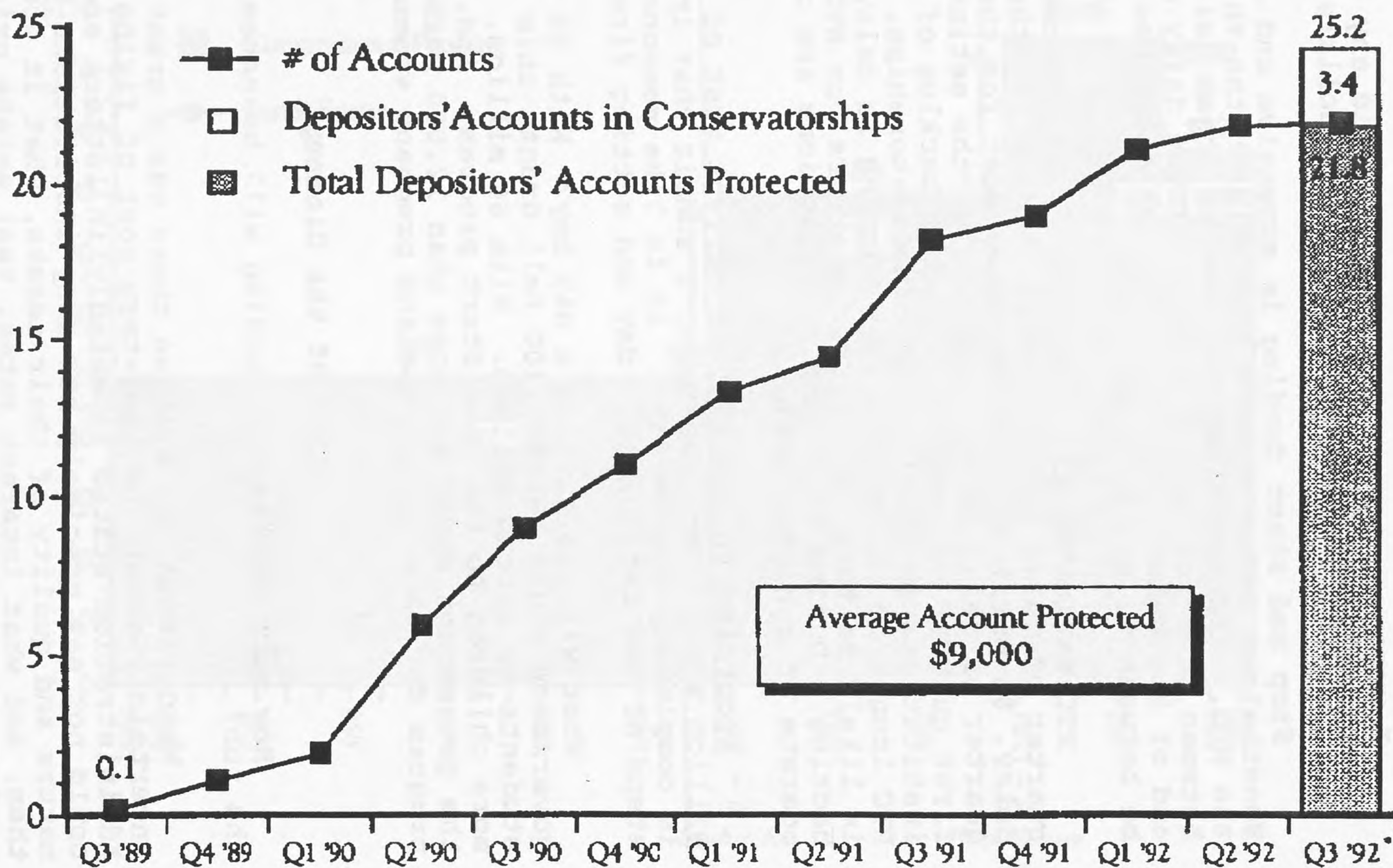
How much additional funding will be necessary to complete the job?

When FIRREA was written there was a great deal of uncertainty about the long-term cost of fixing the problem. The Administration stated repeatedly in letters and testimony that we could not say precisely how many institutions would fail, the nature and quality of their assets, what it would take to resolve them, and what interest rates, real estate prices, or the performance of the economy would be. All were, and are, key variables in estimating the cost.

Nonetheless, the Administration requested $50 billion based on the best estimates at the time of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office.

21.8 Million Depositors Protected
(# Millions)

Inception through July 15, 1992



* Quarter to date.
Note: Figures represent Cumulative Depositors' Accounts Protected
Source: RTC Office of Corporate Communications; TFR

CHART II

Nine months after FIRREA's enactment and after having months of experience in closing almost 100 thrifts, the RTC found that losses in individual thrifts were greater than expected and that the total number of projected thrift failures had increased.

Thus, at its second appearance before this Committee in June 1990, the Board acknowledged that these factors plus uncertain economic variables prevented us from providing a single estimate of the ultimate cost. Instead, we said that the cost would be in the approximate range of $90 billion to $130 billion in 1989 present value terms, or about $100 to $160 billion in budget dollars.

At our appearance here in July last year, we said that, while we believed that the cost had stayed within this range, we estimated that it had moved to the upper end of the range. Now - again reflecting the shifting variables that have affected the cost of this problem since our first efforts to estimate it - the current cost estimate has moved closer to a mid-point in the range. This is reflected in the President's mid-session budget estimate. But I must state again: we cannot say with certainty that that amount is sufficient to complete the job. Therefore we must continue to present the cost in terms of a range.

Mr. Casey will testify that the RTC believes $130 billion in budget dollars would be sufficient to complete the RTC's job; he believes that the job is nearing completion.

Certainly we agree that substantial progress has been made in the S&L cleanup and we hope that the cost will be no more than $130 billion. Indeed, we hope it will be less. But we cannot be sure. That is why we will maintain the position we have taken since our appearance here in June 1990, that we continue to estimate that the final cost will fall within the approximate range of $100 to $160 billion. If there is to be any surprise about the cost of this effort, we want the surprise to be on the downside. Progress has been made, but the job is not finished. Insolvent thrifts remain to be closed, and a very substantial amount of assets remains to be sold.

Certainly an authorization of an additional $43 billion as provided by this Committee in H.R. 4241, and in the Senate-passed funding bill, would allow RTC to make substantial progress toward completing the cleanup.

Accomplishments to Date

In spite of repeated funding delays, substantial progress has been made in meeting the goals initially set by President Bush for the cleanup:

First, protect depositors' savings:

By July 15, 1992, the RTC had saved almost 22 million depositor accounts with funds voted to honor our government's deposit insurance pledge (Chart II). The average size of these accounts has been about $9,000. Millions of Americans in all parts of this country have been protected from the failures of hundreds of S&Ls, and a disastrous collapse of confidence in the financial system has been avoided. Not one penny of RTC funds has gone to "bail out" the owners or managers of S&Ls.

Currently there are an additional 3.4 million depositor accounts in thrifts in RTC conservatorships across the country. These thrifts are marking time, losing money pending Congressional approval of loss funds.

Second, clean up failed S&Ls at least cost:

By July 15, the RTC controlled 715 thrifts and had closed 652 of them, leaving 63 under RTC conservatorship (Chart III).

As it has protected depositors and closed thrifts the RTC has acquired an enormous amount of assets - $391 billion through May 31, 1992. Mr. Casey will describe the RTC's progress in disposing of these assets.

Third, prosecute S&L criminals:

Substantial gains have been made in investigating and prosecuting S&L criminals. Of the 1,188 S&L defendants charged in major cases by June 30, this year, 905 have been convicted, and 582 of those have already been sentenced to prison (Chart IV). Many of these individuals were chief executives, directors and officers of thrift institutions.

Progress has also been made in collecting monies from those found to be responsible for S&L failures. The total collected in civil suits is over $767 million. The total collected in restitutions is over $22 million.

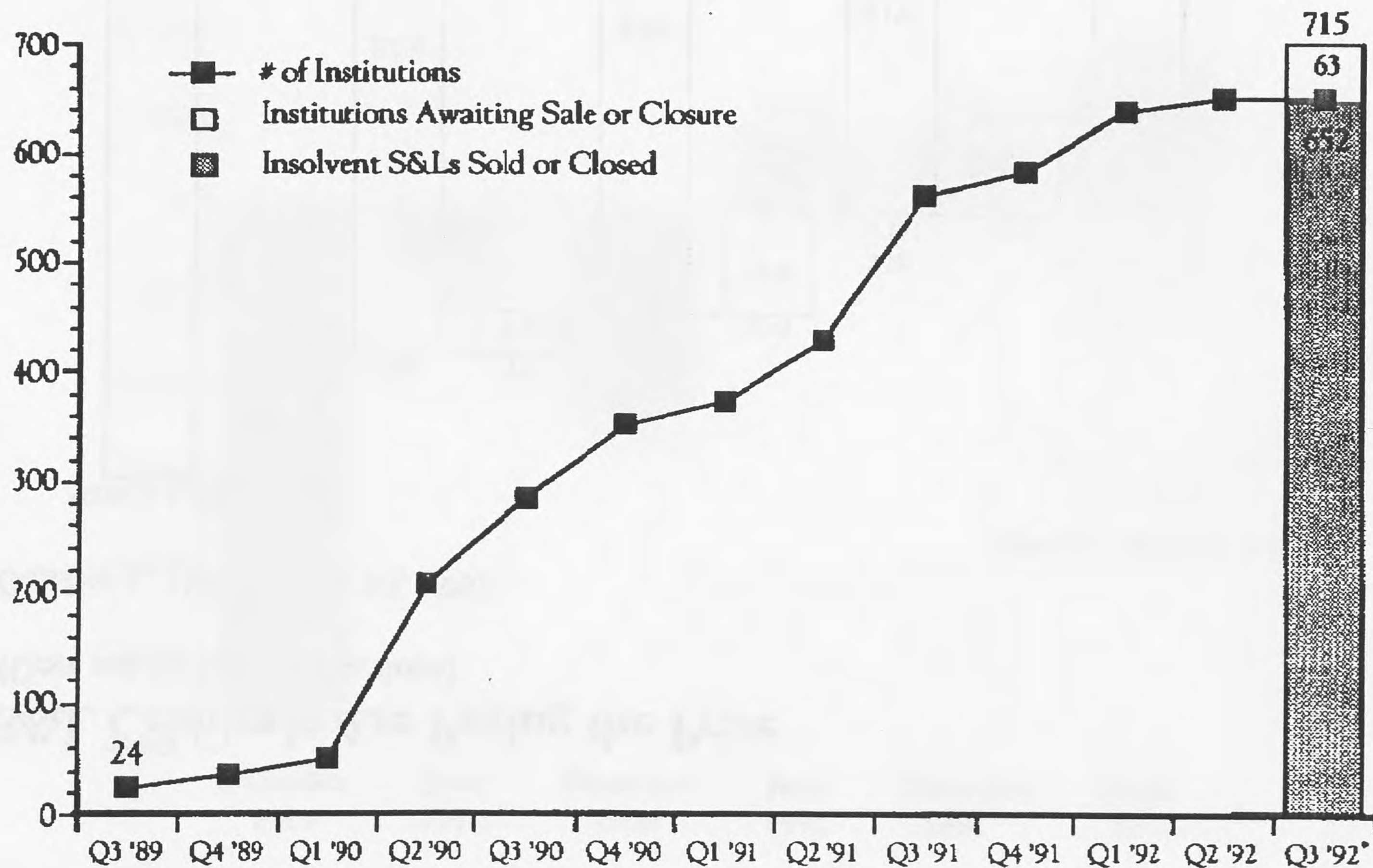
These data show the determination of the Administration to find and prosecute those responsible for fraud and gross mismanagement of the institutions under their control.

Fourth, restore the S&L industry to profitability:

After four years of losses, the S&L industry has returned to profitability (Chart V). In June the OTS reported that the private sector thrift industry earned $1.6 billion in the first quarter of 1992. It was the best quarter since the first quarter of 1986, and the industry's fifth consecutive profitable quarter.

652 S&Ls Resolved

Inception through July 15, 1992



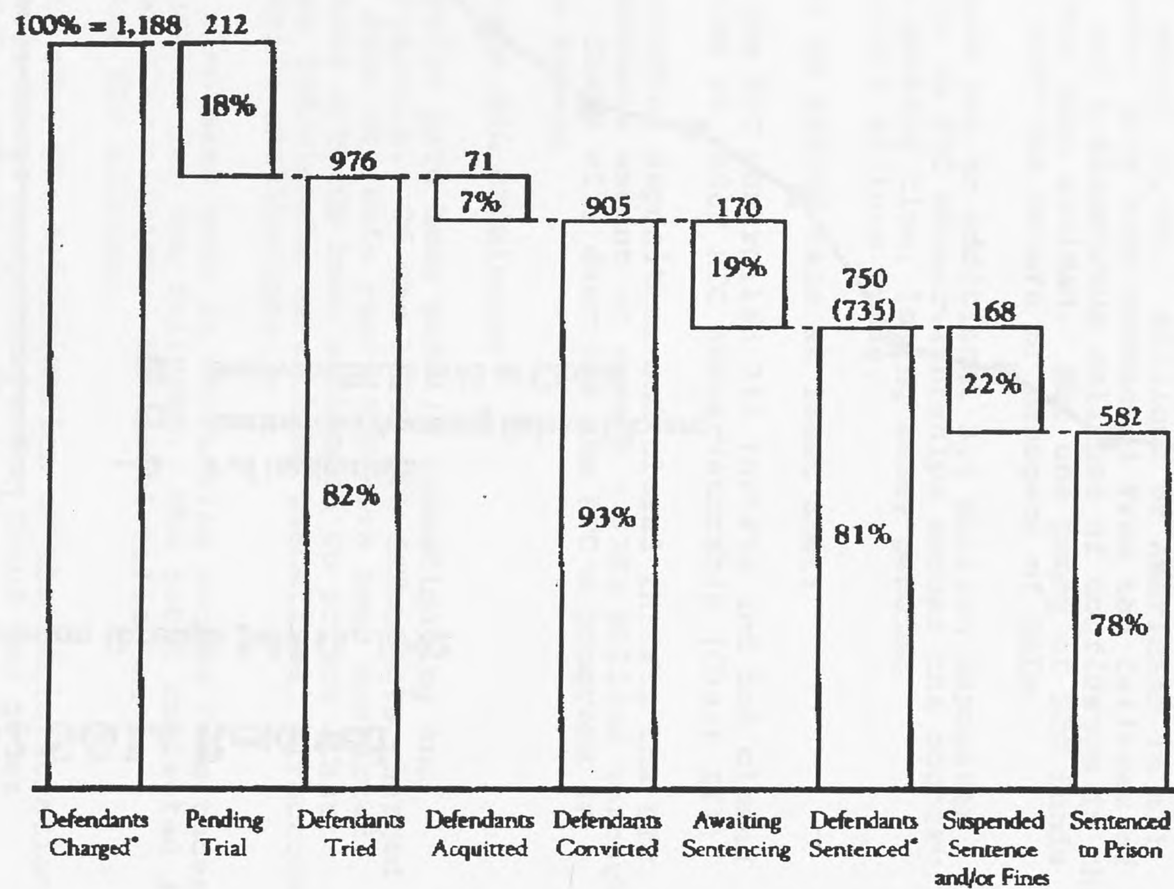
* Quarter to date.
Note: Figures represent cumulative RTC Resolutions
Source: RTC Review; OB Analysis

CHART III

S&L Criminals Are Paying the Price

(Does not include civil actions)

October 1, 1988 – June 30, 1992



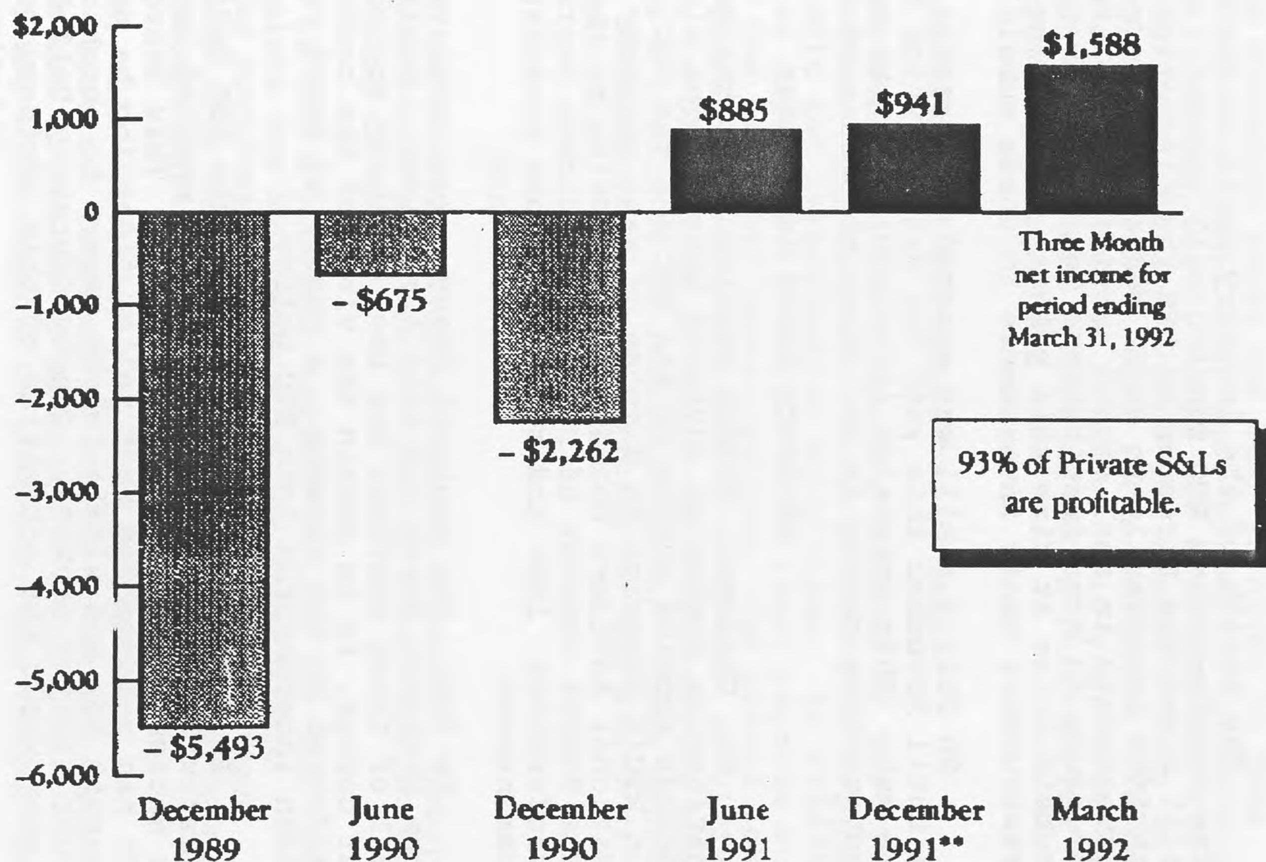
* 750 includes 15 defendants charged and convicted before 10/1/88 but sentenced after 10/1/88.

Note: Numbers represent activity in "major" savings and loan prosecutions.

Source: Department of Justice; OB Analysis

Profitability Restored to S&L Industry

Six Month Net Income*
($ Millions)



* Does not include RTC conservatorships.
** Third Quarter 1991 earnings revised by OTS in March 1992; Fourth Quarter 1991 earnings revised in June 1992.
Source: June 1992 OTS Industry Aggregates

Ninety-three percent of the institutions OTS regulates were profitable in the first quarter of this year.

The health of the industry would be further enhanced were the Senate-passed RTC funding bill enacted. Section 306 of the bill gives the Director of OTS the discretion to permit certain thrifts temporarily to defer deducting from capital their investments in real estate subsidiaries. This would relieve pressure on some institutions to deduct, or to divest their subsidiaries at fire sale prices, by allowing them more time to restructure their investments in these subsidiaries.

On July 1 a bill was enacted temporarily extending from July 1 until November this year the date by which these standards must be met. This extension is helpful. But we continue to support a substantive change in law along the lines of the Senate-passed bill.

Advisory Board Activities

Mr. Chairman, FIRREA requires that the Board establish a nationwide system of advisory boards. The six Regional Advisory Boards provide advice to the RTC and the National Advisory Board on RTC's programs to dispose of real property assets. The National Advisory Board provides advice to the Oversight Board. The Boards consist of prominent citizens representing real estate professions, low- and moderate-income consumers and small businesses.

To date, the Regional Boards have completed 48 meetings, and the National Board has held 8 meetings. Public participation in all of these meetings has been actively solicited. The purpose, of course, is to obtain the views of the communities most affected by the cleanup. A number of Board recommendations have been incorporated into RTC policy.

In addition to these Boards, the RTC Refinancing, Restructuring, and Improvement Act enacted last December created a National Housing Advisory Board. This Board meets quarterly. It has recommended that seller financing be made available to permit low and middle income buyers to purchase homes in high cost housing markets. Deputy Secretary DelliBovi will testify later about the activities of this Advisory Board.

GAO Audit

Mr. Chairman, I made the point earlier that the RTC is making substantial progress. The GAO has given a clean opinion on the RTC's balance sheet and cash flow statements. As you recall, the inability of the GAO to give an opinion on the RTC's condition in 1990 has been of major concern to this Committee and other Members of Congress.

It has also been of concern to the RTC and the Oversight Board. The RTC has made a commendable effort to respond to GAO's concerns, and the Oversight Board has been involved in this through the Task Force convened last year by Deputy Secretaries John Robson and Alfred DelliBovi, which met with GAO and RTC officials to explore the GAO's concerns and identify ways in which the RTC could respond. The Task Force continued its work with Mr. Philip Jackson and met in March of this year with GAO and RTC to discuss GAO concerns including RTC's information systems and contracting procedures.

Activities of RTC Inspector General

The Oversight Board and the Inspector General of the RTC work closely together. The Inspector General provides regular updates on his audit and investigation activities. In all, up to July 15 the IG has initiated 135 audits and issued reports on 49 of them. The IG has begun 397 investigations, and closed 180. To date 52 individuals have been charged with crimes involving the RTC and close to $1 million in fines and restitutions has been recovered as a result of IG investigations. These audits range from RTC's management of receiverships to the award of contracts for appraisals.

Conclusion

RTC has made substantive progress in the cleanup: progress in protecting depositors, progress in closing insolvent thrifts, progress in disposing of assets.

Funding RTC is not a partisan issue. Voting for the funds necessary to complete the S&L cleanup is the inescapable fulfillment of our Government's obligation to the American depositor. I again urge the Congress to vote the funds necessary to fulfill our responsibilities.

Mr. Chairman, this concludes my prepared statement. Responses to the questions required by FIRREA to be addressed at these appearances are contained in Attachment I to this statement. Mr. Casey will respond to questions you raised in your letter of invitation.

Attachment

Requirements Established in FIRREA for Semi-Annual Appearances	Comments
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 77 institutions with $26 billion of assets. On March 31, 1992 there were 50 conservatorships with $27 billion of assets waiting for resolution. During the six month period, conservatorship and receivership assets decreased $32.9 billion in book value.
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 requirement to address RTC short-term borrowings from the Federal Financing Bank ("FFB") and long-term borrowings from the Resolution Funding Corporation ("REFCORP"). During the reporting period, the RTC decreased issued and outstanding obligations from $64 to $57 billion in the form of short-term working capital borrowings from the FFB. Approximately, $1.0 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.
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 March 31, 1992, the RTC had sold and collected approximately $265 billion (book value) of assets which was 70% of assets seized by that date. The proceeds from these asset reductions totaled $250 billion. To date, there is no evidence that RTC sales have had have had an adverse impact on local real estate markets. A survey conducted by RTC's National Advisory Board concluded that the RTC does not appear to affect real estate prices, but that RTC activities may create a "psychological overhang" in the markets, causing local buyers to delay decisions. 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. The total amount paid to private contractors during the October-March period was $926 million, of which $781 million represents fees paid under receivership management contracts and $88 million represents issuance costs incurred in connection with the securitization program. After the appointment of RTC as conservator, association employees continue to perform asset management 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 an estimate of income of the Corporation from assets acquired by the Corporation	In its corporate capacity, the RTC's only substantial source of "income" is interest on advances made by the Corporation to conservatorships and receiverships. The RTC accrued $478 million of interest income on advances and loans to conservatorships and receiverships in the six months ended March 31, 1992. 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 $14.7 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. Unused loss funds total $2.3 billion. These are being held for both contingencies and emergencies. 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 $100 to $160 billion in budget dollars. The RTC recognized approximately $83 billion for estimated losses from inception through March 31, 1992.

AUCTION RESULTS

PUBLIC DEBT NEWS

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202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $10,506 million of 5-year notes, Series P-1997, to be issued July 31, 1992 and to mature July 31, 1997 were accepted today (CUSIP: 912827G30).

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	5.54%	99.827
High	5.57%	99.698
Average	5.56%	99.741

Tenders at the high yield were allotted 45%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	35,919	35,919
New York	23,123,638	9,746,338
Philadelphia	26,293	26,293
Cleveland	57,075	57,075
Richmond	132,030	103,980
Atlanta	55,414	45,464
Chicago	1,266,481	209,231
St. Louis	33,462	31,912
Minneapolis	16,958	16,958
Kansas City	59,285	59,285
Dallas	13,383	13,378
San Francisco	248,910	48,885
Treasury	110,844	110,844
TOTALS	$25,179,692	$10,505,562

The $10,506 million of accepted tenders includes $945 million of noncompetitive tenders and $9,561 million of competitive tenders from the public.

In addition, $1,278 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.

NB-1919

TREASURY NEWS

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FOR IMMEDIATE RELEASE
July 30, 1992

Contact: Desiree Tucker-Sorini
202-622-2920

Statement by
Nicholas F. Brady
Secretary of the Treasury

It is not unusual for economic recoveries to be sawtoothed, with some periods much higher than others. Growth has now been positive for 5 consecutive quarters, and the Blue Chip consensus (52 economists) projects 3% growth in the second half of the year.

The United States has gone through a structural adjustment that has set the stage for strong growth. Households and businesses are reducing their debt burdens, freeing themselves for future consumption and investment. The reduction in defense spending will release high-value resources for domestic production. The productivity of the American worker is the highest in the world, and improving. Interest rates and inflation are low. Significantly, the United States is once again the largest exporter and foreign investor in the world. These are the necessary conditions for future growth.

In today's economy, exports are the single greatest job creation engine. Every $1 billion in exports supports 20,000 U.S. jobs, and over the last 5 years our exports have risen by $195 billion. Over 95 percent of the world's population lives outside U.S. borders. That is why it is critical for our economy to put itself in a position to increase its exports.

For international companies, the United States remains the most attractive market in the world for investment. The recent announcement by BMW was an excellent example. They chose to build their new plant in the U.S. for three reasons: our workers are the most productive, our market is the most dynamic, and our country is the best export base.

We believe 1993 and 1994 will be years of solid growth for the American economy.

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NB-1920

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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AUG 4 92 003886
DEPT. OF THE TREASURY

FOR RELEASE AT 3:00 p.m.
August 3, 1992

Contact: Anne Kelly Williams
(202) 622-2960

TREASURY ANNOUNCES MARKET BORROWING ESTIMATES

The Treasury Department today announced that its net market borrowing for the July-September 1992 quarter is estimated to be $75 billion, with a $35 billion cash balance on September 30. The Treasury also announced that its net market borrowing for the October-December 1992 quarter is estimated to be in a range of $115 billion to $120 billion, with a $30 billion cash balance at the end of December.

The borrowing estimates include an allowance for Resolution Trust Corporation operations in the October-December quarter, but assume that the current interruption in funding will prevent RTC spending of any significant magnitude for thrift resolutions during the July-September quarter.

Actual market borrowing in the quarter ended June 30, 1992, was $52.8 billion, while the end-of-quarter cash balance was $47.0 billion. On April 27, the Treasury had estimated market borrowing for the April-June quarter to be $42.8 billion, with a $30 billion cash balance on June 30. A reduction in the cash deficit and increases in borrowing in marketable securities and state and local government series securities combined to increase the cash balance by $17.0 billion above the April estimate.

This higher cash balance on June 30 contributed to a cut in the estimate of borrowing needs for the July-September quarter. In the quarterly announcement of its borrowing needs on April 27, 1992, the Treasury had estimated net market borrowing during the July-September quarter to be in a range of $110-115 billion, assuming a $30 billion cash balance on September 30. The market borrowing estimate for the July-September period was reduced by the $17.0 billion increase in the June 30 cash balance and a decline in the cash deficit (in large part reflecting the interruption in RTC funding), compared with the April estimate.

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NB-1921

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

DEPT. OF THE TREASURY

For Immediate Release
Monday, August 3, 1992

Contact: Rich Myers
(202) 622-2930

TREASURY DEPARTMENT ANNOUNCES INTENTION TO FORM TAX POLICY ADVISORY GROUP

Treasury Secretary Nicholas F. Brady today announced that the Treasury's Office of Tax Policy intends to form a Tax Policy Advisory Group.

Brady said the Advisory Group would be part of the Treasury Department's long-range plan to focus on broad tax policy issues.

"Forming this advisory group reflects our commitment to an open exchange of views and ideas and to a healthy and constructive review of our tax policy functions," said Brady.

The Advisory Group would provide on-going advice and counsel in a number of areas, including:

(1) Priority topics for consideration and development of broad-based policy initiatives;
(2) Current tax policy studies in such areas as corporate integration, the alternative minimum tax, international reform, and tax simplification;
(3) The models, methodology, and data sources used to develop and assess the impact of various tax policy proposals; and
(4) Overall management of the tax policy function.

The issues that may be considered range from the taxation of multinational business activities to issues of concern for small businesses, individual and low-income taxpayers, state and local governments and consumer organizations.

The Tax Advisory Group would generally be composed of representatives of broad-based private sector organizations with interests in all aspects of tax policy. It will also seek members of the academic community representing a range of views on tax and fiscal policy issues.

The group would be formed and operated in accordance with the Federal Advisory Committee Act, and it is anticipated that its meetings would be open to the public. The Treasury Department will be submitting a charter to the General Services Administration for its review and concurrence.

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NB-1922

AUCTION RESULTS

PUBLIC DEBT NEWS

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AUG 4 92 003889

FOR IMMEDIATE RELEASE
August 3, 1992

CONTACT: Office of Financing
202-219-3350

DEPT. OF THE TREASURY

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,618 million of 13-week bills to be issued August 6, 1992 and to mature November 5, 1992 were accepted today (CUSIP: 912794ZR8).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.18%	3.25%	99.196
High	3.20%	3.27%	99.191
Average	3.20%	3.27%	99.191

Tenders at the high discount rate were allotted 56%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	24,180	24,180
New York	39,861,980	10,075,380
Philadelphia	11,590	11,590
Cleveland	31,920	31,920
Richmond	37,405	37,405
Atlanta	32,625	24,425
Chicago	1,689,225	143,425
St. Louis	15,465	5,465
Minneapolis	6,480	6,480
Kansas City	19,650	19,650
Dallas	21,960	21,960
San Francisco	1,227,065	314,585
Treasury	901,585	901,585
TOTALS	$43,881,130	$11,618,050
Type		
Competitive	$39,002,840	$6,739,760
Noncompetitive	1,420,305	1,420,305
Subtotal, Public	$40,423,145	$8,160,065
Federal Reserve	2,631,815	2,631,815
Foreign Official Institutions	826,170	826,170
TOTALS	$43,881,130	$11,618,050

An additional $92,930 thousand of bills will be issued to foreign official institutions for new cash.

NB-1923

AUCTION RESULTS

PUBLIC DEBT NEWS

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

LIBRARY ROOM 5310

FOR IMMEDIATE RELEASE
August 3, 1992

AUG 4 92 003892

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

DEPT. OF THE TREASURY

Tenders for $11,649 million of 26-week bills to be issued August 6, 1992 and to mature February 4, 1993 were accepted today (CUSIP: 912794A53).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.29%	3.39%	98.337
High	3.30%	3.40%	98.332
Average	3.30%	3.40%	98.332

Tenders at the high discount rate were allotted 84%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	24,555	24,555
New York	39,227,200	10,673,435
Philadelphia	10,910	10,910
Cleveland	97,770	22,770
Richmond	29,325	29,325
Atlanta	25,470	23,670
Chicago	1,316,135	51,975
St. Louis	13,645	8,645
Minneapolis	5,820	5,820
Kansas City	24,650	24,650
Dallas	9,740	9,740
San Francisco	692,470	64,470
Treasury	698,690	698,690
TOTALS	$42,176,380	$11,648,655
Type		
Competitive	$37,737,310	$7,209,585
Noncompetitive	1,089,940	1,089,940
Subtotal, Public	$38,827,250	$8,299,525
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	649,130	649,130
TOTALS	$42,176,380	$11,648,655

An additional $61,170 thousand of bills will be issued to foreign official institutions for new cash.

NB-1924

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

LIBRARY ROOM 5310

AUG 5 92

DEPT. OF THE TREASURY

FOR RELEASE AT 2:30 P.M. CONTACT: Office of Financing
August 4, 1992 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 $23,200 million, to be issued August 13, 1992. This offering will provide about $ 300 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $22,912 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, August 10, 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 $ 11,600 million, representing an additional amount of bills dated May 14, 1992, and to mature November 12, 1992, (CUSIP No. 912794 ZS 6), currently outstanding in the amount of $ 12,081 million, the additional and original bills to be freely interchangeable.

182 -day bills (to maturity date) for approximately $11,600 million, representing an additional amount of bills dated February 13, 1992, and to mature February 11, 1993, (CUSIP No. 912794 A6 1), currently outstanding in the amount of $ 12,870 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 August 13, 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 $ 1,495 million as agents for foreign and international monetary authorities, and $ 5,184 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 bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

EMBARGOED UNTIL GIVEN
EXPECTED AT 10:00 A.M.
AUGUST 5, 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
AUGUST 5, 1992

Mr. Chairman, Senator Garn and members of the Committee:

I am pleased to appear today with the members of the Thrift Depositor Protection Oversight Board. It is our fifth testimony before this Committee since FIRREA was enacted.

Accompanying me are Board members Albert V. Casey, President and CEO of the RTC; Alan Greenspan, Chairman of the Federal Reserve Board; Robert Larson, Vice Chairman of The Taubman Company, Inc.; Timothy Ryan, Director of the Office of Thrift Supervision; and William Taylor, Chairman of the Federal Deposit Insurance Corporation. Philip Jackson, Adjunct Professor at Birmingham Southern College is unable to attend. Peter Monroe, President of the Board, is also with us today.

When this Administration took office it was faced with a savings and loan crisis that had been in the making for over a decade. Hundreds of institutions were insolvent, losses were increasing daily, the accounts of millions of depositors were at risk and public confidence was deteriorating. Addressing this problem became a priority of the first order.

This Administration seized the initiative in solving the savings and loan crisis. Just eighteen days after being sworn into office the President submitted to Congress a comprehensive proposal for the S&L cleanup. With that impetus, the solution to the crisis was addressed by Congress and by August 9, only six months later, the Financial Institutions Reform, Recovery, and Enforcement Act was passed and signed into law.

Since that time, substantial gains have been made in accomplishing one of the most massive, complex, and difficult tasks any government entity has been asked to carry out. In three years almost 22 million depositor accounts have been protected, more than 650 bankrupt S&Ls have been closed, over 900 convictions have been obtained, hundreds of millions in fines have been collected, and the private sector thrift industry has

been restored to profitability.

To give you an idea of the dimensions of this undertaking, the RTC has taken control of $391 billion of assets of failed thrifts. As comparisons, General Motors' assets are $184 billion, and the combined assets of the two biggest U.S. banks are $353 billion.

Except with the millions of depositors whose accounts have been saved, the thrift cleanup is not popular. RTC is carrying out one of the least understood and most thankless jobs any government organization has been asked to do. The management and personnel of RTC have done a good job under difficult circumstances.

But today we are faced with a different problem. It is not the problem of finding a plan to solve the S&L crisis. That has been done. It is not the problem of creating an organization to implement that plan. That has also been done. It is not the problem of that organization taking hold and getting a substantial portion of the S&L cleanup behind us. That, too, has been done.

The problem today is to finish this job, and the only deterrent to RTC's progress is Congress' repeated refusal to vote the necessary funds. With the leadership of this Committee, the Senate acted quickly this year to provide funds, but House inaction has again brought RTC's resolution of insolvent thrifts to a standstill. This and previous delays have unnecessarily added hundreds of millions of dollars to the bite being taken out of the American taxpayer.

RTC funding is said to be a difficult vote. Perhaps this is understandable because there has been considerable public misunderstanding about the mission of the RTC. But a vote to fund the RTC is a vote to protect people's savings. Millions of depositors' accounts are now safe, but millions remain to be protected.

It is hard to imagine the financial chaos that would have occurred had the S&L cleanup program not been enacted and funded. Those in the Senate and House who voted to fund the RTC have voted responsibly. There is simply no logic in delaying funding, creating confusion, and costing the U.S. taxpayer millions of dollars each day.

Obviously, in the end, Congress will have to make good on its pledge to back deposits with the "Full Faith and Credit of the United States". This is not a discretionary matter. The check to depositors has already been written. The only real difference between a yes and no vote on funding is that a no vote costs the taxpayer an additional $6 million each day.

Funding the RTC

So the critical issue before us today is the urgent need, once again, to fund the RTC. Let me review the funding authorizations to date.

FIRREA authorized $50 billion for the cleanup. In March, 1991, in the RTC Funding Act of 1991, Congress voted another $30 billion.

In July, last year, the Oversight Board asked this Committee to authorize an additional $80 billion to ensure that there would be sufficient funds to complete the cleanup. But in the RTC Refinancing, Restructuring, and Improvement Act of 1991, Congress instead voted $25 billion for use by the RTC from the date of enactment on December 12 last year, until April 1. Of this $25 billion, the RTC was able to use about $7 billion before the cutoff date, leaving about $18 billion unspent.

The $7 billion when added to the previously provided $80 billion, brings the total amount of RTC funds authorized to cover losses to $87 billion. RTC estimates that about $84.5 billion in total has been spent. This leaves about $2.5 billion of unspent loss funds available for emergencies and contingencies.

On March 25 this Committee responded to the need to provide additional funds by reporting S. 2482, which was passed by the Senate the next day. This bill would lift the April 1 cutoff, permitting the $18 billion to be spent, and would provide an additional $25 billion. It would allow the RTC to spend up to $130 billion. Unfortunately the House defeated a more modest bill providing only that the cutoff date be lifted. Thus, since April 1, the RTC has virtually had to cease resolutions.

Chart I describes Congressional funding actions and RTC quarterly spending from inception of the program to the present.

The Cost of Delay

The Administration is strongly committed to obtaining funding for the RTC. We have repeatedly stated so. We have made more than fifty Congressional appearances since FIRREA was enacted, and we have had hundreds of meetings with members of Congress. As President Bush said in his July 29 letter to the Speaker of the House, "The Government's commitment to these depositors is ironclad....The American taxpayer should not be burdened with the costs of this delay. The Senate has already acted. The House should now promptly follow suit."

RTC Loss Funding Timeline and Fiscal Year Expenditures

($ Billions)

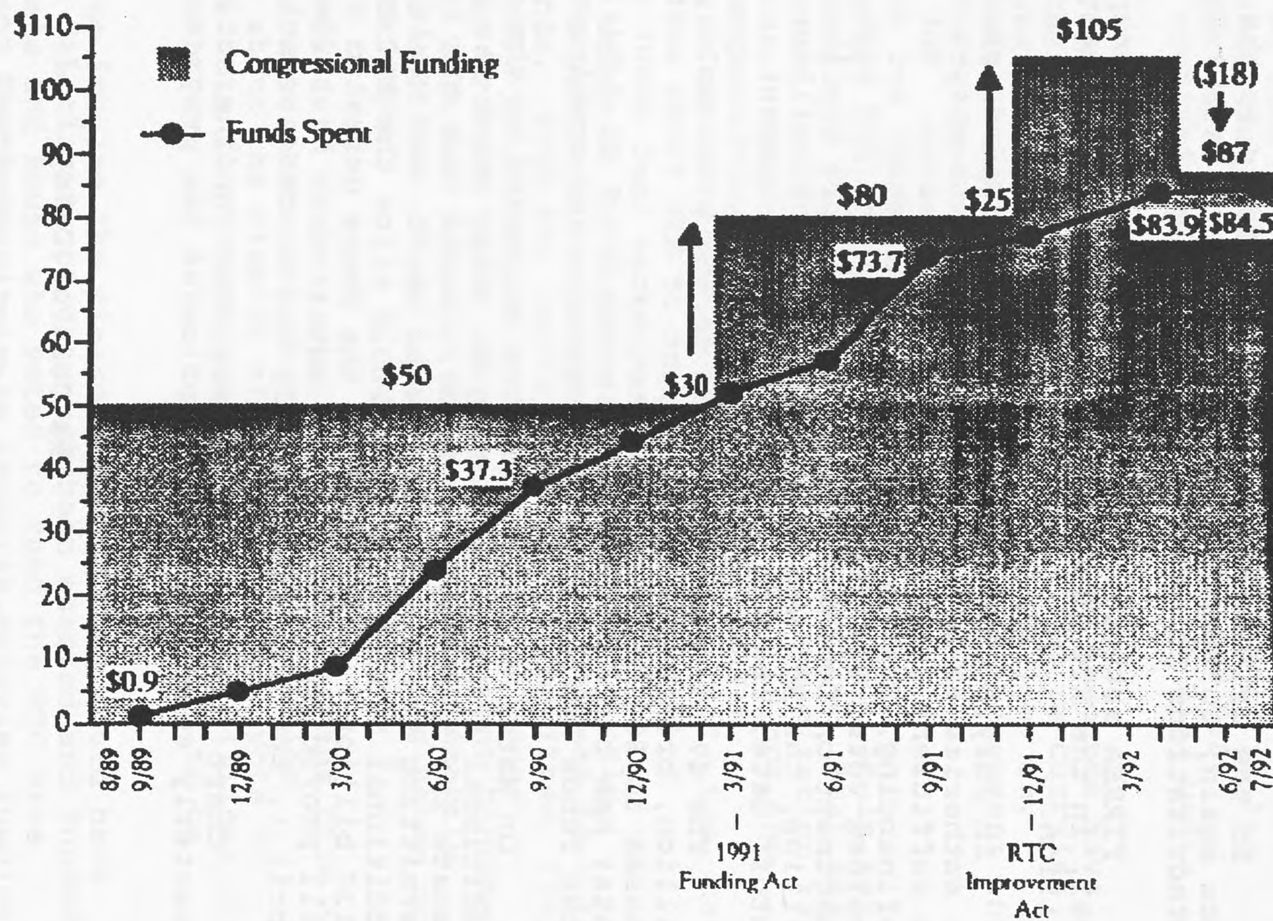


CHART I

Stop and start funding is expensive and disruptive. Nonetheless we are now confronted with the third delay in funding the RTC. RTC estimates the cost of these delays to date to be between $600 and $750 million. If the delay continues until the end of September, RTC estimates the total cost of all delays will be between $1 and $1.4 billion.

RTC estimates that the average daily cost for the first quarter of delay was $2.5 million, and for the second quarter of delay, $6 million. The estimated cost for the second consecutive quarter of delay is more than twice the estimated cost for the first quarter because, as a larger backlog of unresolved institutions is built up in conservatorships, it takes RTC longer to catch up. When funding is delayed two quarters, it is likely to take two to four quarters for RTC to resolve this backlog. During this time, institutions are continuing to operate at a higher cost.

According to the RTC the current cost of delay is about $6 million a day. Mr. Chairman, I submit that incurring these costs is completely unnecessary. It is like walking out on the steps of the Capitol, building a bonfire, and burning $6 million each day and watching the money go up in smoke.

What will $6 million a day buy? With $6 million the government could award 2,400 Pell Grants this year for needy students to attend college. With $6 million, we could add 1,600 more children to the Head Start program. And, with $6 million, the government could add more than 12,000 persons to the WIC program for care of infants and pregnant women.

Cost of the Cleanup

How much additional funding will be necessary to complete the job?

When FIRREA was written there was a great deal of uncertainty about the long-term cost of fixing the problem. The Administration stated repeatedly in letters and testimony that we could not say precisely how many institutions would fail, the nature and quality of their assets, what it would take to resolve them, and what interest rates, real estate prices, or the performance of the economy would be. All were, and are, key variables in estimating the cost.

To illustrate this point, let me quote from a letter which I sent to Chairman Riegle, dated June 23, 1989, about the adequacy of funds to be provided in FIRREA:

Let me emphasize.. that this level of resources, no matter how thoroughly researched or widely agreed upon, is still based only on estimates. Uncertainties include the level of interest rates, the strength of the economy, as well as many other factors that could have a significant impact on the size of the problem. As a result, the actual cost of case resolutions could be higher or lower, depending on the actual circumstances.

Nonetheless, the Administration requested $50 billion based on the best estimates at the time of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office.

Nine months after FIRREA's enactment and after having months of experience in closing almost 100 thrifts, the RTC found that losses in individual thrifts were greater than expected and that the total number of projected thrift failures had increased.

Thus, at its first appearance before this Committee in May 1990, the Board acknowledged that these factors plus uncertain economic variables prevented us from providing a single estimate of the ultimate cost. Instead, we said that the cost would be in the approximate range of $90 billion to $130 billion in 1989 present value terms, or about $100 to $160 billion in budget dollars.

At our appearance here in June last year, we said that, while we believed that the cost had stayed within this range, we estimated that it had moved to the upper end of the range. Now - again reflecting the shifting variables that have affected the cost of this problem since our first efforts to estimate it - the current cost estimate has moved closer to a mid-point in the range. This is reflected in the President's mid-session budget estimate. But I must state again: we cannot say with certainty that that amount is sufficient to complete the job. Therefore we must continue to present the cost in terms of a range.

Mr. Casey will testify that the RTC believes $130 billion in budget dollars would be sufficient to complete the RTC's job; he believes that the job is nearing completion.

Certainly we agree that substantial progress has been made in the S&L cleanup and we hope that the cost will be no more than $130 billion. Indeed, we hope it will be less. But we cannot be sure. That is why we will maintain the position we first took at our appearance here in May 1990, that the final cost will fall within the approximate range of $100 to $160 billion. If there is to be any surprise about the cost of this effort, we want the surprise to be on the downside. Progress has been made, but the job is not finished. Insolvent thrifts remain to be closed, and a very substantial amount of assets remains to be sold.

Certainly an authorization of an additional $43 billion as provided by the Senate in S. 2482, would allow RTC to make substantial progress toward completing the cleanup.

Accomplishments to Date

In spite of repeated funding delays, substantial progress has been made in meeting the goals initially set by President Bush for the cleanup:

First, protect depositors' savings:

By July 15, 1992, the RTC had saved almost 22 million depositor accounts with funds voted to honor our government's deposit insurance pledge (Chart II). The average size of these accounts has been about $9,000. Millions of Americans in all parts of this country have been protected from the failures of hundreds of S&Ls, and a disastrous collapse of confidence in the financial system has been avoided. Not one penny of RTC funds has gone to "bail out" the owners or managers of S&Ls.

Currently there are an additional 3.4 million depositor accounts in thrifts in RTC conservatorship across the country. These thrifts are marking time, losing money pending Congressional approval of loss funds.

Second, clean up failed S&Ls at least cost:

By July 15, the RTC controlled 715 thrifts and had closed 652 of them, leaving 63 under RTC conservatorship (Chart III).

As it has protected depositors and closed thrifts the RTC has acquired an enormous amount of assets - $391 billion through May 31, 1992. Mr. Casey will describe the RTC's progress in disposing of these assets.

Third, prosecute S&L criminals:

Substantial gains have been made in investigating and prosecuting S&L criminals. Of the 1,188 S&L defendants charged in major cases by June 30, this year, 905 have been convicted, and 582 of those have already been sentenced to prison (Chart IV). Many of these individuals were chief executives, directors and officers of thrift institutions.

Progress has also been made in collecting monies from those found to be responsible for S&L failures. The total collected in civil suits is over $767 million. The total collected in restitutions is over $22 million.

21.8 Million Depositors Protected
(# Millions)

Inception through July 15, 1992

* Quarter to date.
Note: Figures represent Cumulative Depositors' Accounts Protected
Source: RTC Office of Corporate Communications; TFR

CHART II

652 S&Ls Resolved

Inception through July 15, 1992

■ # of Institutions

□ Institutions Awaiting Sale or Closure

▩ Insolvent S&Ls Sold or Closed

700

600

500

400

300

200

100

0

24

715

63

652

Q3 '89 Q4 '89 Q1 '90 Q2 '90 Q3 '90 Q4 '90 Q1 '91 Q2 '91 Q3 '91 Q4 '91 Q1 '92 Q2 '92 Q3 '92*

* Quarter to date.

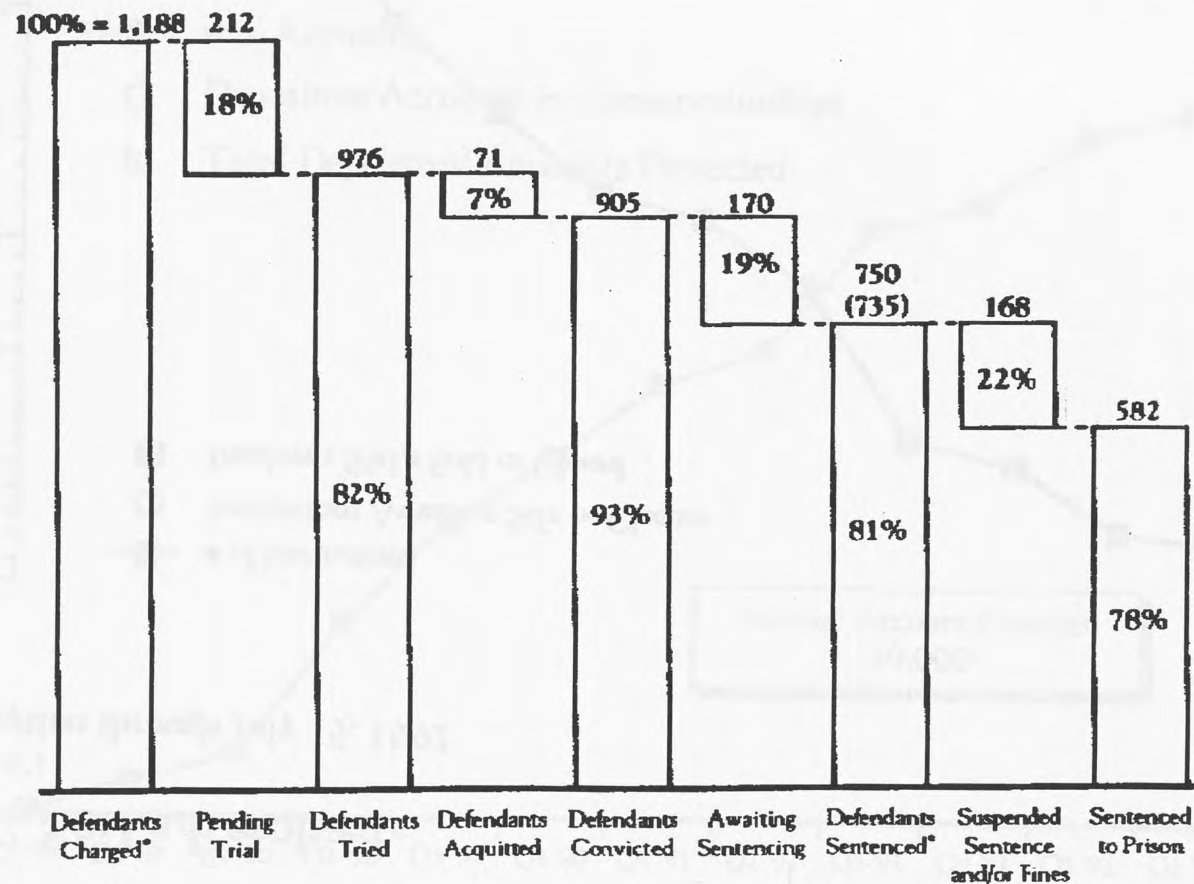
Note: Figures represent cumulative RTC Resolutions

Source: RTC Review; OB Analysis

S&L Criminals Are Paying the Price

(Does not include civil actions)

October 1, 1988 – June 30, 1992



* 750 includes 15 defendants charged and convicted before 10/1/88 but sentenced after 10/1/88.

Note: Numbers represent activity in "major" savings and loan prosecutions.

Source: Department of Justice; OB Analysis

These data show the determination of the Administration to find and prosecute those responsible for fraud and gross mismanagement of the institutions under their control.

Fourth, restore the S&L industry to profitability:

After four years of losses, the S&L industry has returned to profitability (Chart V). In June the OTS reported that the private sector thrift industry earned $1.6 billion in the first quarter of 1992. It was the best quarter since the first quarter of 1986, and the industry's fifth consecutive profitable quarter. Ninety-three percent of the institutions OTS regulates were profitable in the first quarter of this year.

The health of the industry would be further enhanced were the Senate-passed RTC funding bill enacted. Section 306 of the bill gives the Director of OTS the discretion to permit certain thrifts temporarily to defer deducting from capital their investments in real estate subsidiaries. This would relieve pressure on some institutions to deduct, or to divest their subsidiaries at fire sale prices, by allowing them more time to restructure their investments in these subsidiaries.

On July 1 a bill was enacted temporarily extending from July 1 until November this year the date by which these standards must be met. This extension is helpful. But we continue to support a substantive change in law along the lines of the Senate-passed bill.

Advisory Board Activities

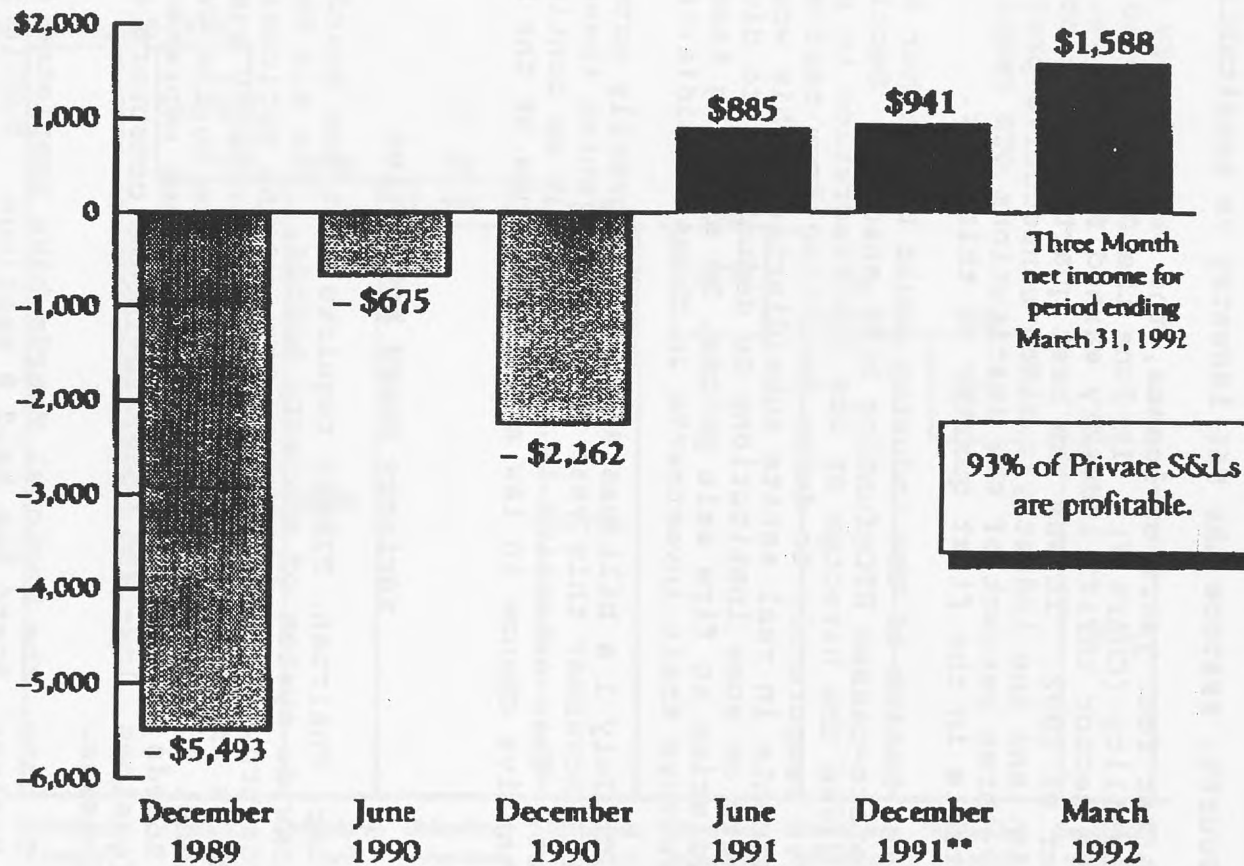
Mr. Chairman, FIRREA requires that the Board establish a nationwide system of advisory boards. The six Regional Advisory Boards provide advice to the RTC and the National Advisory Board on RTC's programs to dispose of real property assets. The National Advisory Board provides advice to the Oversight Board. The Boards consist of prominent citizens representing real estate professions, low- and moderate-income consumers and small businesses.

To date, the Regional Boards have completed 48 meetings, and the National Board has held 8 meetings. Public participation in all of these meetings has been actively solicited. The purpose, of course, is to obtain the views of the communities most affected by the cleanup. A number of Board recommendations have been incorporated into RTC policy.

In addition to these Boards, the RTC Refinancing, Restructuring, and Improvement Act enacted last December created a National Housing Advisory Board. This Board meets quarterly. It has recommended that seller financing be made available to

Profitability Restored to S&L Industry

Six Month Net Income*
($ Millions)



* Does not include RTC conservatorships.
** Third Quarter 1991 earnings revised by OTS in March 1992; Fourth Quarter 1991 earnings revised in June 1992.
Source: June 1992 OTS Industry Aggregates

CHART V

permit low and middle income buyers to purchase homes in high cost housing markets. Deputy Secretary DelliBovi will testify later about the activities of this Advisory Board.

GAO Audit

Mr. Chairman, I made the point earlier that the RTC is making substantial progress. The GAO has given a clean opinion on the RTC's balance sheet and cash flow statements. As you recall, the inability of the GAO to give an opinion on the RTC's condition in 1990 has been of major concern to this Committee and other Members of Congress.

It has also been of concern to the RTC and the Oversight Board. The RTC has made a commendable effort to respond to GAO's concerns, and the Oversight Board has been involved in this through the Task Force convened last year by Deputy Secretaries John Robson and Alfred DelliBovi, which met with GAO and RTC officials to explore the GAO's concerns and identify ways in which the RTC could respond. The Task Force continued its work with Mr. Philip Jackson and met in March of this year with GAO and RTC to discuss GAO concerns including RTC's information systems and contracting procedures.

Activities of RTC Inspector General

The Oversight Board and the Inspector General of the RTC work closely together. The Inspector General provides regular updates on his audit and investigation activities. In all, up to July 15 the IG has initiated 135 audits and issued reports on 49 of them. The IG has begun 397 investigations, and closed 180. To date 52 individuals have been charged with crimes involving the RTC and close to $1 million in fines and restitutions has been recovered as a result of IG investigations. These audits range from RTC's management of receiverships to the award of contracts for appraisals.

Conclusion

RTC has made substantive progress in the cleanup: progress in protecting depositors, progress in closing insolvent thrifts, progress in disposing of assets.

Funding RTC is not a partisan issue. Voting for the funds necessary to complete the S&L cleanup is the inescapable fulfillment of our Government's obligation to the American depositor. I again urge that the funds necessary to fulfill our responsibilities be provided.

Mr. Chairman, this concludes my prepared statement. Responses to the questions required by FIRREA to be addressed at these appearances are contained in Attachment I to this statement.

Attachment

Requirements Established in FIRREA for Semi-Annual Appearances	Comments
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 77 institutions with $26 billion of assets. On March 31, 1992 there were 50 conservatorships with $27 billion of assets waiting for resolution. During the six month period, conservatorship and receivership assets decreased $32.9 billion in book value.
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 requirement to address RTC short-term borrowings from the Federal Financing Bank ("FFB") and long-term borrowings from the Resolution Funding Corporation ("REFCORP"). During the reporting period, the RTC decreased issued and outstanding obligations from $64 to $57 billion in the form of short-term working capital borrowings from the FFB. Approximately, $1.0 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.
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 March 31, 1992, the RTC had sold and collected approximately $265 billion (book value) of assets which was 70% of assets seized by that date. The proceeds from these asset reductions totaled $250 billion. To date, there is no evidence that RTC sales have had have had an adverse impact on local real estate markets. A survey conducted by RTC's National Advisory Board concluded that the RTC does not appear to affect real estate prices, but that RTC activities may create a "psychological overhang" in the markets, causing local buyers to delay decisions. 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.

quirements Established in FIRREA for Semi-Annual Appearances	Comments
)escribe the costs incurred by the Corporation in issuing bligations, 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. The total amount paid to private contractors during the October-March period was $926 million, of which $781 million represents fees paid under receivership management contracts and $86 million represents issuance costs incurred in connection with the securitization program. After the appointment of RTC as conservator, association employees continue to perform asset management 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.
ovide an estimate of income of the Corporation from sets acquired by the Corporation	In its corporate capacity, the RTC's only substantial source of "income" is interest on advances made by the Corporation to conservatorships and receiverships. The RTC accrued $478 million of interest income on advances and loans to conservatorships and receiverships in the six months ended March 31, 1992. 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 $14.7 billion.
vide an assessment of any potential source of additional ds 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. Unused loss funds total $2.3 billion. These are being held for both contingencies and emergencies. There are no other funds currently available to the RTC.
vide an estimate of the remaining exposure of the United tes Government in connection with institutions described ubsection (b)(3)(A) which, in the Oversight Board's estimation, 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 $100 to $160 billion in budget dollars. The RTC recognized approximately $83 billion for estimated losses from inception through March 31, 1992.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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August 5, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY AUGUST QUARTERLY FINANCING

The Treasury will raise about $15,225 million of new cash and refund $20,784 million of securities maturing August 15, 1992, by issuing $15,000 million of 3-year notes, $11,000 million of 10-year notes, and $10,000 million of 30-year bonds. The $20,784 million of maturing securities are those held by the public, including $1,908 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, Government accounts and Federal Reserve Banks, for their own accounts, hold $4,033 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.

The 10-year note and 30-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.

oOo

Attachment

NB-1927

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC

AUGUST 1992 QUARTERLY FINANCING

August 5, 1992

Amount Offered to the Public	$15,000 million	$11,000 million	$10,000 million
Description of Security:			
Term and type of security	3-year notes	10-year notes	30-year bonds
Series and CUSIP designation	Series Q-1995 (CUSIP No. 912827 G4 8)	Series B-2002 (CUSIP No. 912827 G5 5)	Bonds of August 2022 (CUSIP No. 912810 EM 6)
CUSIP Nos. for STRIPS Components . .	Not applicable	Listed in Attachment B of offering circular	Listed in Attachment B of offering circular
Issue date	August 17, 1992	August 17, 1992 (to be dated August 15, 1992)	August 17, 1992 (to be dated August 15, 1992)
Maturity date	August 15, 1995	August 15, 2002	August 15, 2022
Interest rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield	To be determined at auction	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction	To be determined after auction
Interest payment dates	February 15 and August 15	February 15 and August 15	February 15 and August 15
Minimum denomination available . . .	$5,000	$1,000	$1,000
Amount required for STRIPS	Not applicable	To be determined after auction	To be determined after auction
Terms of Sale:			
Method of sale	Yield auction	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield with two decimals, e.g., 7.10%	Must be expressed as an annual yield with two decimals, e.g., 7.10%	Must be expressed as an annual yield with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $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	To be determined after auction	To be determined after auction
Key Dates:			
Receipt of tenders	Tuesday, August 11, 1992	Wednesday, August 12, 1992	Thursday, August 13, 1992
a) noncompetitive	prior to 12:00 noon, EDST	prior to 12:00 noon, EDST	prior to 12:00 noon, EDST
b) competitive	prior to 1:00 p.m., EDST	prior to 1:00 p.m., EDST	prior to 1:00 p.m., EDST
Settlement (final payment due from institutions):			
a) funds immediately available to the Treasury	Monday, August 17, 1992	Monday, August 17, 1992	Monday, August 17, 1992
b) readily-collectible check	Thursday, August 13, 1992	Thursday, August 13, 1992	Thursday, August 13, 1992

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
August 5, 1992

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<u>Terms of Sale</u>:			
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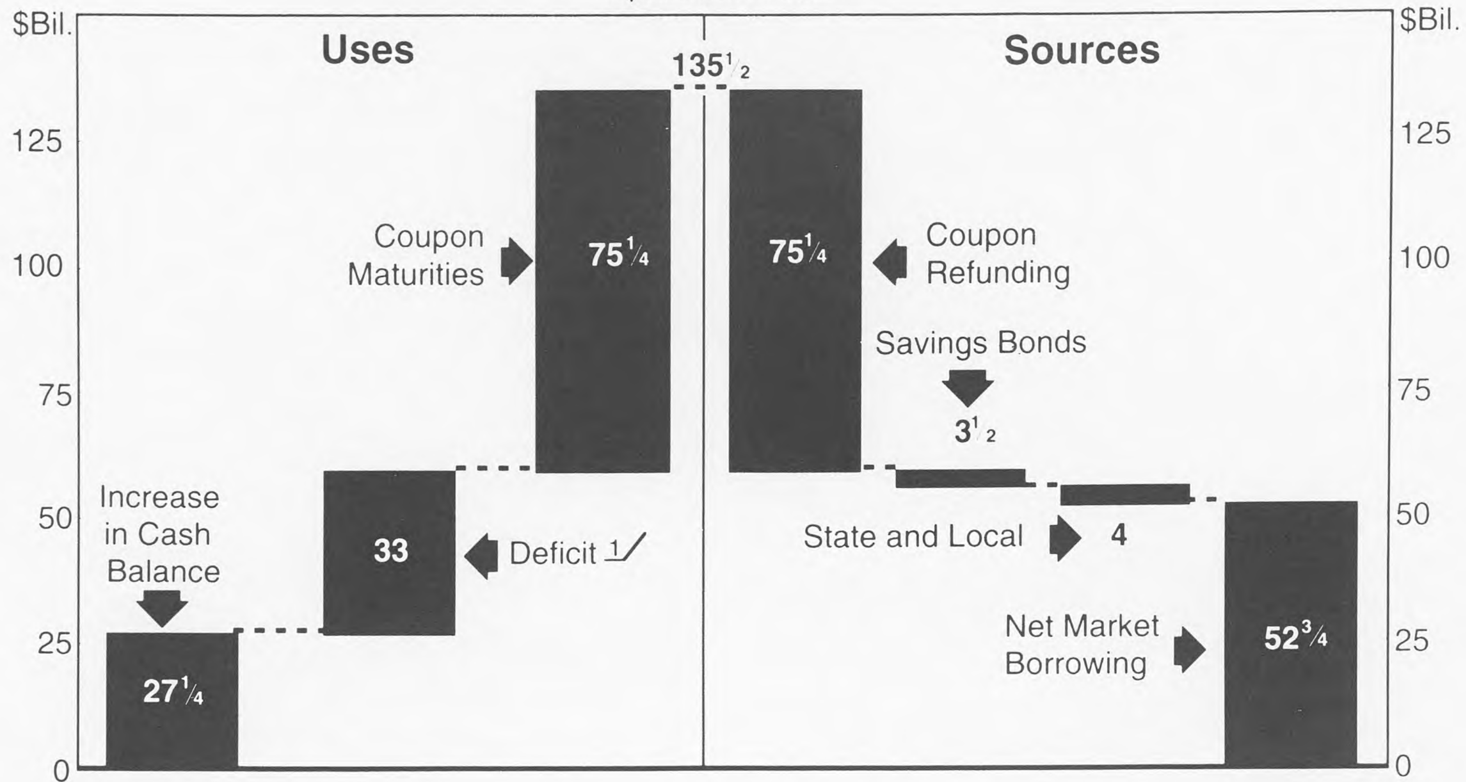
TREASURY FINANCING REQUIREMENTS

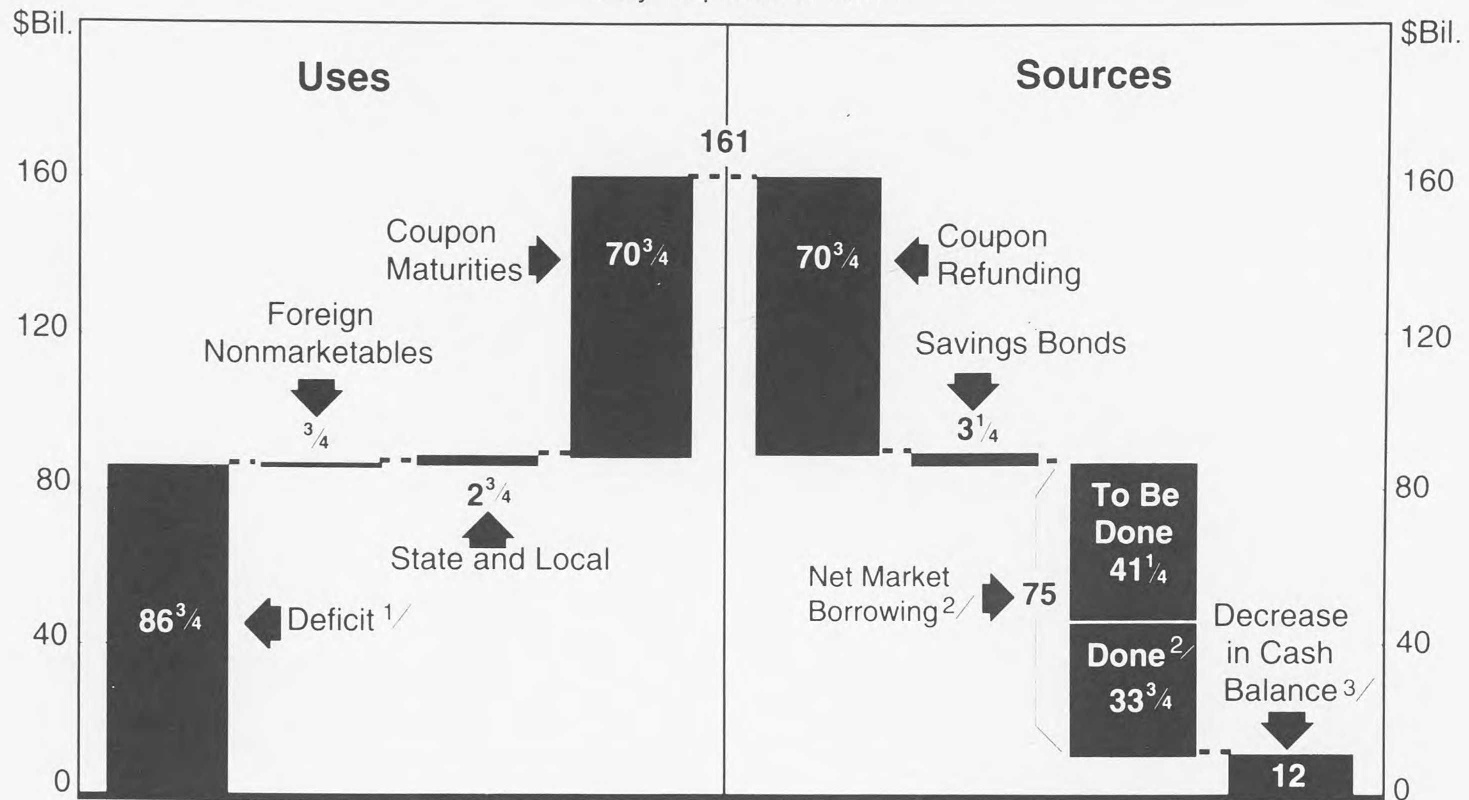
April-June 1992



1/ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

TREASURY FINANCING REQUIREMENTS

July-September 1992



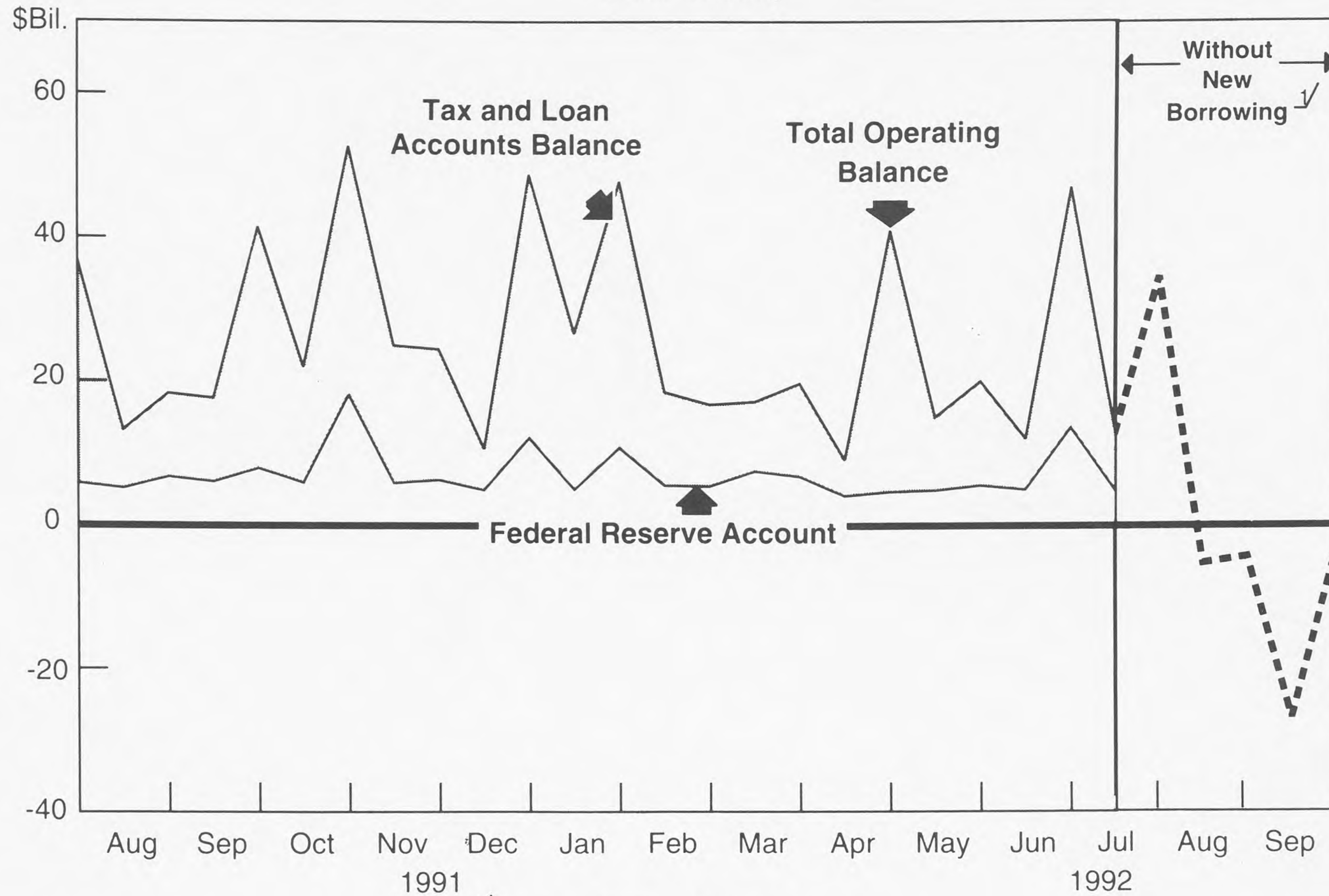
1/ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

2/ Issued or announced through July 31, 1992.

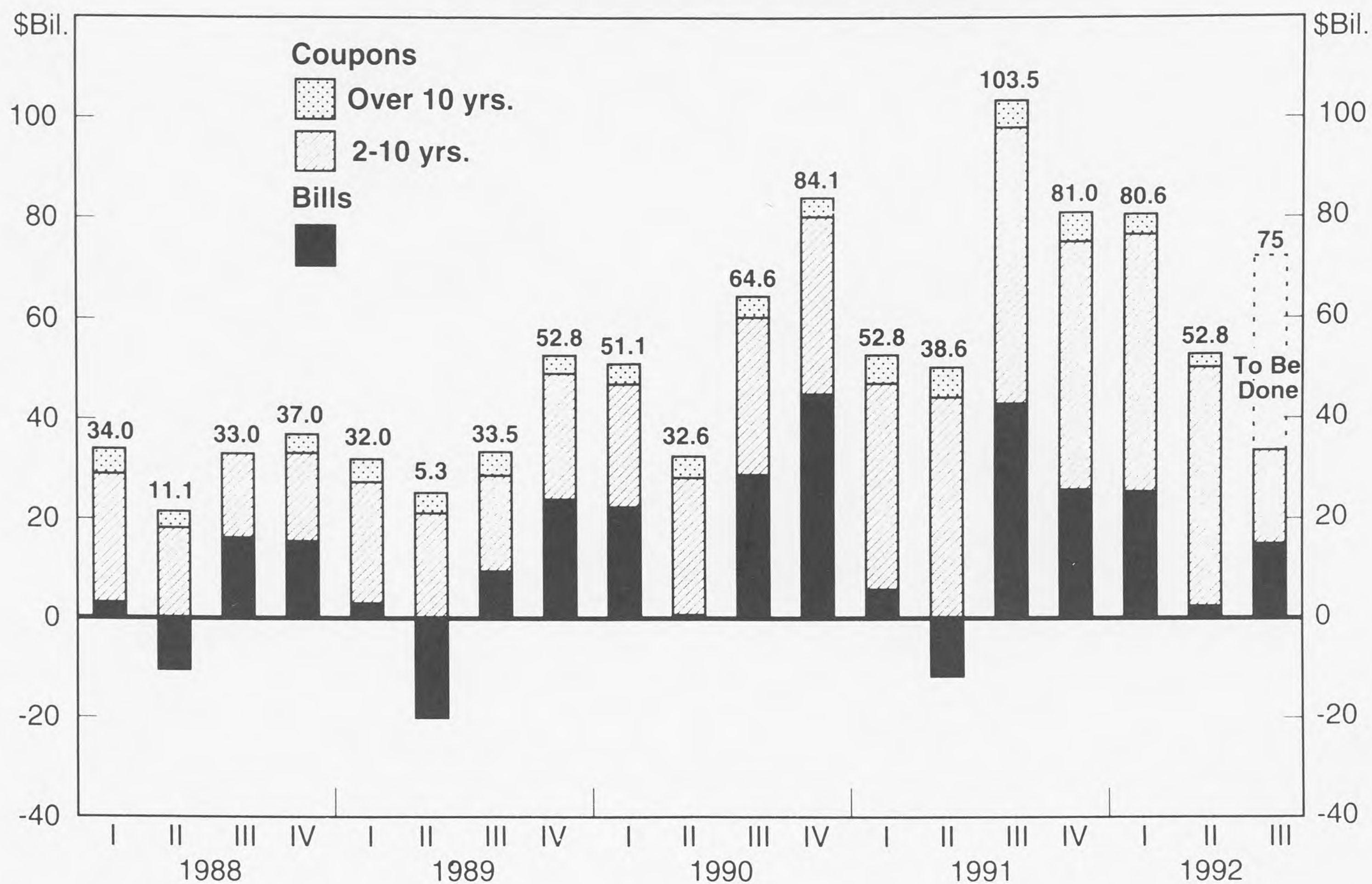
3/ Assumes a $35 billion cash balance September 30, 1992.

TREASURY OPERATING CASH BALANCE

Semi- Monthly

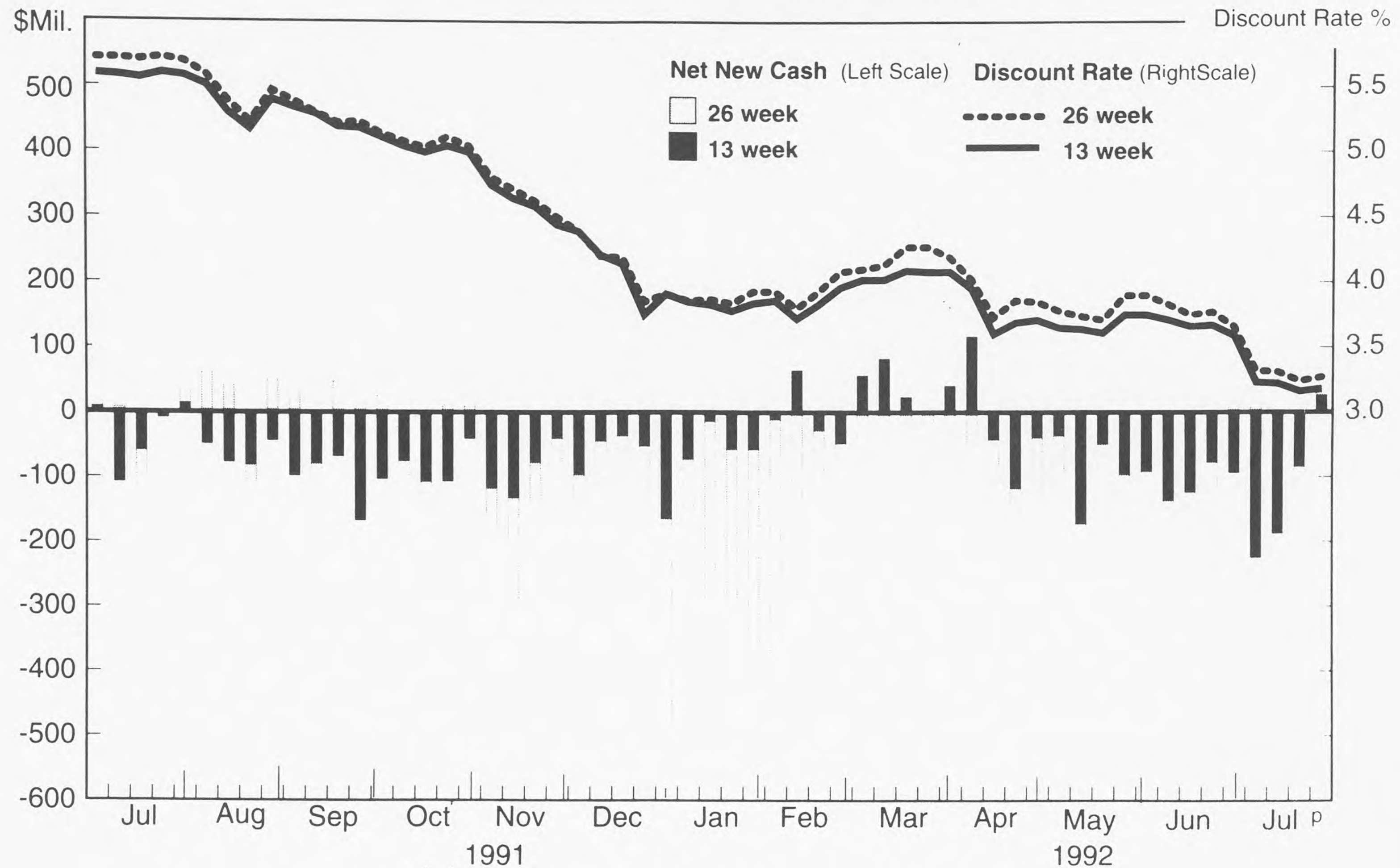


1/ Assumes refunding of maturing issues.



1/ Excludes Federal Reserve and Government Account Transactions.

NET NEW CASH FROM NONCOMPETITIVE TENDERS IN WEEKLY BILL AUCTIONS 1/



1/ Excludes noncompetitive tenders from foreign official accounts

p Preliminary

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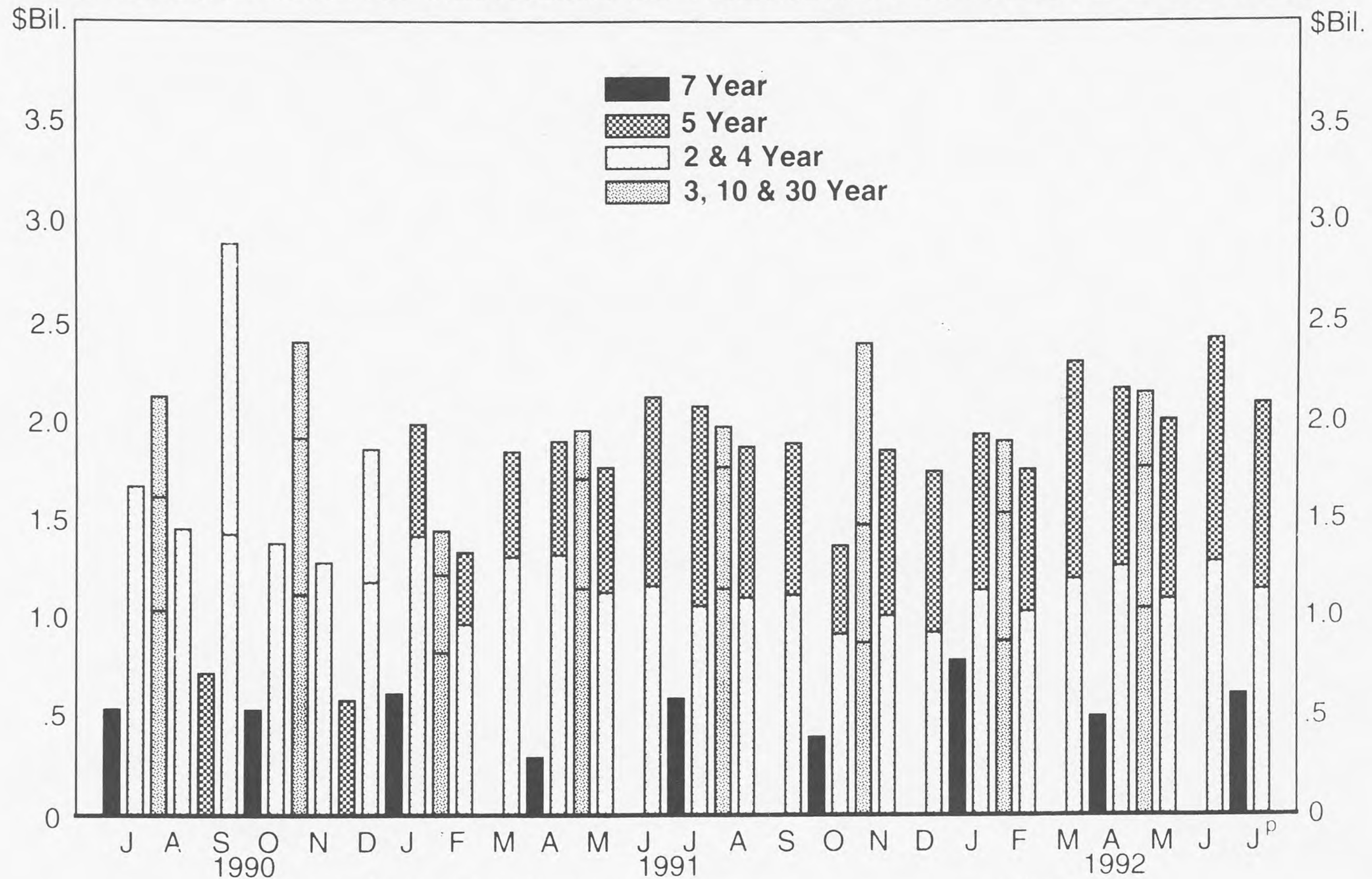
August 3, 1992-8

NONCOMPETITIVE TENDERS IN TREASURY NOTES AND BONDS 1/



1/ Excludes foreign add-ons from noncompetitive tenders.

p Preliminary

Treasury increased the maximum noncompetitive award to any noncompetitive bidder to $5 million effective November 5, 1991

Effective February 11, 1992 a noncompetitive bidder may not hold a position in WI trading, futures or forward contracts, nor submit both competitive and noncompetitive bids for its own account

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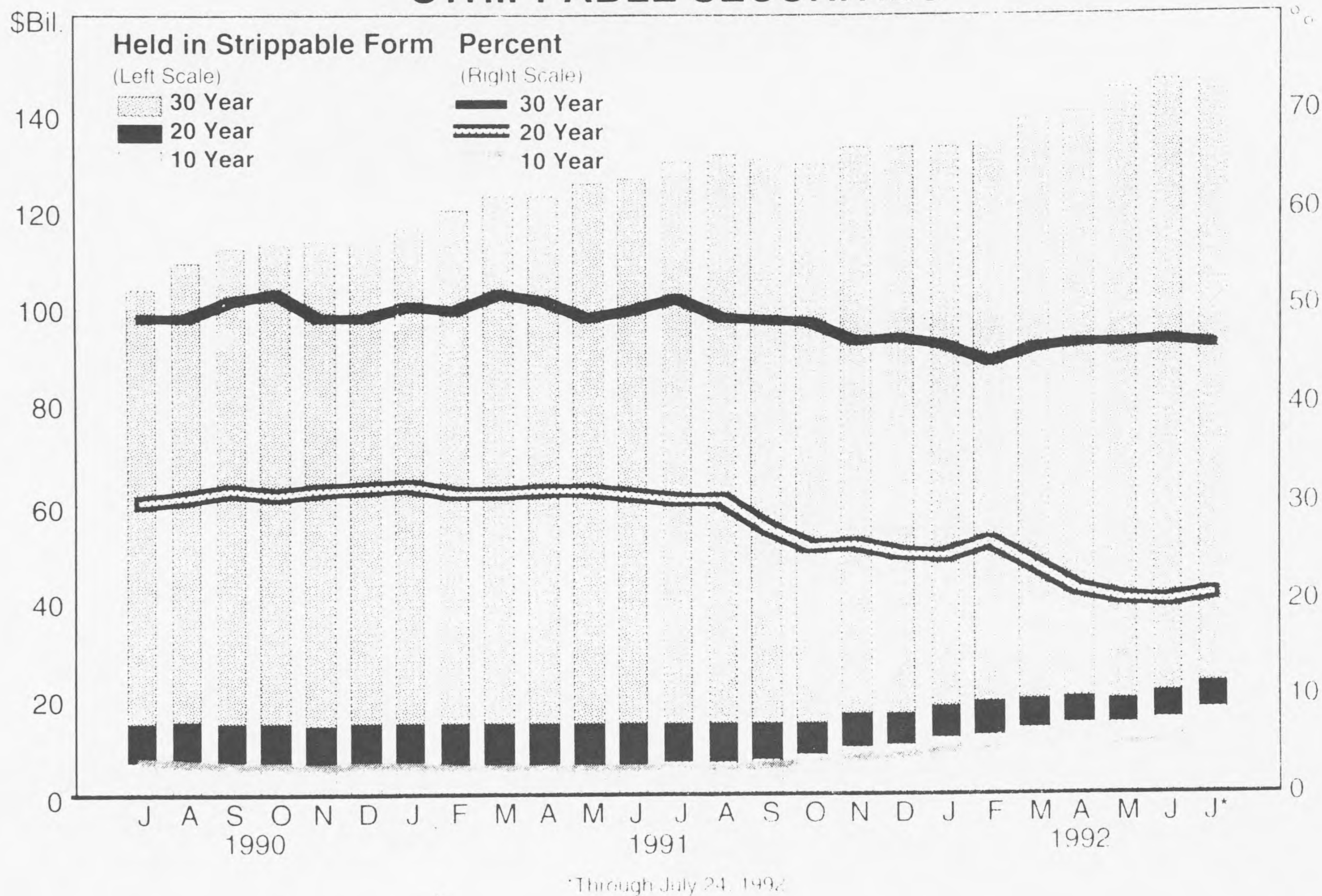
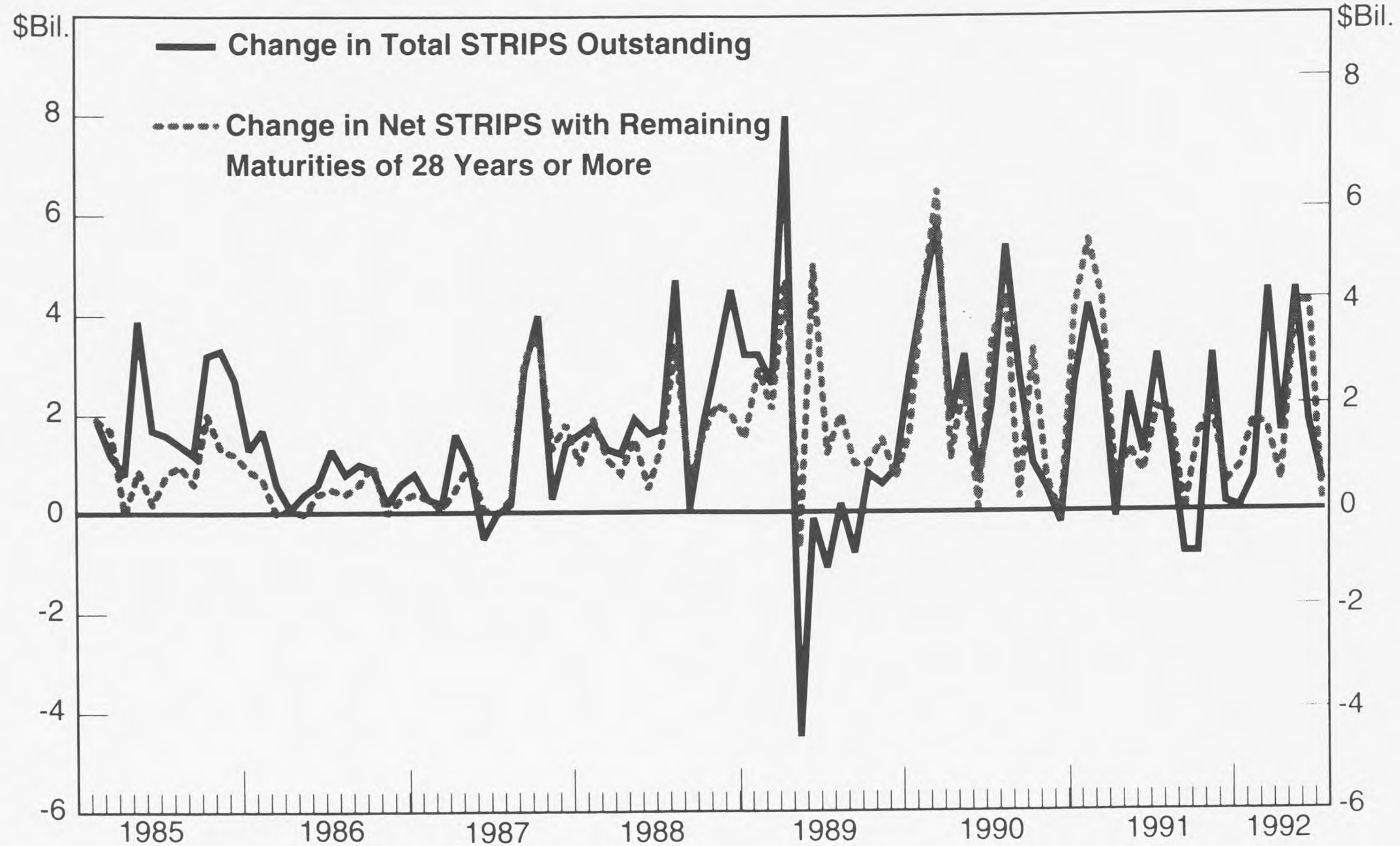
August 3, 1992-9

NET STRIPS AS A PERCENT OF PRIVATELY HELD STRIPPABLE SECURITIES





1/ Stripping began February 1985; reconstitution began May 1, 1987.

Data through July 24, 1992

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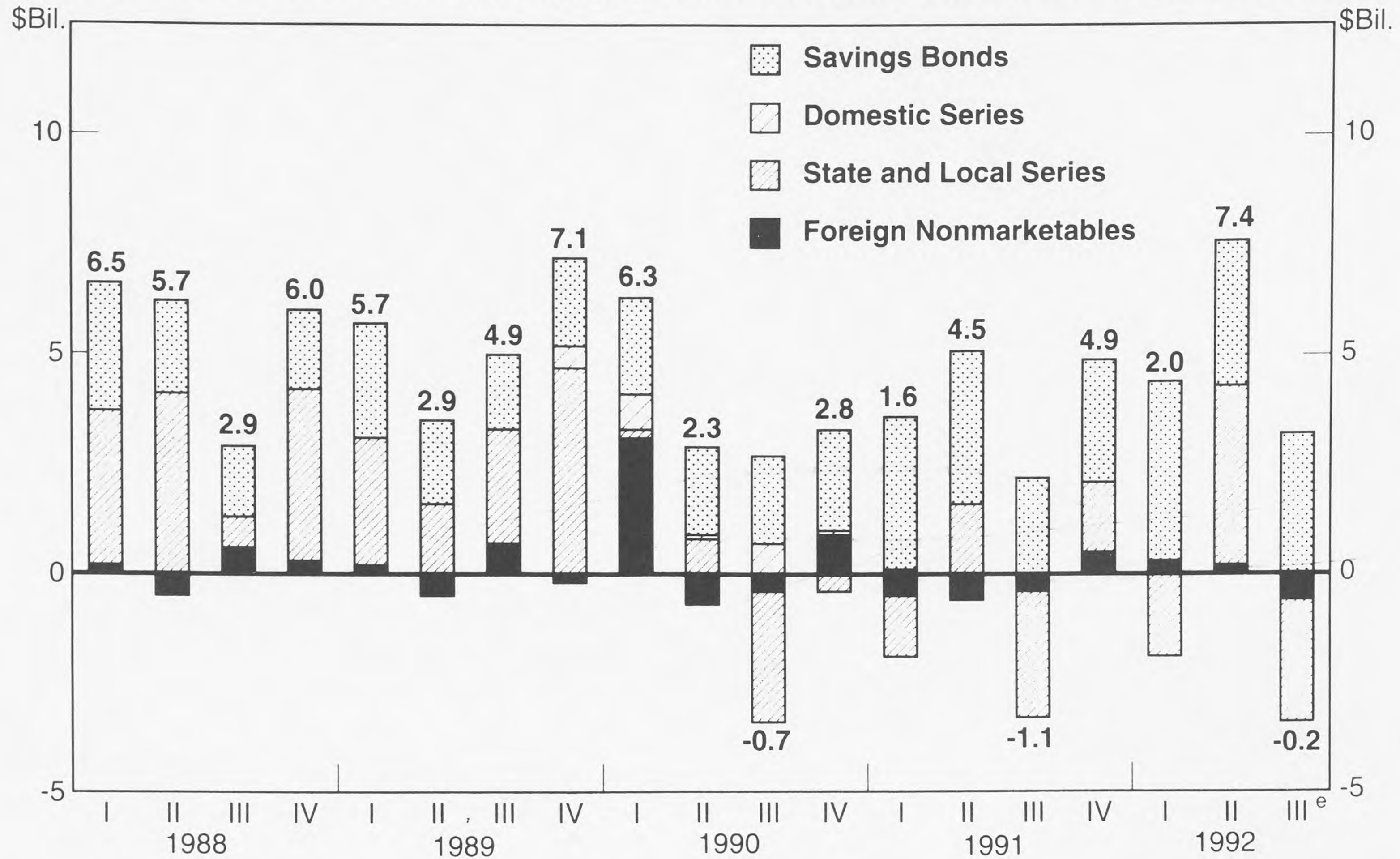
August 3, 1992-4



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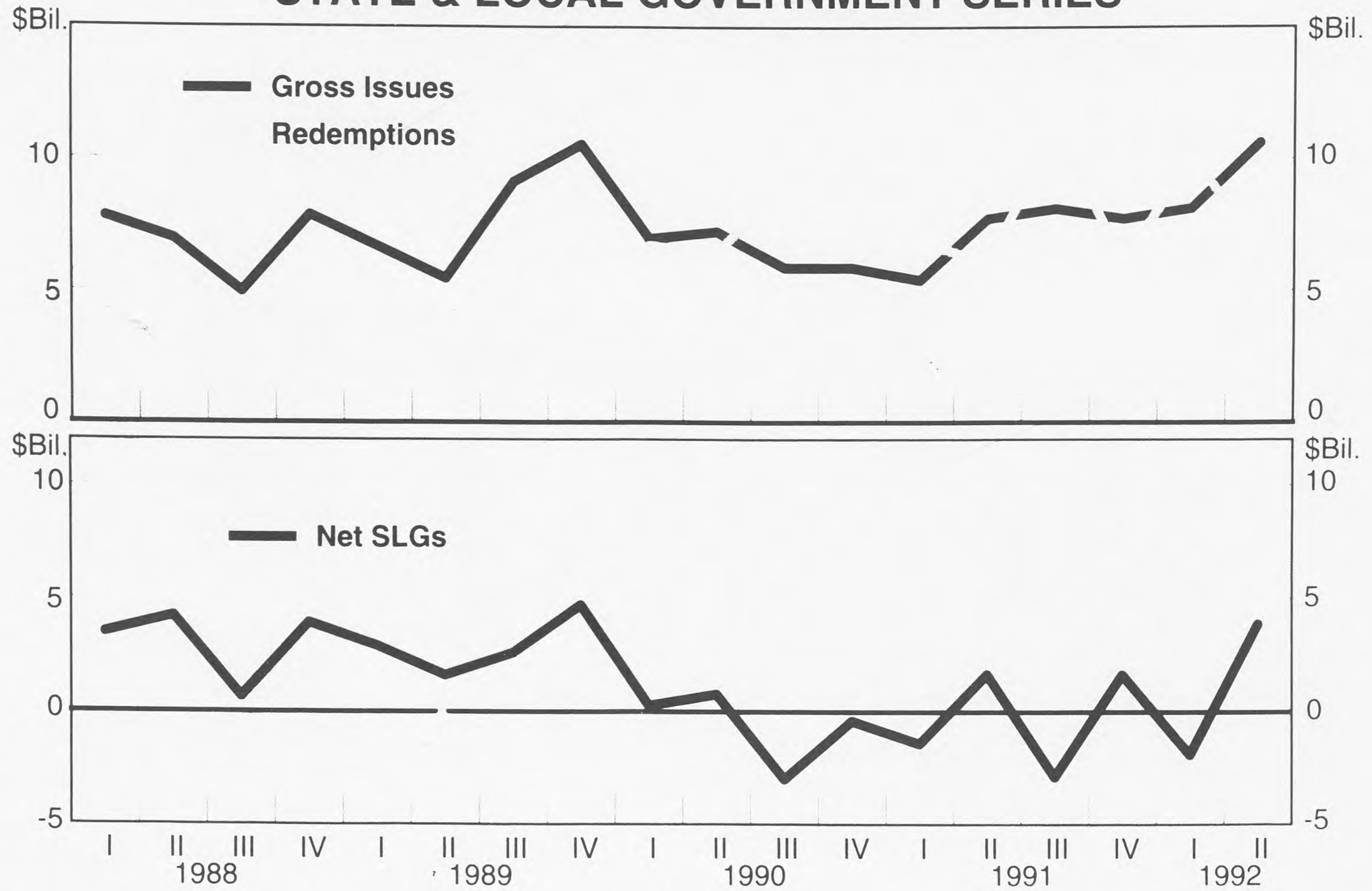
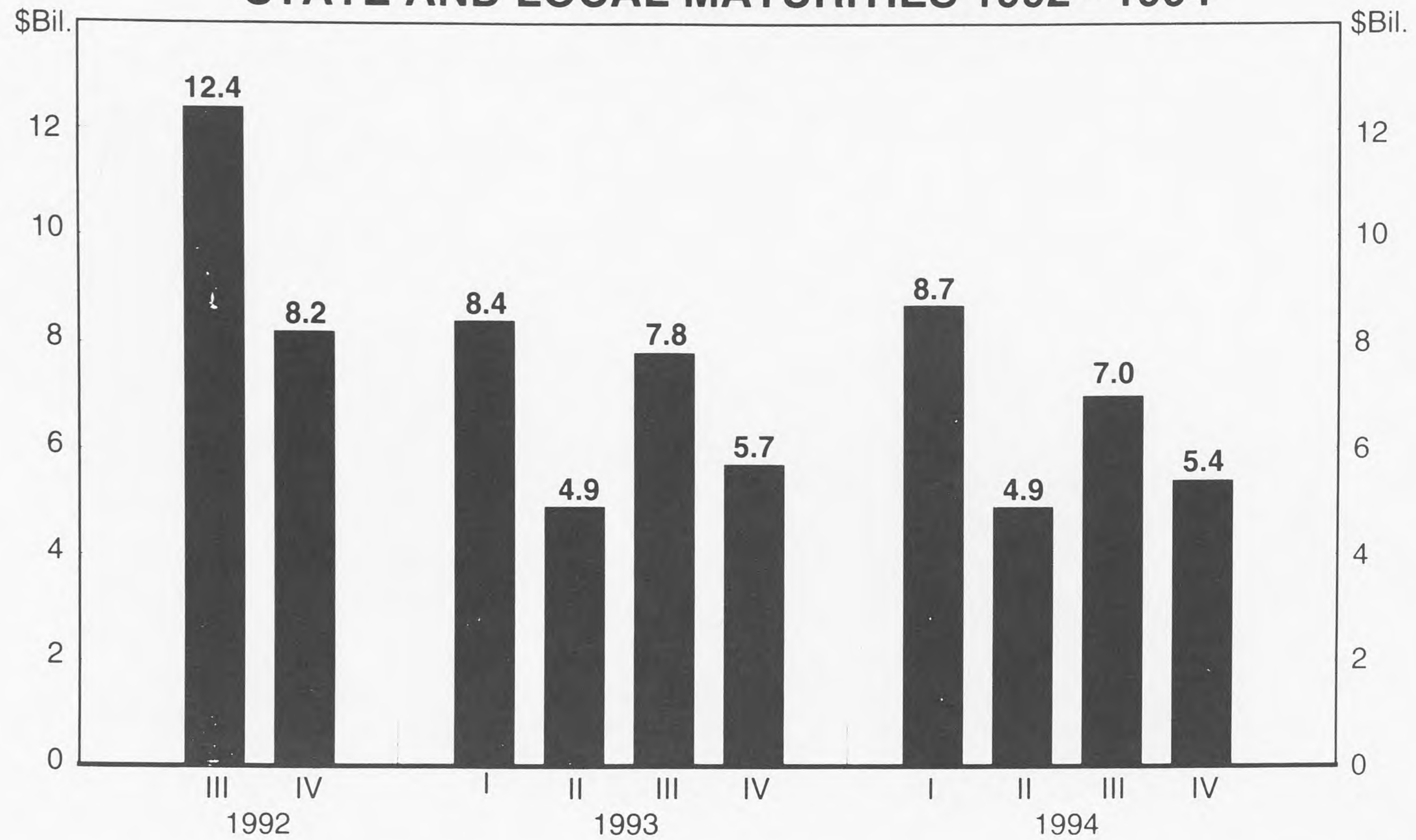
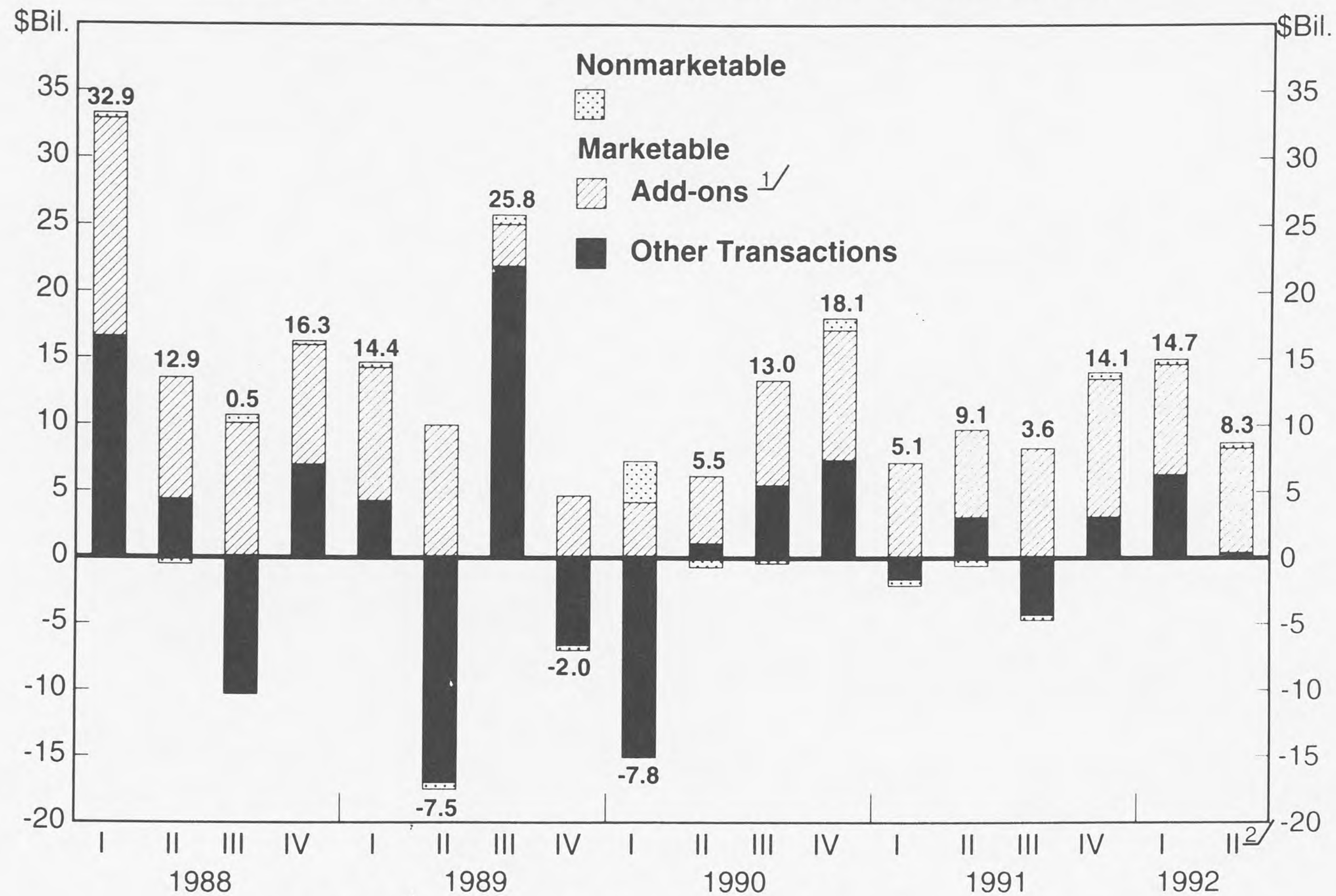
August 3, 1992-27


STATE & LOCAL GOVERNMENT SERIES
$Bil.
$Bil.
Gross Issues
Redemptions
10
5
0
$Bil.
$Bil.
10
Net SLGs
5
0
-5
I II III IV I II III IV I II III IV I II III IV I II
1988
1989
1990
1991
1992


STATE AND LOCAL MATURITIES 1992 - 1994
$Bil.
$Bil.
12.4
8.2
8.4
4.9
7.8
5.7
8.7
4.9
7.0
5.4
0
2
4
6
8
10
12
III
IV
I
II
III
IV
I
II
III
IV
1992
1993
1994

QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES



1/ F.R.B purchases of marketable issues as agents for foreign and international monetary authorities which are added to the announced amount of the issue.

2/ Preliminary

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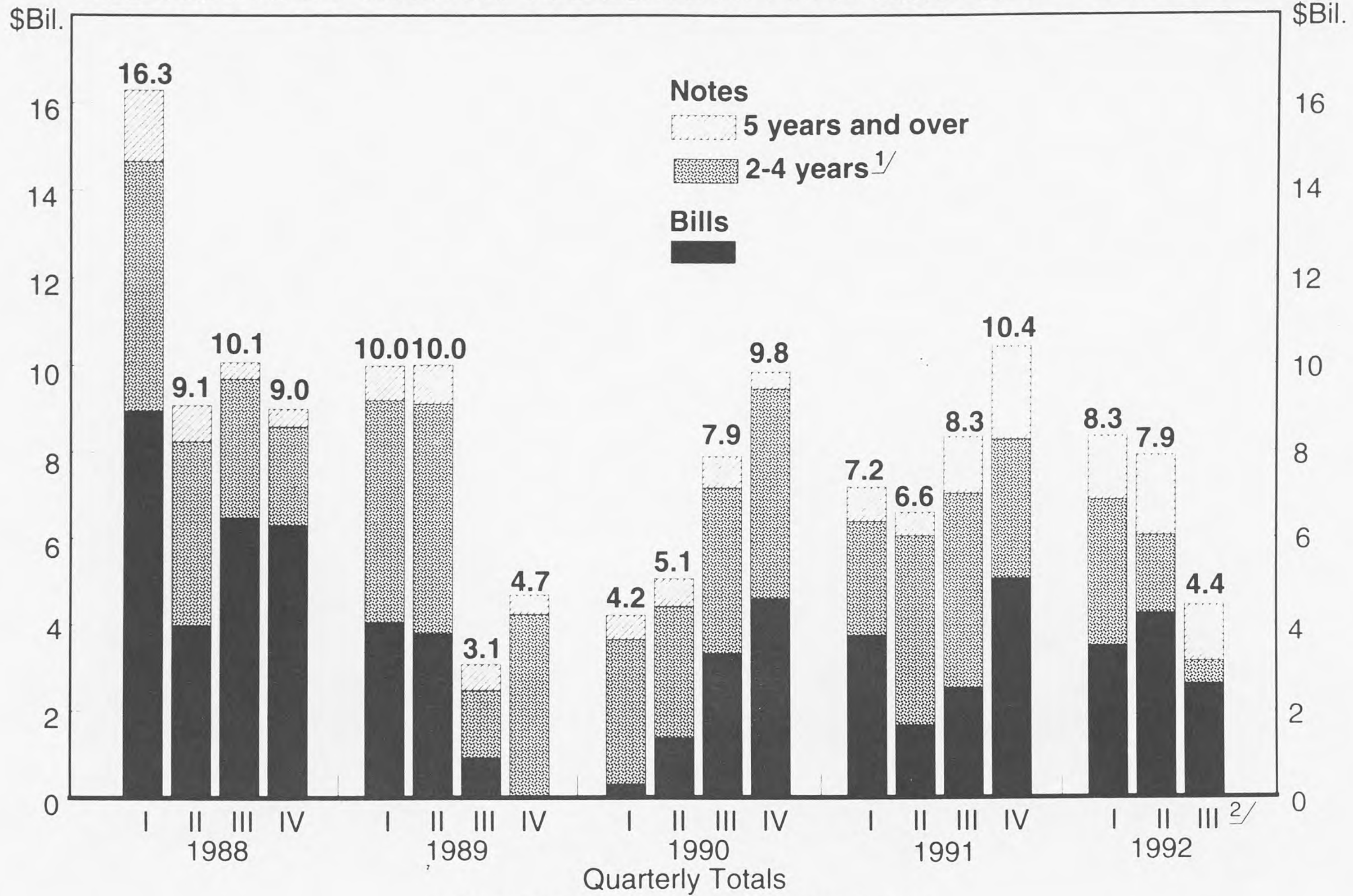
August 3, 1992-18



1/ 4 year notes not issued after December 31, 1990.
2/ Through July 31, 1992.

Department of the Treasury
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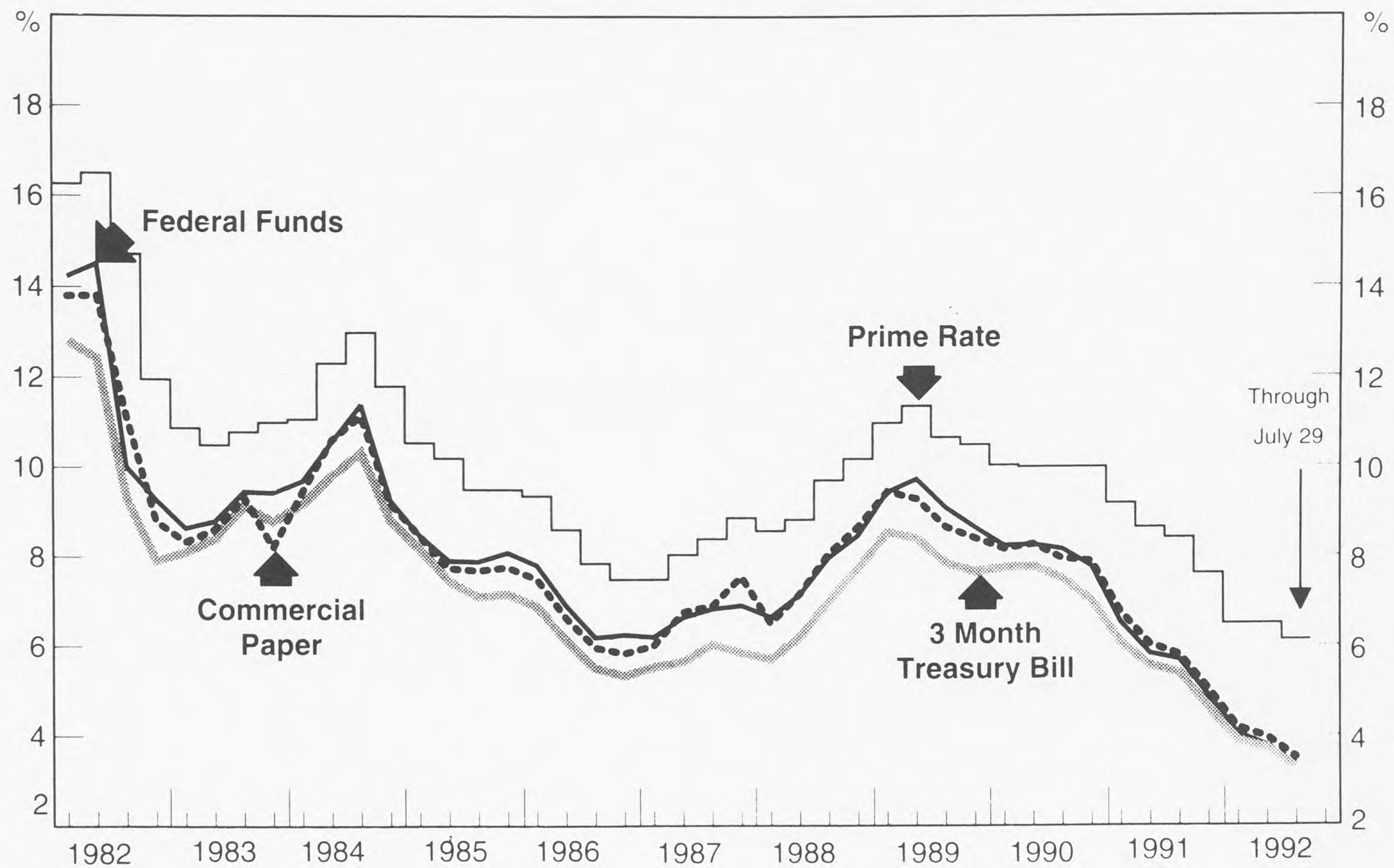
August 3, 1992 6

SHORT TERM INTEREST RATES

Quarterly Averages



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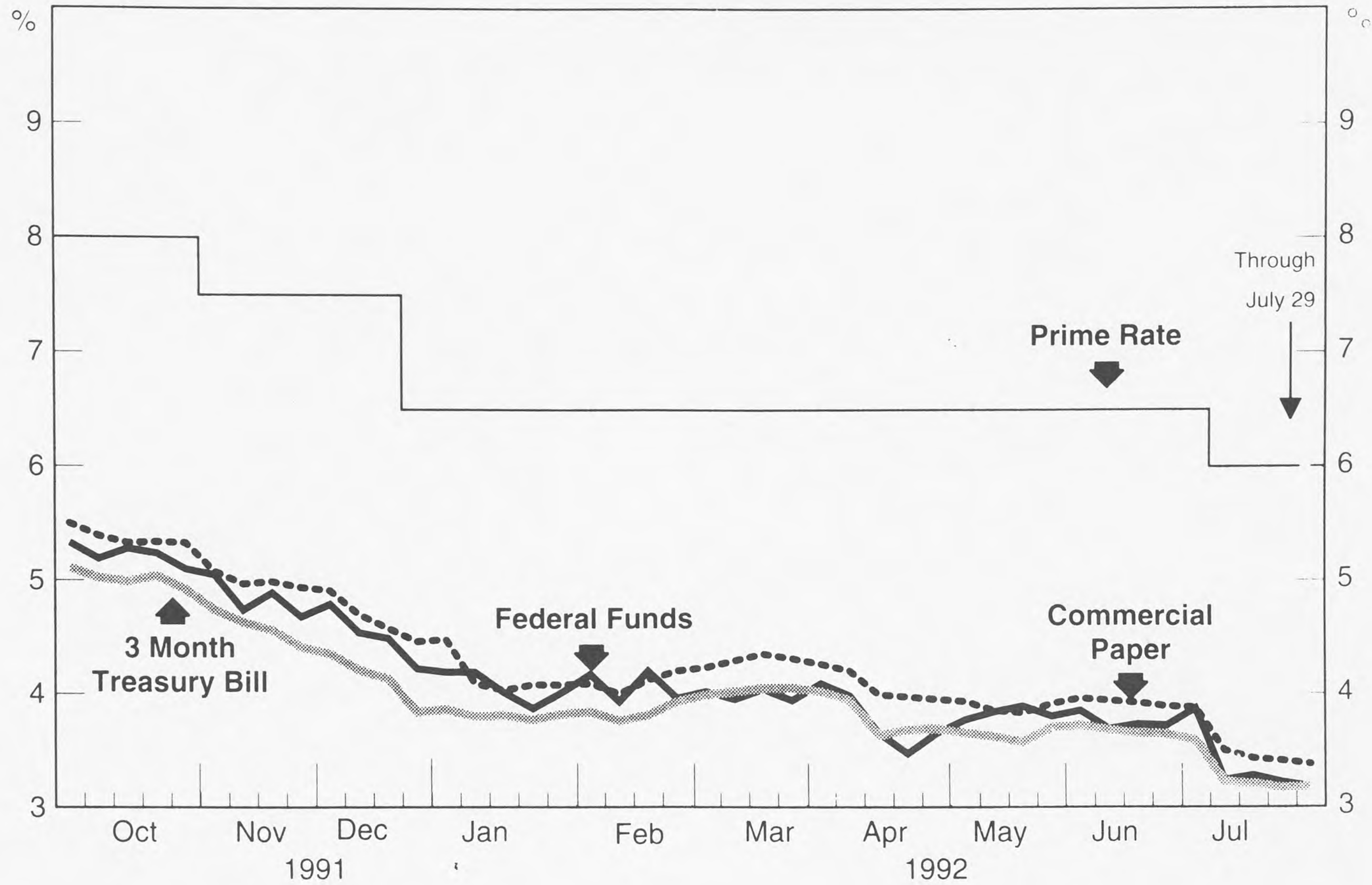
August 3, 1992-16

SHORT TERM INTEREST RATES

Weekly Averages



Department of the Treasury
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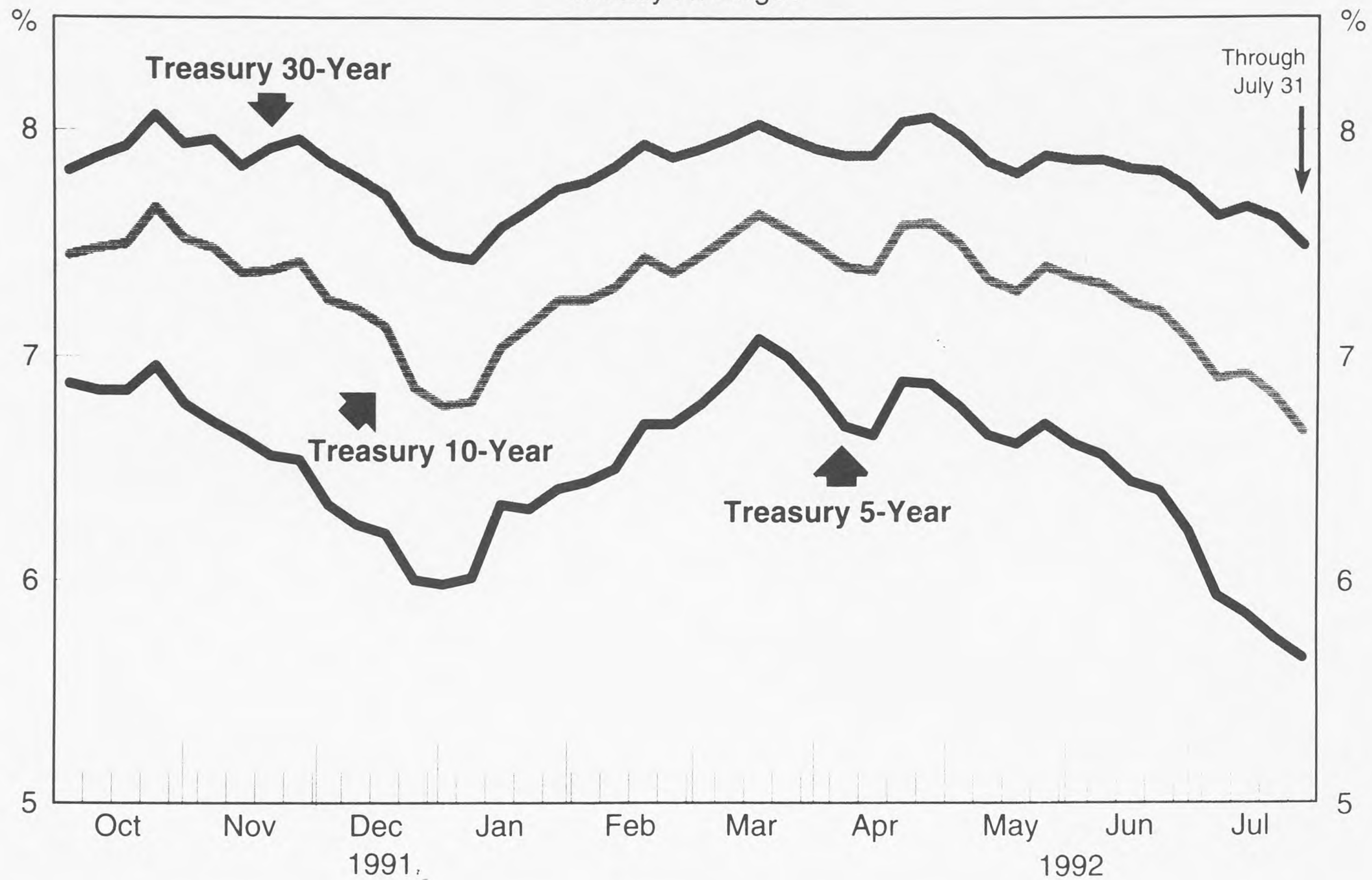

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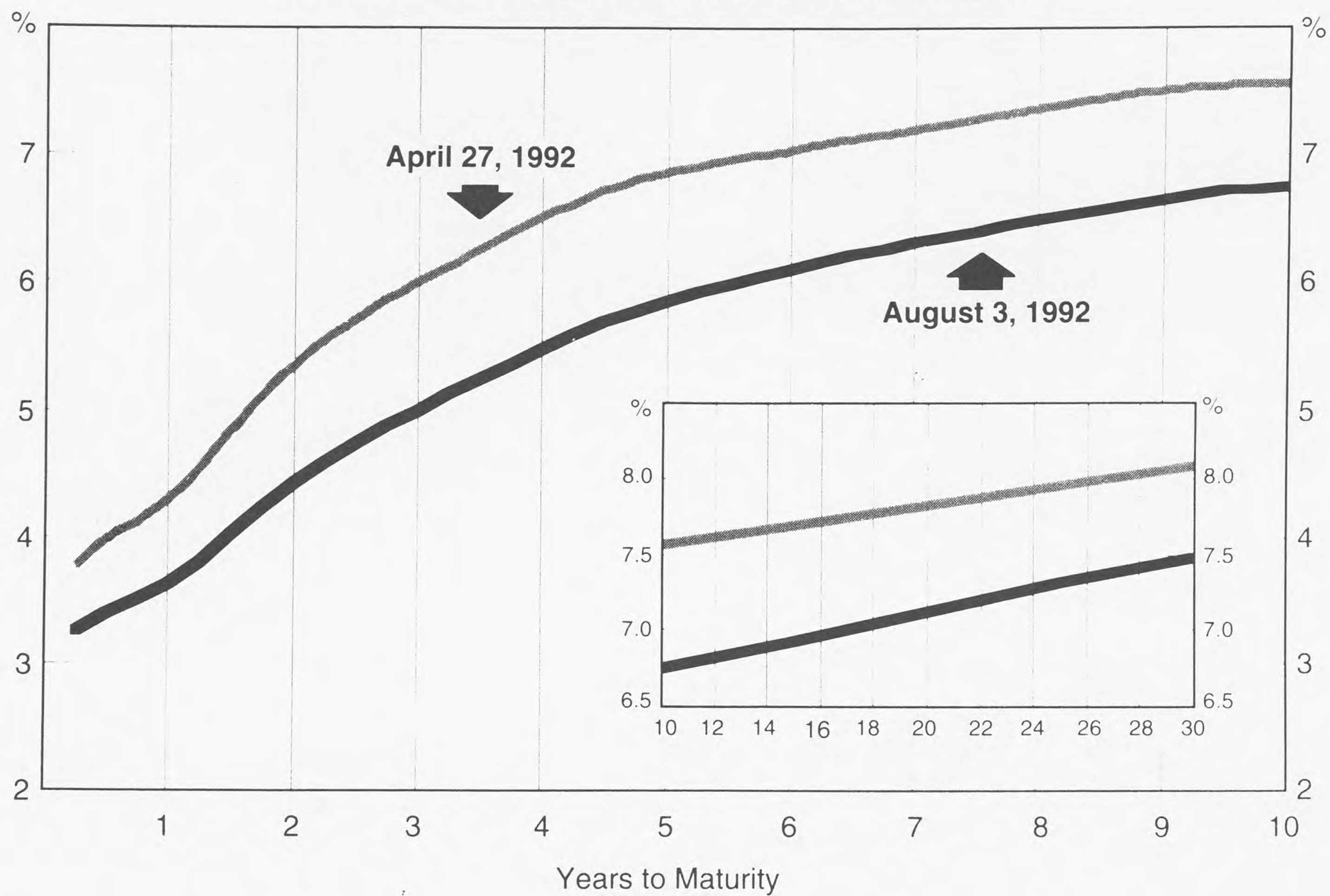
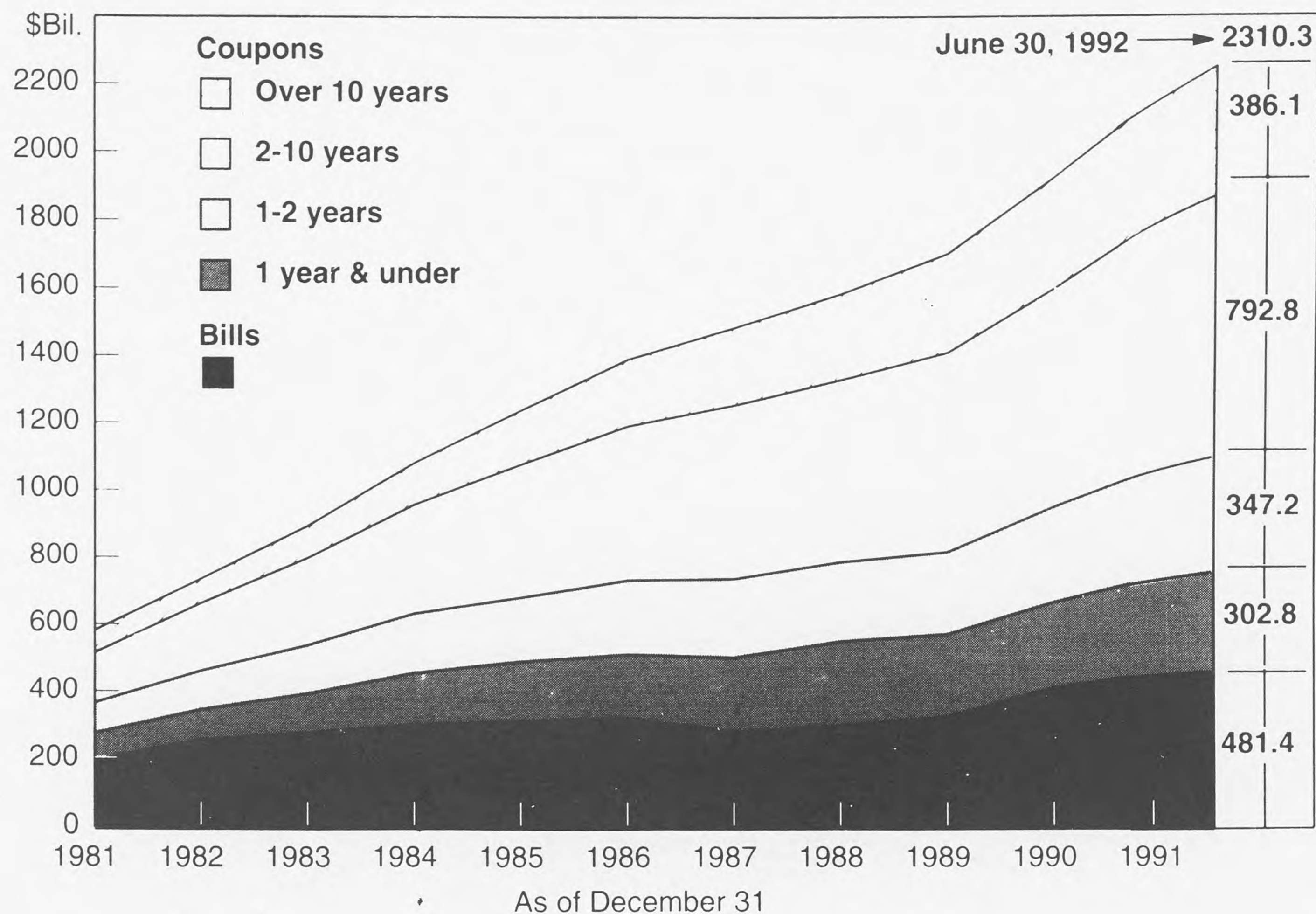
August 3, 1992-14

MARKET YIELDS ON GOVERNMENTS



PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY



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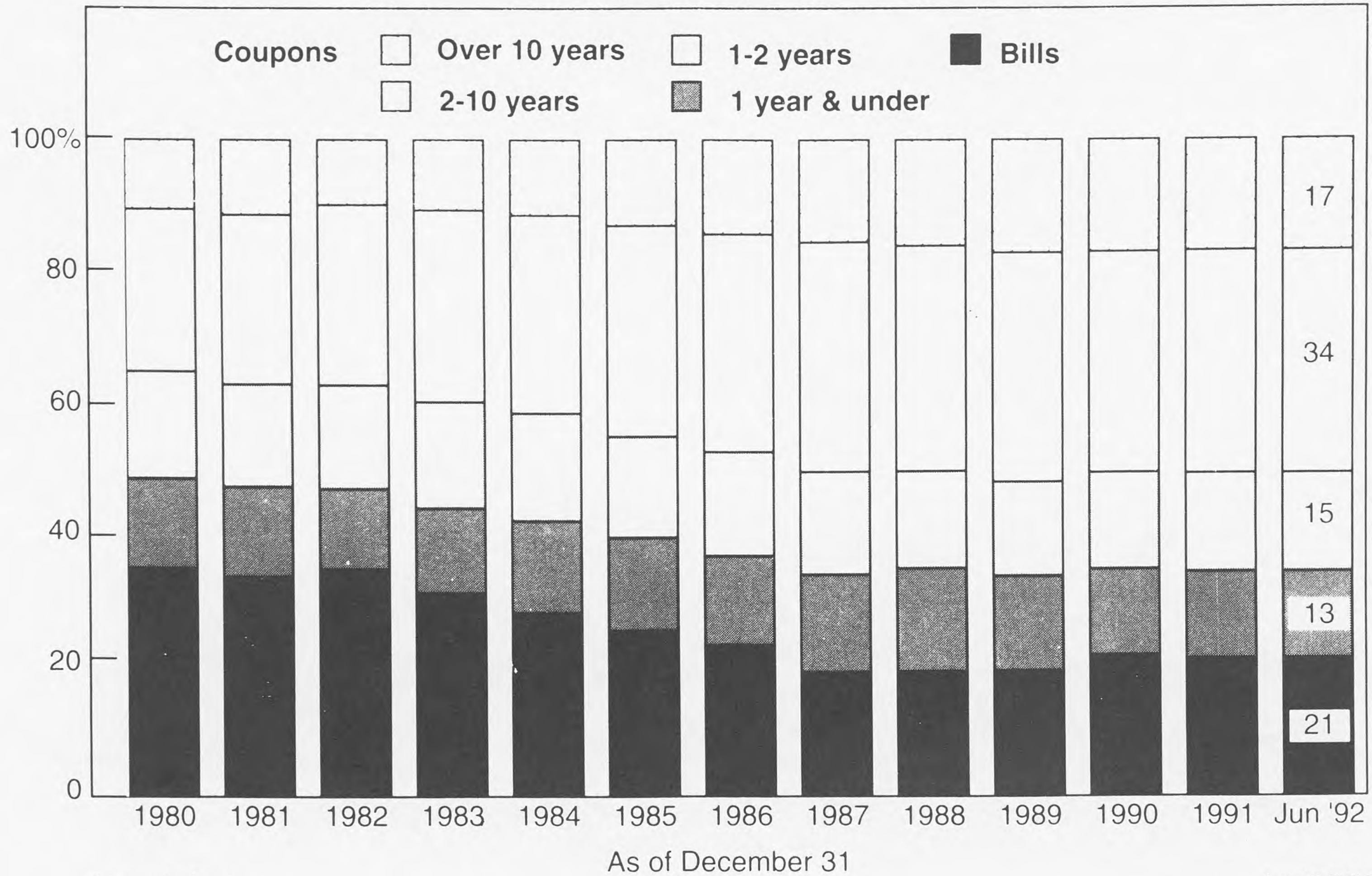
August 3, 1992

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT

Percent Distribution By Maturity



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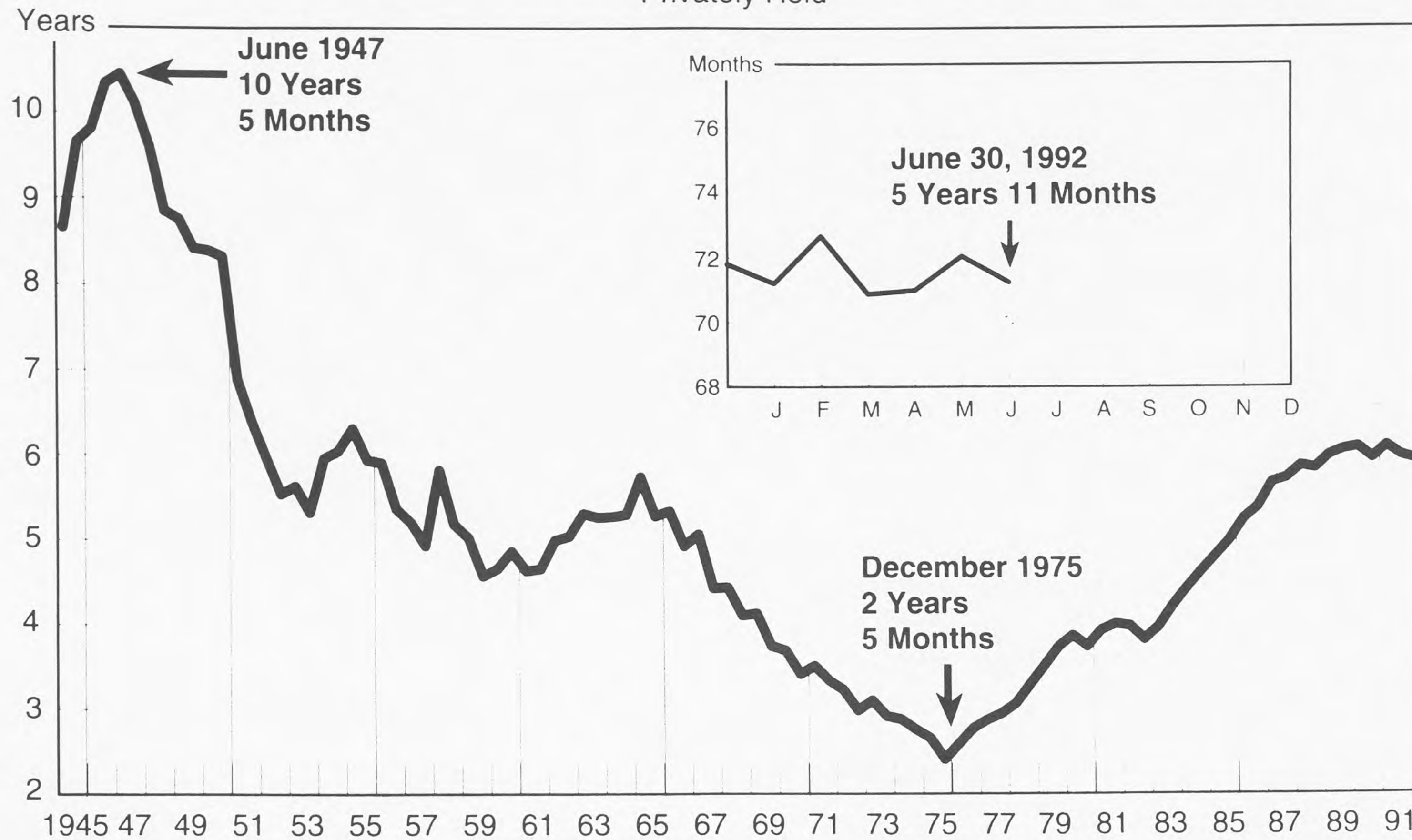
Office of Market Finance

August 3, 1992 3

AVERAGE LENGTH OF THE MARKETABLE DEBT

Privately Held



Department of the Treasury
Office of Market Finance

August 3, 1992 1

MATURING COUPON ISSUES

August - December 1992

(in millions of dollars)

Maturing Coupons			June 30, 1992			
			Total	Held by		
				Federal Reserve & Government Accounts	Private Investors	Foreign [1] Investors
8 1/4%	Note	8/15/92	8,497	350	8,147	1,014
7 7/8%	Note	8/15/92	13,523	2,534	10,989	921
4 1/4%	Bond	8/15/92	1,293	1,056	237	0
7 1/4%	Bond	8/15/92	1,504	93	1,411	0
8 1/8%	Note	8/31/92	13,429	1,132	12,297	710
8 3/4%	Note	9/30/92	8,000	605	7,395	817
8 1/8%	Note	9/30/92	12,905	1,300	11,605	455
9 3/4%	Note	10/15/92	6,287	97	6,190	913
7 3/4%	Note	10/31/92	13,614	884	12,730	1,179
10 1/2%	Note	11/15/92	4,330	300	4,030	62
8 3/8%	Note	11/15/92	8,549	115	8,434	2,032
7 3/4%	Note	11/15/92	14,311	3,680	10,631	803
7 3/8%	Note	11/30/92	13,852	520	13,332	1,583
9 1/8%	Note	12/31/92	8,287	645	7,642	741
7 1/4%	Note	12/31/92	14,237	926	13,311	1,124
Totals			142,618	14,237	128,381	12,354

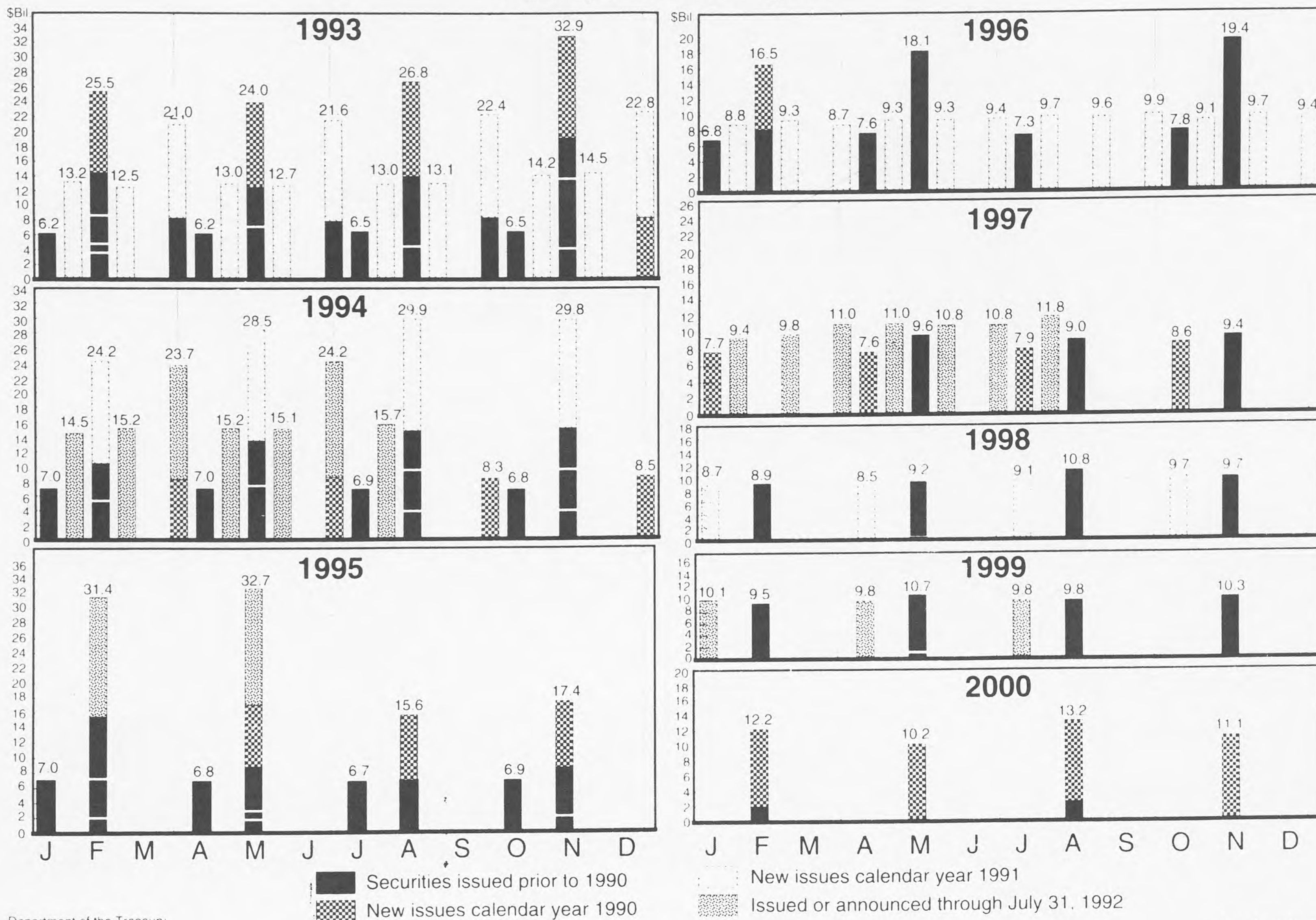
1/ F.R.B. custody accounts for foreign official institutions; included in Private Investors.

Department of the Treasury
Office of Market Finance

August 3, 1992-5

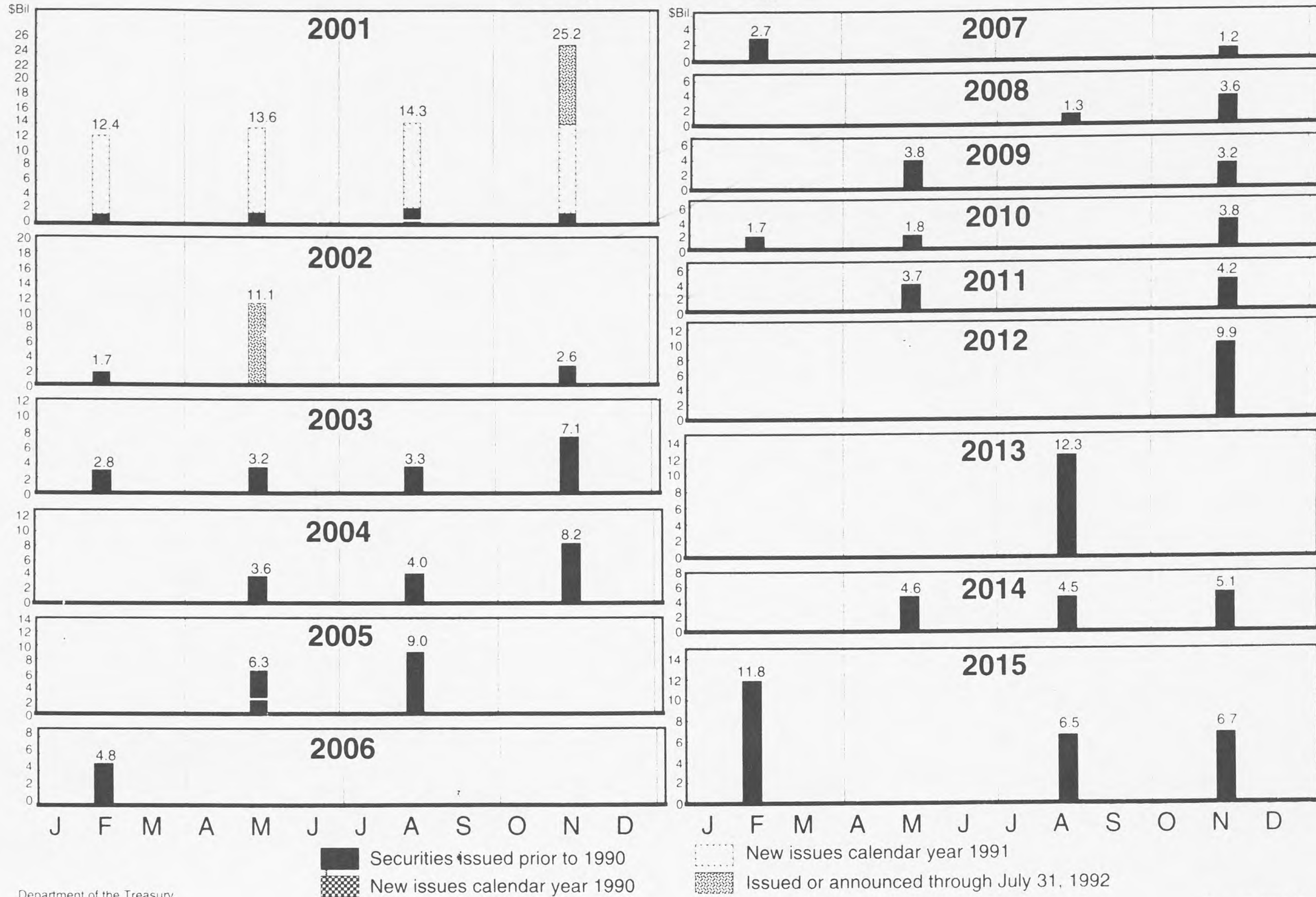
TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills



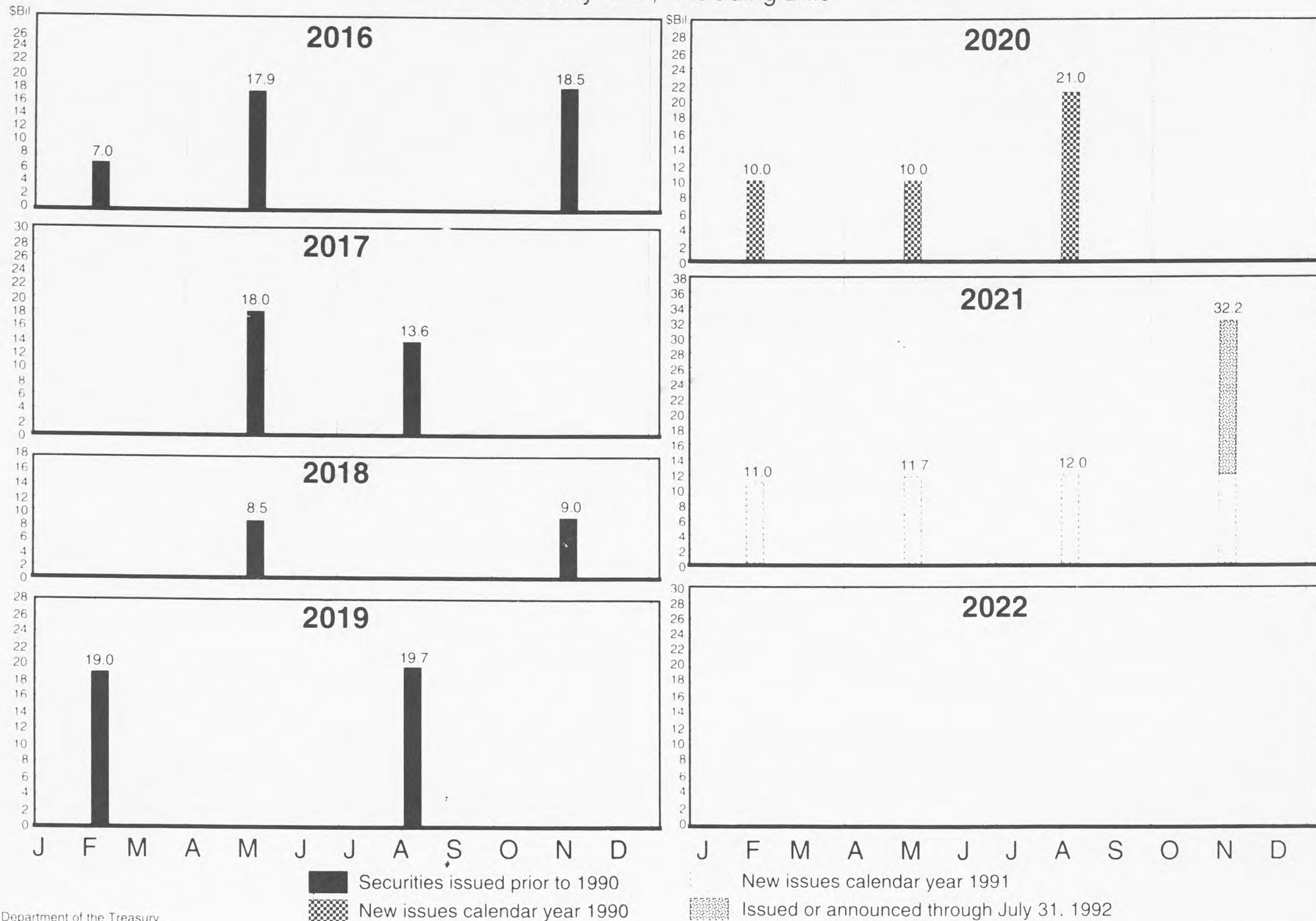
Department of the Treasury
Office of Market Finance

August 3, 1992-10



Department of the Treasury
Office of Market Finance

August 3, 1992-11



Department of the Treasury
Office of Market Finance

SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN AUGUST 1992 1/

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
10	11 Auction 3 year 2/	12 Auction 10 year 2/	13 Auction 30 year 2/	14 Announce 52 week
17	18	19 Announce 2 year 5 year	20 Auction 52 week 3/	21
24	25 Auction 2 year 4/	26 Auction 5 year 4/	27	28
31				

1/Does not include weekly bills
2/For settlement August 17
3/For settlement August 27
4/For settlement August 31

Department of Treasury
Office of Market Finance

SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN SEPTEMBER 1992 1/

Monday	Tuesday	Wednesday	Thursday	Friday
	1	2	3	4
7 Holiday	8	9	10	11 Announce 52 week
14	15	16 Announce 2 year 5 year	17 Auction 52 week 2/	18
21	22 Auction 2 year 3/	23 Auction 5 year 3/	24	25
28	29	30 Announce 7 year 4/		

1/ Does not include weekly bills
2/ For settlement September 24
3/ For settlement September 30
4/ For auction October 7 and settlement October 15

Department of Treasury
Office of Market Finance

August 4, 1992-25

SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN OCTOBER 1992 1/

Monday	Tuesday	Wednesday	Thursday	Friday
			1	2
5	6	7 Auction 7 year 2/	8	9 Announce 52 week
12 Holiday	13	13	15 Auction 52 week 3/	16
19	20	21 Announce 2 year 5 year	22	23
26	27 Auction 2 year 4/	28 Auction 5 year 4/	29	30

1/ Does not include weekly bills
2/ For settlement October 15
3/ For settlement October 22
4/ For settlement November 2

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
August 6, 1992

CONTACT: Rich Myers
(202) 622-2930

TREASURY EMPLOYEES RECOGNIZED BY
SECRETARY NICHOLAS BRADY

Secretary of the Treasury Nicholas Brady today recognized federal workers in all fourteen divisions of the Treasury Department for their contributions to government service.

The employees represent eighteen states in bureaus served by Treasury around the country. They were honored at the Treasury Annual Awards Ceremony in Washington, D.C.

"I am proud to pay tribute to some of the finest Federal employees in our nation," Brady said. "The hard work and ingenuity displayed by these public servants demonstrates their extraordinary commitment to making the government more effective."

This year's awards included: the Equal Employment Opportunity Award, the Outstanding Disabled Employee of the Year, the Financial Management Improvement Award, Small and Disadvantaged Business Awards and 50-years of service awards. Secretary Brady established the Citizenship Award in 1991 for life-saving or volunteer actions outside the line of duty.

Examples of employees who were acknowledged today for their hard work and innovative ideas include: Joseph Storm, of the Philadelphia Mint Office, who designed and built a machine to open coin packages automatically; four U.S Customs Inspectors from San Francisco who persevered in confiscating the largest heroin seizure in this country, worth $3 billion; Barbara Rowden, who helped establish communication services for hearing impaired employees at the IRS office in Laguna Niguel, California; and a group of employees who made significant contributions to the success of Operations Desert Shield and Desert Storm.

The Annual Awards Ceremony was pioneered by Secretary Douglas Dillon in 1964 to focus on significant departmental ideas and accomplishments for the early 1960s. One of the first awardees saved $16,000 for the taxpayers by suggesting the use of a new "stitching machine" to assemble food coupon booklets in the Bureau of Engraving and Printing.

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NB -1928

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE UPON DELIVERY
Expected at 10:00 a.m.
August 6, 1992

STATEMENT OF
JEROME H. POWELL
UNDER SECRETARY FOR FINANCE
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES

Mr. Chairman and Members of the Committee, thank you for this opportunity to provide the views of the Treasury Department on the relationship between the United States Postal Service and the Treasury Department. I will also comment on legislation that has been proposed to authorize the Postal Service to borrow, invest, and bank in the commercial market.

The Postal Reorganization Act of 1970 established the Postal Service as "an independent establishment of the executive branch" (39 U.S.C. 201), but continued the application of statutory provisions that are designed to ensure coordination of the actions of the Postal Service with the rest of the Government. The intent of the Act was to place the Postal Service on a self-sufficient, business-like basis, but the Act did not convert the Postal Service into a private business or a Government-sponsored private enterprise. I note that the preamble of the Act states that: "The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the

Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people."[1]

The Act provides for the fiscal controls that are necessary in a Federal institution. In accordance with the modernization and fiscal administration provisions of the Act, the Treasury has continued a close relationship with the Postal Service, providing lending, banking, and investment services. The proposed legislation would change these relationships to permit the Postal Service to obtain these services from the private sector -- a step which the Treasury believes is inconsistent with the Postal Service's continuing implicit and explicit credit backing by the Federal Government.

We have seen the study that was prepared in May 1991 by a private contractor, recommending to the Postal Service that it obtain the flexibility to choose whether to borrow, bank, and invest in the private market or through the Treasury. The Treasury is concerned that the Government's overall costs would increase, if the Postal Service obtained these financial services in the private market.

I would like to turn now to each of the three relationships between the Treasury and the Postal Service.

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[1] See 39 U.S.C. 101(a).

BORROWING

Under current law, the Postal Service is authorized to borrow up to a total of $15 billion, with annual limits of $2 billion for capital improvements and $1 billion for operating expenses. The Postal Service must consult with the Treasury prior to issuing any obligations, and the Treasury has the right of first refusal. Since the creation of the Federal Financing Bank (FFB) in 1973, the Treasury has exercised that right consistently, funding all Postal Service borrowing needs through the FFB. Current FFB holdings of Postal Service obligations total almost $10 billion. The only other Postal Service debt obligations outstanding are $220 million of bonds maturing in 1997, which were issued in the market in 1972, prior to the existence of the FFB.

The bill would substitute for the current statutory Treasury right of first refusal a requirement that the Postal Service merely consult with the Treasury as to the timing and terms of any sales of Postal Service obligations. The bill would make Postal Service obligations more Treasury-like in that it would deem them to be "exempted securities" under the Securities Acts of 1933 and 1934. Thus, under the Government Securities Act of 1986, which amended the Securities Exchange Act of 1934, Postal Service securities would be treated the same as

Treasury securities for the purpose of regulation of market participants.

The bill would not repeal any of the existing statutory provisions that could be interpreted as providing Federal backing for Postal Service obligations. Even if it did, however, it would not change the governmental nature of the Postal Service or the public's belief that the Federal Government's credit stands behind the Postal Service. Market participants undoubtedly would continue to view the Federal Government as very unlikely to permit the Postal Service to default on its obligations.

We believe that legislation authorizing the Postal Service to borrow in the market and issue Treasury-like securities would run directly counter to the sound purposes for which the FFB was established. The FFB was created at the request of the Treasury Department to avoid the then-existing market confusion and competition between the agencies and the Treasury as each issued securities separately in the market. Upward pressure was being exerted on the Federal Government's cost of borrowing by competition among the Treasury and other issuers with similar credit backing and by confusion among investors as to the particular terms of the Federal credit backing for Treasury look-alike securities. Non-Treasury borrowings backed by the full faith and credit of the Federal Government are more costly to issue than Treasury securities, because of their lower trading

liquidity and higher issuance costs, including underwriting and other fees.

We do not believe that over time it is possible for the Postal Service to save on its interest costs by financing outside of the FFB. The FFB charges a standard 1/8 of one percentage point above the comparable maturity Treasury rate. While a number of Government-related entities with developed, liquid secondary markets are able to finance short-term obligations at spreads that are below that 1/8th percentage point, spreads for longer term obligations usually are considerably wider. Interest rates for highest grade corporate obligations, which would be maximum rates at which the Postal Service would be authorized to borrow under the draft bill, generally are higher still. I am attaching a chart that shows the margin by which long-term triple-A corporate borrowing rates have exceeded Treasury rates over the past 15 years.

Nor would it be appropriate for the Postal Service to use the market for a portion of its financing and the FFB for the rest. The FFB does not permit borrowers to use both the FFB and the market, because the FFB's willingness to lend would serve as a guarantee of timely payment on the market obligation. In the Postal Service case, the dual financing approach is especially objectionable, because the Postal Service is a Federal establishment and it has a $2 billion line of credit at the

Treasury. This inefficient use of the Government's credit would be contrary to the purpose for which the FFB was created.

BANKING

The draft bill would repeal the requirements in current law that the Postal Service Fund be held in the Treasury, unless otherwise approved by the Secretary of the Treasury, that all Postal Service revenues be deposited into the Fund, and that all disbursements be made from the Fund.[2] These provisions would give the Postal Service complete discretion to develop banking relationships outside of the Treasury to hold and transfer Government funds, without the approval of the Secretary. Moreover, Postal Service funds that are deposited outside of the Treasury would not be subject to Treasury regulations pertaining to safeguarding deposits of the United States.

The Treasury opposes this provision, because it would have significant adverse effects on the management of the Government's cash balances. Also, since the Treasury would have to replace the money that is in the Postal Service Fund with borrowing from the public.

The primary advantage that the Postal Service appears to see in banking in the commercial sector is it would be able to earn

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[2] See 39 U.S.C. 2003(a).

money on check float. However, this goal is contrary to the broader Government efforts to promote electronic payments to employees and vendors, and thereby to lower overall processing costs for Government payments. Currently, the Postal Service makes about 38 million disbursements per year in the form of checks and electronic transfers. Since checks are expensive to administer relative to electronic transfers, there are some clear benefits to be achieved for the Government in promoting the use of electronic transfers. For example, a recent study performed by the Treasury Department estimates that the cost to the Treasury of processing each payment by check is 32.6 cents, while the cost per electronic funds transfer is 5.7 cents.

The Treasury does not pay interest on check float, except that certain large trust funds are allowed to delay redemptions of their investments to compensate for check float on their regularly scheduled benefits payments. The compensation is calibrated off of studies that the Treasury did about 5 years ago of the benefit check cashing patterns for these funds.

As the Treasury offered last year, we have arranged for the Federal Reserve to perform a check float study for major accounts for which the Treasury provides banking services. The study includes the Postal Service, as well as the Social Security, Civil Service Retirement, and Railroad Retirement trust funds, and the Tennessee Valley Authority. That study is currently

under way. We have also received summary data from the Postal Service on their San Mateo controlled disbursing pilot project. Since the data provided is out of line with previous float studies, we have asked the Postal Service for additional detail. To the extent that float benefits can be determined in some cost-effective way, the Treasury could provide check float under existing authorities.

INVESTMENTS

The draft bill would authorize the Postal Service, without approval of the Secretary of the Treasury, to invest its funds that are in excess of current needs in any obligations of or guaranteed by a Federal agency. The current size of Postal Service investments in Treasury securities is around $8.0 billion.

While we do not question why the Postal Service needs to have an investment fund of this size, we want to emphasize that this portion of the draft bill raises the same type of concerns as permitting the Postal Service to bank outside of the Treasury. That is, there would be an adverse impact on overall management of the Government's cash balances, and Treasury borrowing in the market would increase. Furthermore, the Treasury is concerned about the potential disruptive market impact, if the Postal Service were conducting large purchase or sale transactions in

the government securities market. The Treasury created the market-based nonmarketable securities program specifically to promote stability in the market by providing Federal agencies with the potential to conduct transactions in large volumes, without a disruptive impact on the market.

The draft bill would authorize the Postal Service to invest in Government-guaranteed securities that are issued by entities outside of the Federal Government. Any investments in such securities would not only increase Treasury borrowing from the public, but would also be scored for budget purposes as an outlay, thereby increasing the total Federal deficit. Considering the potential size of Postal Service investments, the effect would not be insignificant.

We believe that the current investment program under which the Treasury sells securities directly to the Postal Service and the other 150 funds that invest with the Treasury is fair to the funds and to the Treasury, is flexible in terms of the timing and amounts of transactions, and provides a wide range of investment options at current market prices. The Treasury uses current market quotations, obtained at mid-day each day from the Federal Reserve Bank of New York, on outstanding Treasury securities to set the prices for transactions with the Postal Service. For the overnight investments, which amounted to $1.5 billion on July 31, the interest rate is based on the overnight federal funds

effective rate calculated at the end of each trading day by the FRB-NY, less one-quarter of a percentage point -- the same rate that the Treasury earns on its cash balances. Also, unlike investments in the private market, there are no transaction or account maintenance fees associated with Federal agency direct investments with the Treasury.

We have told the Postal Service personnel who are responsible for investing that the Treasury will be glad to discuss further flexibility in our direct investment program. We would not, however, be willing to mimic the open market in all respects. In particular, we continue to believe that it would not be appropriate for the Treasury to liberalize the direct investment program in a way that would facilitate speculation on short-term market movements.

CONCLUSION

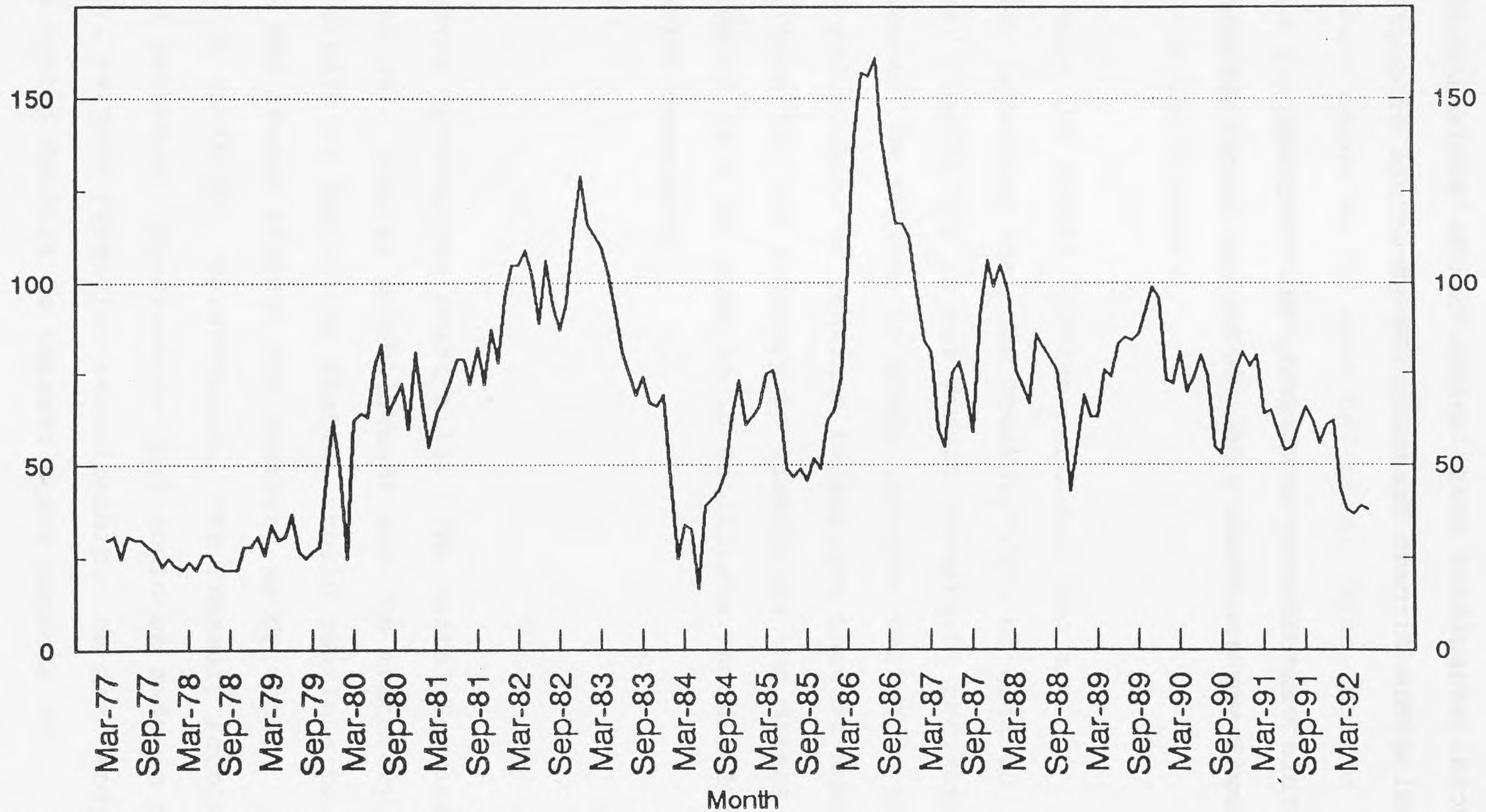
The Treasury opposes the draft bill. The Postal Service, with its status as a Federal establishment and its statutory links to the credit of the United States, should continue to borrow, bank, and invest through the Treasury as do other Executive Branch entities. Nevertheless, the Treasury recognizes that there are potential improvements that could be made in the Treasury-Postal Service financial relationship. We are ready to work with the Postal Service to improve those aspects of

financial management where change can be accommodated without breaching the current Treasury/FFB structure of operations.

This concludes my statement, Mr. Chairman. I would be happy to answer any questions that you or the Committee may have.

Spreads: Moody's AAA Seasoned Corporate Rate less 30-Year Treasury Constant Maturity Monthly Average Data

Basis Points



Note: Between 1/84 and 10/84, AAA rate has been proxied using AA rate less 50 bp, due to thin AAA market.

Office of Market Finance

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
August 6, 1992

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JULY 1992

Treasury's Bureau of the Public Debt announced activity figures for the month of July 1992, of securities within the Separate Trading of Registered Interest and Principal of Securities program, (STRIPS).

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$613,404,176
Held in Unstripped Form	$466,583,131
Held in Stripped Form	$146,821,045
Reconstituted in July	$14,186,985

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) 874-4023.

oOo

PA-103

TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JULY 31, 1992
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month[1]
11-5/8% Note C-1994	11/15/94	$6,658,554	$4,956,154	$1,702,400	$16,000
11-1/4% Note A-1995	2/15/95	6,933,861	5,786,341	1,147,520	56,000
11-1/4% Note B-1995	5/15/95	7,127,086	5,087,086	2,040,000	120,480
10-1/2% Note C-1995	8/15/95	7,955,901	6,109,101	1,846,800	40,000
9-1/2% Note D-1995	11/15/95	7,318,550	5,104,550	2,214,000	97,200
8-7/8% Note A-1996	2/15/96	8,415,019	7,895,019	520,000	60,800
7-3/8% Note C-1996	5/15/96	20,085,643	19,485,643	600,000	16,000
7-1/4% Note D-1996	11/15/96	20,258,810	18,551,610	1,707,200	215,200
8-1/2% Note A-1997	5/15/97	9,921,237	8,856,437	1,064,800	68,000
8-5/8% Note B-1997	8/15/97	9,362,836	8,761,236	601,600	22,400
8-7/8% Note C-1997	11/15/97	9,808,329	8,558,729	1,249,600	4,800
8-1/8% Note A-1998	2/15/98	9,159,068	8,992,988	166,080	-0-
9% Note B-1998	5/15/98	9,165,387	9,120,987	44,400	-0-
9-1/4% Note C-1998	8/15/98	11,342,646	11,041,046	301,600	0
8-7/8% Note D-1998	11/15/98	9,902,875	9,443,675	459,200	80,000
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	9,176,703	870,400	-0-
8% Note C-1999	8/15/99	10,163,644	10,076,119	87,525	-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	10,381,030	115,200	22,400
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	11,349,682	170,000	-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	12,087,083	311,000	-0-
7-7/8% Note C-2001	8/15/01	12,339,185	12,182,385	156,800	-0-
7-1/2% Note D-2001	11/15/01	24,226,102	24,226,102	-0-	-0-
7-1/2% Note A-2002	5/15/02	11,714,417	11,510,097	204,320	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	5,068,206	3,233,600	1,424,000
12% Bond 2005	5/15/05	4,260,758	2,938,858	1,321,900	65,000
10-3/4% Bond 2005	8/15/05	9,269,713	8,721,713	548,000	1,080,800
9-3/8% Bond 2006	2/15/06	4,755,916	4,755,916	-0-	-0-
11-3/4% Bond 2009-14	11/15/14	6,005,584	1,830,384	4,175,200	788,800
11-1/4% Bond 2015	2/15/15	12,667,799	2,766,679	9,901,120	268,800
10-5/8% Bond 2015	8/15/15	7,149,916	1,966,556	5,183,360	58,880
9-7/8% Bond 2015	11/15/15	6,899,859	2,642,259	4,257,600	323,200
9-1/4% Bond 2016	2/15/16	7,266,854	6,622,054	644,800	240,000
7-1/4% Bond 2016	5/15/16	18,823,551	17,836,351	987,200	-0-
7-1/2% Bond 2016	11/15/16	18,864,448	17,370,928	1,493,520	2,480
8-3/4% Bond 2017	5/15/17	18,194,169	6,746,809	11,447,360	844,800
8-7/8% Bond 2017	8/15/17	14,016,858	10,055,258	3,961,600	438,400
9-1/8% Bond 2018	5/15/18	8,708,639	2,407,839	6,300,800	80,000
9% Bond 2018	11/15/18	9,032,870	1,778,470	7,254,400	517,400
8-7/8% Bond 2019	2/15/19	19,250,798	7,447,598	11,803,200	1,224,000
8-1/8% Bond 2019	8/15/19	20,213,832	13,545,352	6,668,480	856,960
8-1/2% Bond 2020	2/15/20	10,228,868	4,622,468	5,606,400	229,200
8-3/4% Bond 2020	5/15/20	10,158,883	2,331,203	7,827,680	410,240
8-3/4% Bond 2020	8/15/20	21,418,606	5,500,846	15,917,760	977,760
7-7/8% Bond 2021	2/15/21	11,113,373	9,719,773	1,393,600	409,600
8-1/8% Bond 2021	5/15/21	11,958,888	6,185,448	5,773,440	1,077,120
8-1/8% Bond 2021	8/15/21	12,163,482	9,968,602	2,194,880	779,200
8% Bond 2021	11/15/21	32,798,394	21,738,494	11,059,900	1,271,065
Total		613,404,176	466,583,131	146,821,045	14,186,985

[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 1:00 pm. The telephone number is (202) 874-4023. The balances in this table are subject to audit and subsequent adjustments.

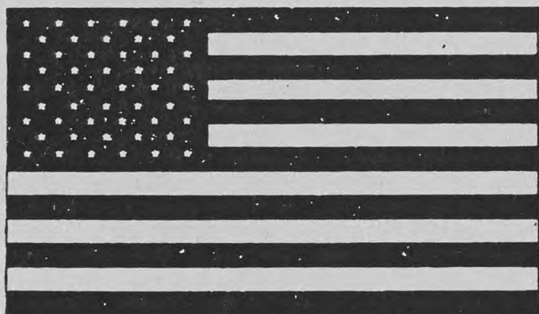
SECOND ANNUAL REPORT

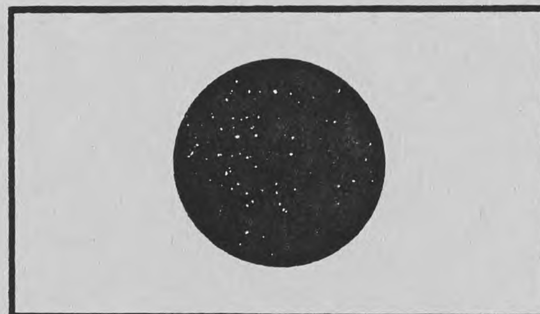
of the

U.S. - JAPAN WORKING GROUP

on the

STRUCTURAL IMPEDIMENTS INITIATIVE





July 30, 1992

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

His Excellency
Kiichi Miyazawa
Prime Minister of Japan
Tokyo

Pursuant to the objective of reinvigorating the SII (Structural Impediments Initiative) through the follow-up mechanisms provided for in your Plan of Action (Part II) of January 1992, the U.S.-Japan Working Group on the SII presents the attached Second Annual Report.

We believe that the attached report contains strengthened policy initiatives including new commitments to address the aspects of business environment and progress to date regarding the implementation of the measures of both governments listed in the Joint Report that should contribute to the reduction of payments imbalances. These measures should also lead to more efficient, competitive, and open markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States.

During the course of the discussions toward the attached Second Annual Report, the Working Group reaffirmed its determination to advance structural reforms of both countries, the goals of the SII.

Robert C. Fauver
Deputy Under Secretary
of State

Olin L. Wethington
Assistant Secretary of
the Treasury

Michael H. Moskow
Deputy U.S. Trade
Representative

Timothy J. Hauser
Acting Under Secretary
of Commerce

Paul Wonnacott
Member,
President's Council
of Economic Advisers

Charles A. James
Acting Assistant Attorney
General

Koichiro Matsuura
Deputy Minister for
Foreign Affairs

Tadao Chino
Vice Minister for
International Affairs
Ministry of Finance

Noboru Hatakeyama
Vice Minister for
International Affairs,
Ministry of
International
Trade and Industry

Tsutomu Tanaka
Vice Minister for
International Economic
Affairs, Economic
Planning Agency

SECOND ANNUAL REPORT

of the

U.S.-JAPAN WORKING GROUP

on the

STRUCTURAL IMPEDIMENTS INITIATIVE (SII)

Tokyo, Japan

July 29, 1992

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Second Annual Report of SII Follow-up
Joint Press Release

1. The U.S.-Japan Working Group on the Structural Impediments Initiative (SII) provides the attached Second Annual report. This report contains strengthened policy initiatives including new commitments to address the aspects of business environment of both countries that might impede structural reform including market access, foreign investments, and competitiveness. The report also summarizes the actions taken since May 1991 in fulfillment of the commitments described in the June 1990 Joint Report and the May 1991 First Annual Report. This report provides continued evidence of the efforts made by both parties at this stage to meet the objectives of the SII follow-up process.

2. The SII, which is the initiative of the President of the United States and the Prime Minister of Japan, represents a unique and extensive endeavor between the United States and Japan. It attests to the closeness of the ties between our two countries, and the importance and extent of the interrelationship of our two economies.

3. Both governments reaffirm their strong commitment to solve structural problems in both countries that stand as impediments to trade and to balance of payments adjustment; such actions should also lead to the removal of impediments to more efficient, open and competitive markets. They remain firmly committed to make efforts to reduce their external imbalances. The Working Group recognizes that success will depend on continued progress in implementing structural reforms and a strong and serious follow-up process.

4. Both the Government of Japan and the United States Government welcome the steps taken over the past year towards addressing structural problems in their countries. The Working Group notes that significant progress has been made in a number of areas. While acknowledging these positive measures already underway, both the Japanese and the U.S. sides of the Working Group stressed that further endeavors by both governments in their respective areas of SII are needed to ensure that the goals of the SII are achieved. Both governments are determined to strengthen their efforts towards this end.

5. In addition to undertaking the new commitments outlined in the Second Annual Report, the Working Group reaffirmed the policy commitments contained in the Joint Report and the First Annual Report. The full range of actions in these three reports, if fully implemented and

followed up, should contribute to a reduction in both countries' external payments imbalances and lead to more efficient, open and competitive markets. These structural reforms should also promote economic growth and enhance the quality of life in both Japan and the United States. The two governments believe that these actions will continue to benefit the world economy.

6. The Working Group reaffirmed its determination to take needed steps to achieve the goals of the SII and ensure continued momentum of the follow-up process. The SII Working Group remains committed to the follow-up procedures embodied in the introduction to the Joint Report.

I. Saving and Investment Patterns

1. Reduction in the Current Account Surplus

Japan's current account surplus, as a ratio to GNP, has been declining from 4 percent plus in 1986, to 2 percent plus recently, as a result of factors such as the appreciation of the yen and structural changes in exports and imports reflecting increased market access and transfer of production capacities abroad by Japanese manufacturers. The current account surpluses in 1991 and in 1992 to date were larger than those in 1989 and 1990, owing to various factors including the developments in gold imports for financial investment, in exchange rates and commodity prices and in relative economic conditions of Japan and its trading partners. The Government of Japan expects that steady and continuous implementation of the actions contained in the Joint Report will basically contribute to a reduction in the current account surplus and strongly reaffirms its commitment to work actively toward that end.

2. Positive measures regarding Public Investment in the FY 1992 Budget

(1) Public Investment

(i) The Government of Japan launched the "Basic Plan for Public Investment", building on the principle to boost domestic investment, improve social overhead capital and to reduce the shortage of investment relative to savings and to the size of the Japanese economy, as mentioned in the Joint Report. The Plan includes an aggregate investment expenditure of approximately ¥430 trillion for the decade from FY 1991 to FY 2000. Firm implementation of public investment over the medium term based on the Plan, while giving due consideration to the balanced development of the economy, is expected to provide a base for sustainable non-inflationary growth led by domestic demand, and this would, along with other measures, facilitate a further reduction in the current account surplus. The yearly implementation of the Plan should be decided flexibly considering the prevailing economic and fiscal situation, paying due attention to avoiding inflation and overheat of the economy as well.

(ii) The Government of Japan has made the utmost effort in the FY 1992 budget and other programs to ensure sufficient amounts of public investment, notwithstanding the difficult fiscal situation and the large national debt outstanding. Specifically, in the FY 1992 budget, Public Works Expenditure in the general expenditure of general account has been increased by 5.3%. Furthermore, the allocation of the Fiscal Investment and Loan Program Funds to the public works executing agencies has been increased by 10.8%. In addition, with regard to the public investment efforts being carried out at the local government level, the Government of Japan envisages a 11.5% increase in local governments' public expenditure for projects that are entirely self-financed under the Local Public Finance Program.

(iii) As a result, Public Gross Fixed Capital Formation (Ig) in FY 1992 is forecasted to reach approximately ¥31.2 trillion. Taking into account the possible addition of disaster relief expenditures (the simple average of estimated supplementary disaster relief expenditures corresponding to the Ig in the past ten years, ¥0.8 trillion), this represents an increase of approximately 6.0%.

In sum, the Government of Japan has made the utmost effort in the FY 1992 budget and other programs to ensure sufficient amounts of public investment, providing a basis for the firm implementation of the "Basic Plan for Public Investment".

To achieve further progress in FY 1992 toward fulfillment of the ten year plan and in order to promote non-inflationary sustainable growth led by domestic demand, the Government of Japan has taken a number of measures relating to public investment. In addition to public investment actions taken in connection with the original FY 1992 budget, on March 31 the Government decided to implement the Package of Economic Measures which are expected to have positive effects on public and private investment. These measures would accelerate the implementation of public works programs in the FY 1992 budget, facilitate housing investment, and support small and medium-sized enterprises. Furthermore, on July 1, Prime Minister Miyazawa announced that if these various measures do not have sufficient effect, the Government will examine the situation and undertake every possible means,

including necessary substantial additional fiscal measures. On July 24, the Government of Japan and the Liberal Democratic Party agreed that the contents of the additional measures will be formulated around the middle of Septmeber, examining the situation including the effects of the Package of Economic Measures announced in March.

(iv) Also in FY 1992, the Government of Japan fully expects the four former public enterprises' (JR, NTT, JT and EPD) investment plans to provide for an increase of 7.6% to ¥2.9 trillion, compared with the expectation of approximately ¥25 trillion in aggregate investments by such entities for the decade from FY 1991 to FY 2000.

(v) With regard to the public investment in FY 1993, the Government will focus on the continued progress toward fulfillment of the objectives of the Basic Plan for Public Investment. This would, along with other measures, facilitate the adjustment in the current account.

(2) Sectoral Long-term Plans for Social Overhead Capital

(i) All of the eight sectoral long-term plans (Five-Year Plans) which expired at the end of FY 1990 were renewed by the ministries concerned and decided by the Cabinet by the fall of last year and have been firmly implemented to attain the specific targets indicated in the Joint Report of the SII. Priority has been given to improvement of infrastructure which will facilitate importation of goods and services.

(ii) Regarding the Erosion and Land Control Five-Year Plan and the Erosion and Flood Control Five-Year Plan which expired at the end of FY 1991, the size for each of new plans was determined. The cumulative expenditures for these new plans are 1.4 times that for previous plans. In addition, as to forestry conservation category, the size for the new long-term plan, introduced in FY 1992, was determined.

(iii) It is envisaged that larger plans for certain other key areas, such as roads, will also be considered as the current plans expire.

(3) Allocation of Public Investment

In the allocation of Public Works Expenditure in the FY 1992 budget, the greatest possible attention was paid

to those categories closely linked to the improvement of the quality of life by taking measures including the establishment of the Set Aside for Livelihood Improvement Related Expenditure.

As a result, expenditures in public sanitation, housing, sewers, parks, etc. are ensured to increase in terms of the percentage growth rate compared to the previous year more than General Public Works Expenditure.

In allocating Public Works Expenditure among various types of social overhead capital, the Government of Japan will continuously put emphasis upon the categories closely linked to the improvement of the quality of life.

(4) Allocation of the Fiscal Investment and Loan Program Funds

Pursuing economic policies to assure sustainable economic growth with price stability, the FY 1992 Fiscal Investment and Loan Program (FILP) has put stress on making more effective and selective use of the funds to improve social overhead capital, according to the principle of enhancement of the quality of the people's life, as the FY 1991 program did.

In this context, the fiscal investments and loans to public works are expanded by 10.8% over the previous year, thereby securing the necessary and sufficient supply of the funds to the construction of roads, airports, and other social overhead capital for the year. The FY 1992 FILP also supplies the funds to the financial needs of the local governments to develop the social overhead capital, inclusive of water supply and sewers. Moreover, by allocating the funds to the government-affiliated financial institutions, the FILP assists the private sector in the activities to improve social overhead capital in the fields of the urban development and traffic network arrangement.

3. Better Communication and Closer Cooperation among Ministries Involved in Complex Multi-Jurisdictional Development Projects

The Conference for Coordination concerning the Facilities related to the Kansai International Airport was established in October 1984 to facilitate coordination among the related ministries so that the improvement of airport-related facilities, such as roads and railways, would proceed in line with the construction of the airport.

The said conference has held three meetings since its establishment. At the first and second meeting, General Principles concerning the Facilities related to the Kansai International Airport was drawn up. At the third meeting held in December 1990, adjustment of the timing of airport-related facility improvement work was discussed because of the rescheduling of the opening of the airport.

After the budget is approved every year, the said conference promptly hold the secretary meeting to collect and coordinate concerning the airport-related facility improvement work among the related ministries.

To facilitate better coordination among ministries concerning the Tokyo Bay Area Development, the Council to Facilitate Tokyo Bay Area Development has held 11 meetings since its establishment in November 1986. Steering Committee being established under this Council, has held many meetings, three times in FY 1989, two times in FY 1990 and four times in FY 1991.

In this Council and its steering committee, the basic framework of the development of this whole area and the guidelines for the construction of fundamental facilities, such as roads and railways, have been discussed and coordinated.

In FY 1990, competitive bids were invited for the use of some parts of the Tokyo Teleport-town in this area, which is planned to be a sub-center of Tokyo conurbation, and in November in that year 14 firms have been selected. Efforts to promote the smooth realization of the development of this area is being constantly made, and in December 1991, in views of the recent social and economic change of situations, the framework has been revised, so that 1000 more families could be inhabited in this area.

4. Land Use, Deregulation, etc.

(1) In line with the "Outline of Promoting Comprehensive Land Policies" decided by the Cabinet on January 25, 1991, publicly held lands in metropolitan areas are used more efficiently with necessary precautions to secure lands for public use. Especially, sufficient consideration is given to the effective utilization for urban facilities, urban development plans, and public housing projects.

To appropriately develop and effectively utilize the discharged track yard site in Shiodome in accordance with the land-use plan submitted by the Assets Disposal Council in February 1989, the Government of Japan has been consulting with the Tokyo Metropolitan Government and other parties concerned. A city-planning decision concerning the new traffic system and related roads passing through the site was made in July 1990.

The Government of Japan is following the determination procedure for city planning of land readjustment project and redevelopment district plan.

(2) With respect to the public use of super-subterranean space, related ministries and agencies have been carefully studying and discussing the legal framework for the adjustment of private rights such as procedures for the protection of landowners, how to prevent disaster directly relating to people's lives and keep safety, the impact on the environment, and other aspects.

(3) As measures to provide incentives to the private sector to improve social overhead capital, the Government of Japan continues to guarantee the bonds issued by the Kansai International Airport Co. Ltd. and the Tokyo Trans-Bay Highway Corporation to facilitate the utilization of private funds.

In addition, utilizing the fund raised by the sales of NTT stocks, the Japan Development Bank, the Hokkaido-Tohoku Development Finance Corporation, and the Okinawa Development Finance Corporation continue to promote interest-free loans to the third sector and concessional loans (introduced in FY 1991) to third-sector and private-sector enterprises.

(4) Concerning the construction of the Joban New Line and the housing site development along it, the National Government recognized the basic plan on Oct. 23, 1991 which was made by the Tokyo Metropolitan Government and three prefectural governments based on the Special Measures Law.

According to the basic plan, the third-sector, Metropolitan Intercity Railway Company, which will operate the line, took the license based on the Law for Railway Business Enterprise on Jan. 10, 1992, and is preparing for construction which is scheduled to open in 2000.

Concerning housing site development projects along the line, the involved local governments are preparing for decision of the city plan, etc.

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

(1) As to curtailing work hours, the Government of Japan has implemented a complete 5-day week for all government employees in May 1992, since the relevant bills were enacted in March 1992. Concerning the 5-day week for employees of local public bodies, since the relevant bill was enacted in March 1992, local public bodies have been

requested to make the necessary adjustments to implement the 5-day week, keeping pace with the national government as much as possible.

To promote the reduction of working hours in the private sector, the Ministry of Labour endeavors to instruct and assist the voluntary effort of the labour and management, while putting emphasis on [1] the dissemination of 5-day work week, [2] taking all entitled paid annual holidays, [3] the dissemination and prolongation of long holidays and [4] the reduction of overtime working hours.

In July 1992, in order to encourage employers and workers to reduce working hours, the Special Measures Law Concerning Promotion of Reduction of Working Hours was established.

The statutory working hours in the Labour Standards Law were shortened to 44 hours a week in April 1991. Moreover, the Central Labour Standards Council is now examining the whole legislations concerning working hours including 40-hours work week.

In July 1990, the Ministry of Labour formulated "the Guideline to promote long holidays", which shows the direction of actions to be taken by the labour and management towards [1] taking all entitled paid annual holidays and [2] dissemination and prolongation of long holidays. The Ministry of Labour is trying to make the guideline well known to the public.

Furthermore, "the Guideline on the reduction of overtime working hours" was formulated in August 1991 in order to suggest the actions the labour and management should take towards the reduction and to encourage the voluntary effort of the labour and management.

(2) The Government of Japan removed the restriction on access to bank teller machines by credit card companies and granted revolving credit function to the credit cards issued by bank affiliated companies this June.

(3) Operations of cash dispensers and automated teller machines on Sundays are rapidly spreading. These operations have been started not only at individual financial institutions level, but also at inter-bank level, which is that MICS (Multi Integrated Cash Service) started Sunday operation.

The operating hours of teller machines have been extended successively as described above. The Government of Japan regards it as desirable from a viewpoint of consumer convenience that financial institutions are willing to lengthen operation hours of teller machines according to their business decisions.

II. Land Policy

Soaring of land prices would damage socio-economic stability and vigor since it would further widen the gap of economic strength existing both among individuals and among firms. In view of the need to maintain vigorous economy supported by individuals with strong will to work, the land problem represents one of the most important domestic issues in Japan. The Government of Japan has been promoting various measures in both supply and demand aspects, in conformity with the cabinet decision of the "Outline of Promoting Comprehensive Land Policies" which was made in January 1991 as a guideline for the Land Policy, in line with the Basic Land Act.

Moreover, the Government of Japan adopted with a cabinet decision the "New Five-Year Economic Plan" in June 1992 aimed at "sharing a better quality of life around the globe."

In the "New Five-Year Economic Plan," providing a better housing is set as one of the most important themes for achieving a better quality of life. The Government of Japan attempts to improve residential standards by accumulating a stock of quality housing and providing good and safe residential environment through the continuous expansion of housing-related investment.

The plan proposes a criterion for acquiring a good quality housing in the metropolitan areas, including Tokyo, with a sum equivalent to roughly five times the average annual income of working households (i.e., the amount of funds which can be raised for purchase of a house under certain conditions). With a view to approaching this criterion as closely as possible, the plan promotes comprehensive land policies aimed at realization of appropriate levels of land prices and attempts to advance various measures including housing policies.

Keeping these in mind, the Government of Japan will continue to vigorously advance comprehensive land policies consisting of utilization of land taxation, encouraging supply of residential land and housing, and securing appropriate land uses, as follows.

*i) Further Improvement in Housing Situation

The Government of Japan will further pursue its comprehensive land and housing policy, so that middle class workers may accommodate an appropriate level of housing with reasonable financial burden.

The goals on average floor area per unit are set in the 6th Housing Construction Five-Year Plan and in the "Basic Plan for Public Investment", respectively. The former sets a goal at the level of approximately 95 square meters by the FY1995, and the latter sets another at approximately 100 square meters by the year of 2000. The Government of Japan will steadily improve housing situation and living environment in order to ensure the achievement of these goals.

The Government of Japan will encourage local governments to actively utilize the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land."

Concerning the land tax, the Government of Japan will steadily implement its measures of the Comprehensive Land Tax Reform, including introduction of the Land Value Tax, revision of taxation of capital gains from land transfer, revision of taxation on agricultural land within the Urbanization Promotion Areas and introduction of the Special Land Holding Tax on Idle Land. The Government of Japan expects that these measures will contribute to promoting more efficient use of land (including idle land) as well as to controlling or decreasing land price.

The Government of Japan will pursue rationalization of the land value assessment for the Fixed Assets Tax calculation, at the time of reassessment of the land in the FY1994, by setting its goal at about 70% of the Published Land Price. In order to avoid a drastic increase in tax burden accompanying such rationalization, the Government of Japan will explore adjustment measures at the review of tax reform for the FY1993.

*ii) Further Improvement in Land Utilization

In order to avoid further soaring of land prices, the Government of Japan will seek to attain an adequate level of land prices reflecting the value of land utilization, and will promote an effective and reasonable utilization of land including commercial property.

The Land Lease and House Lease Law was legislated in October 1991 for the purpose of adjusting to the changed circumstances and improving the legal relationship between lessors and lessees. The Government of Japan will accelerate the preparation for the enforcement scheduled in August 1992, including publicizing the objectives and the contents of the legislation to people concerned. Once put into force, the Government of Japan will adequately enforce the new law, which is expected to induce a more appropriate use and a larger supply of land including commercial property.

With regard to the various measures in the following 7 fields, expressed in the Final Report of SII and the First Annual Report of SII Follow-Up, the Government of Japan has taken necessary measures designated below.

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

b. Comprehensive Land Tax Reform

c. Greater utilization of idle and under utilized land owned by the central or local governments or other public land

d. Improvement and increase of infrastructure necessary to facilitate increase in the supply of housing and residential land

e. The Land Lease and House Lease Law

f. Deregulation for the supply of Housing

g. Official assessment of land value

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

(1) Regarding the promotion of the supply of housing and residential land across two or more prefectures, the Construction Minister decided in March 1991 the "Fundamental Schemes regarding the Supply of Housing and Residential Land" about three major metropolitan areas based on the "Special Measures Law for Facilitating Supply of Housing and Residential Land in Major Metropolitan Areas" which was amended in June, 1990 and was enacted in November 1990. For example, the Fundamental Schemes set a goal that 4.31 million houses and 27,500 ha of residential land will be provided in Greater Tokyo area by the year of 2000.

Following these measures relevant prefectural governments, in conformity with the "Fundamental Schemes" above mentioned, have decided plans on the supply of housing and residential land.

(2) With regard to the establishment of a new system of identifying and promoting the utilization of idle and underutilized land, the Government of Japan established the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land" which was enacted in November 1990, based on the amendments of the "City Planning Law" and the "Building Standards Law" in June 1990.

The Government of Japan set forth the guideline for identifying idle land and underutilized land for local governments to designate the "Specified District Designated for Promoting the Utilization and Conversion of Idle Land" in the city planning and notified local governments the guideline.

The Government of Japan is encouraging local governments to use the "System of Specified District Designated for Promoting the Utilization and Conversion of Idle Land" so that idle land and underutilized land such as unused plant site, might be utilized more effectively. As of June 1992, 5 areas are designated. The Government of Japan will continue to encourage local governments for more vigorous use of this system together with strengthening the Special Land Holding Tax on idle land mentioned below on 2.(2)(c) which was started on FY 1991.

2. Comprehensive Land Tax Reform

(1) The government of Japan conducted a comprehensive review of the land tax system at all stages of holding, transfer, and acquisition of land, with the viewpoints of assurance of appropriate and equitable tax burden on land, and of contributing to an overall land policy in preventing speculative transactions and promoting appropriate land use through reducing or eliminating the advantage of land as an asset.

Based on the "Basic Report on Desirable Land Taxation" issued by the Government Tax Commission on October 30, 1990, the necessary bills were submitted to the Diet in February 1991. These bills were passed and the amended law has been enforced.

(2) Main points of this land tax reform are followings and include all measures mentioned in the Final Report of SII (below b.c).

Although introduction of the Land Value Tax as a national tax was not specifically mentioned in the Final Report of SII, it is corresponding to the principle referred to in the Final Report of SII which emphasizes importance of pursuing appropriate tax burden on an asset of land. Introduction of the new tax means, in addition to the assurance of appropriate burden of the Fixed Assets Tax which has characteristics of general and broadly based levy on land holding, new tax burden will be annually imposed on holders of land with large asset value.

Strengthening of general capital gain taxation on land while expanding preferable treatments of capital gain in case of land transfer conducive to certain policy objectives is based on the idea that it is most important from the land policy viewpoint to establish a stable land tax system and to reduce advantage of land as an asset, taking into consideration our past experience.

(a) Introduction of the Land Value Tax

(b) as for the agricultural land within the Urbanization Promotion Areas in the designated cities in the three metropolitan areas, except for the agricultural land in the "Productive Green Area" abolishment of the deferment system of payment of the Inheritance Tax, and abolishment of the deferment system of payment of the Fixed Assets Tax

(c) Overall review of the Special Land Holding Tax and strengthening of the Special Land Holding Tax on idle land

(d) expansion of the preferable treatments of capital gain taxation in case of land transfer conducive to certain policy objectives such as securing land for public use and promoting supply of good residential land, etc.

(e) strengthening of capital gain taxation on land transfer except for the case referred in (d)

(f) countermeasures against tax avoidance

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

(1) With regard to State-owned land used for administrative purposes and for residence for employees of the Government in the major metropolitan areas which was identified to be used more efficiently as a result of the examination of the utilization of the State-owned land, which was conducted in March 1991, the Government of Japan has set the following goals of converting the State-owned land to more efficient use.

(a) Out of 192 ha of State-owned land used for administrative purposes,

37 ha of State-owned land will be used more efficiently by improving the arrangement of buildings for administrative purposes, and

155 ha of State-owned land will be converted to other uses, giving priority to official and public uses, through disposal or other measures.

(b) Out of 166 ha of State-owned land used for residence for employees of the Government,

97 ha of State-owned land will be used more efficiently by improving the arrangement of the buildings for residence for employees of the Government, and

69 ha of State-owned land will be converted to other uses, giving priority to official and public uses, through disposal or other measures.

(2) As for the unused State-owned land in the major metropolitan areas, the Government of Japan, under the reinforcement of the principle of giving priority to official and public uses, made the policy that the Government will use the land efficiently for its own purpose at first, and use the rest systematically and selectively, from long-term view point, so that the wide and positive influence such as improvement of urban infrastructure and urban redevelopment will be introduced. In line with this policy, 720 ha of unused State-owned land in the major metropolitan areas will be utilized as follows;

(a) 264 ha of land is designated to the use for the improvement of offices and residence for employees of the Government and urban facilities, and urban redevelopment and others.

(b) 253 ha of land is decided to be reserved with the purpose of corresponding to future public needs.

(c) As for 203 ha, the proper plan will be made individually with the aim of efficient utilization, taking account of the trend of future public needs.

(3) Land owned by the Japanese National Railways Settlement Corporation located in metropolitan areas is an important financial source of redemption for debts of the Corporation and also it is valuable space to be developed left in the hearts of metropolitan areas. From these viewpoint, the Government of Japan is pursuing its efficient utilization taking into account various factors including considerations to land-price policy, conditions of land's location, and coordination with regional developments.

As of March 1992, 3,160 ha of land owned by the Japanese National Railways Settlement Corporation was disposed.

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

(1) In view of installing steadily infrastructure necessary to facilitate increase in the supply of housing and residential land, the Government of Japan has made Cabinet Decision on the following Five-Year Plans and has been implementing them faithfully.

(a) 6th Housing Construction Five-Year Plan (Cabinet Decision; March 1991)

- o Total number of houses; 7.3 million (among them, 3.7 million houses are to be constructed by public subsidy and loan)
- o Goal of average floor area per house; approximately 95 m^2 (88 m^2 as of mid 1988)

(b) 7th Five-Year Sewerage Improvement Program (Cabinet Decision; November, 1991)

- o Total cost of investment scale; 16.5 trillion yen (among which 2.4312 trillion yen was disbursed in FY 1991)
- o Goal of sewerage service coverage ratio; 54% (44% as of FY 1990)

(c) 5th Five-Year Program for Developing Urban Parks (Cabinet Decision; November 1991)

- o Total investment scale; 5 trillion yen (among which 606.3 billion yen was disbursed in FY 1991)
- o Goal of urban parks area per capita in the designated area; 7.0 m^2 (5.8 m^2 as of FY 1990)

(2) Circular notices were issued to give guidance in August 1988 and in July 1989 respectively to those who implement public projects and so on regarding the active utilization of eminent domain system and as a result, in FY 1991 the number of eminent domain operations authorized based on the "Land Expropriation Law" has largely

increased following the increase in FY 1990 (from 1,008 cases to 1,150 cases). The Government of Japan continues to encourage the more vigorous use of eminent domain through above mentioned circular notices.

(3) With respect to the public use of super-subterranean space, related ministries and agencies have been carefully studying and discussing the legal framework for the adjustment of private rights such as procedures for the protection of landowners, how to prevent disaster directly relating to people's lives and keep safety, the impact on the environment, and other aspects.

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

In order to meet the changed circumstances and to improve the legal relationship between lessors and lessees, and taking into account the desirability of greater availability of housing, a review of the Land Lease Law and the House Lease Law has been conducted since 1985 and the draft amendment of these laws was completed by the Legislative Council in February 1991.

In conformity with the draft amendment the bill of the "Land Lease and House Lease Law" and the bill to amend "the Civil Conciliation Law" were submitted to the Diet in March 1991, enacted in September 30, 1991 and were promulgated in October 4, 1991. Both Laws will be enforced from August 1, 1992.

The Government of Japan expects that these laws will help increase more appropriate use of land and the supply of good quality houses for lease.

6. Deregulation for the supply of Housing

(1) Regarding zoning designations and divisions between Urbanization Promotion Areas and Urbanization Control Areas, the Government of Japan gives guidance in compliance with the change of industrial structure and change of urban structure, and trend for land utilization conversion to review changing of zoning designations and divisions between Urbanization Promotion Areas and Urbanization Control Areas timely and properly. Second review has been conducted until March 1990 and 69,000 ha has been extended under the extension of Urbanization Promotion Area, and Chiba prefecture, Aichi prefecture and Hyogo prefecture have concluded the third regular review. Saitama prefecture, Kanagawa prefecture and Kyoto prefecture are doing the review.

(2) As for the deregulation for the promotion of the housing supply, the Government of Japan in June 1990 enacted the amendments of the "City Planning Law" and the "Building Standard Law" to establish the "District Plan to Promote Intensive Use of Residential Land" which will form a better urban environment and promote the supply of medium and highrise houses by utilizing agricultural lands, etc. within Urbanization Promotion Area.

This deregulation measures was operated in November 1990.

The Plan ensures the relaxation of limits on total floor area ratio, building heights, etc. and facilitates the conversion of agricultural land, etc. in Urbanization Promotion Area to a good urban area for medium and highrise houses. The Government of Japan since then, has been encouraging the utilization of this Plan actively.

7. Official assessment of land value

(1) In order to rationalize the land value assessment for the Inheritance Tax calculation expeditiously, taking into account the nature of the tax with a view to making the assessment closer to the market value, the Government of Japan has raised the assessment every year.

In order to rationalize the assessment still more, the Government of Japan has decided, from the assessment for the year 1992, to change the assessment time to January 1 of the applicable year in line with the time of the Published Land Price and to raise the level of assessment for the Published Land Price. (Actually, under this decision the assessment for the year of 1992 is going underway.)

On the other hand, by increasing standard points etc., the Government of Japan will continue to work on further rationalization of the assessment of land value which is the base of taxation of the Inheritance Tax and the Land Value Tax.

(2) The price of land for housing in standard location of designated cities (prefectural capital cities) with regard to reassessment of FY 1991 approved by Central Fixed Property Valuation Council in September 1990, has increased by 30 percent averagely compared to assessment of previous year and it is the biggest rise since 1976.

The Government of Japan has instructed local governments to rationalize their land value assessment for the Fixed Assets Tax calculation at the time of the

reassessment of the land valued in FY 1991, taking into account the land values of the standard points mentioned above.

Regarding the reassessment of the Fixed Assets Tax calculation of FY 1994, the Government of Japan has decided to further promote to rationalize the land value assessment for the Fixed Assets Tax calculation through setting its goal at about 70% of the Published Land Price, in line with the object of Basic Land Act.

Regarding the publication of street value, local governments have made public approximately 40,000 street values at the time of reassessment for FY 1991 to help ensure the rationalization. The Government of Japan also directs local governments for the planned expansion of publicized standard points in order for them to make public all the street values as soon as possible following the next reassessment.

* New Commitments

III. Distribution System

Concerning the distribution system in Japan, the Government of Japan attaches great importance to the enrichment of consumer life in Japan through further improving efficiency, ensuring market access, and improving physical infrastructure. Based upon such recognition, the Government of Japan will continue to implement a wide range of measures.

a. Improvement of import-related infrastructure

b. Expeditious and proper import procedures

c. Deregulation

d. Improvement of trade practices

e. Import promotion measures

f. Standards and regulatory framework

1. Improvement of Import-related Infrastructure

(1) Airport Improvement

(a) On November 29, 1991, the Cabinet conference formulated the Sixth Five-Year Plan for Airport Improvement which has been initiated since FY1991. The Yen targets of the plan are 3,190 billion yen (66% more than those of the last plan).

In the Sixth Five-Year Plan for Airport Improvement the three most important projects ([1] the achievement of the second-stage development program of the New Tokyo International Airport, [2] the completion of the off-shore expansion of the Tokyo International Airport, [3] opening of the Kansai International Airport) will be promoted with top priority.

As for local airports, to meet growth of demand in air transportation and to fulfill aviation network, necessary improvement (construction and extension of runway and development of terminal areas in Nagoya, Fukuoka and other airports etc.) will be promoted.

To promote the overall concept of Kansai International Airport to meet medium-to-long term growth of demand in air transportation, the overall concept should be studied and concrete measures for sound

financial management and construction management should be ensured by the parties concerned.

(b) Improvement of necessary roads, including connection with main airports, is continuously prompted in line with the Tenth Five-Year Plan for Road Improvement (FY1988-1992 FY1991; 10.7163 trillion yen, total investment scale; 53 trillion yen).

(2) Harbor Improvement

The Eighth Five-Year Plan for Harbor Improvement (FY 1991-95) has been formally authorized by the Cabinet in November 1991. The improvement of container terminals for overseas trade and large scale multi-purpose terminals for overseas trade are given high priority in the Plan. The scale of investment in the Plan is 5,700 billion yen, 30% larger than the former Plan.

Concerning warehouse, construction promotion is undertaken through low-interest loan arrangements by such banks as the Japan Development Bank, and tax incentive measures. From the end of March 1990 to the end of the same month 1991, the increase in storage space of general warehouses is 5.5% and that of refrigeration warehouses is 8.6%.

(3) And in relation to the Global Partnership Plan of Action, and with a view to promoting import, the Government of Japan submitted to the Diet the bill concerning the development promotion measures for the imported goods and commodities dealing facilities in international seaport and airport areas (the Law on Extraordinary Measures for the Facilitation of Imports and Foreign Direct Investment into Japan (provisional translation) decided by the Cabinet on February 14). The bill was passed in Diet on March 27. The development promotion measures in the bill for such entities as developing import-related infrastructure are as follows:

- Capital infusion and loan guarantees by the Facilitation Fund for Industrial Structural Adjustment

- Favorable treatment of the Small Business Credit Insurance

2. Expeditious and Proper Import Procedures

(A) The Government of Japan has been steadily implementing the measures concerning expeditious and proper import procedures listed in the final report on the

SII talks, and thus achieved by 1991 the goal of 24-hour clearance (from presentation of import declaration to import permit) through entry procedures for normal cargo imports.

(1) Customs Clearance Procedures

(a) Introduction of Sea-NACCS (Nippon Automated Cargo Clearance System for Sea Cargo)

Sea-NACCS came into operation at two major ports (Tokyo and Yokohama/Kawasaki ports) in October 1991. Its service areas are to be expanded to three other major ports (Kobe, Osaka/Sakai and Nagoya ports) in October 1992.

(b) Upgrading of Air-NACCS (Nippon Automated Cargo Clearance System for Air Cargo)

An expansion of the service areas of Air-NACCS and a revision of its functions are scheduled for February 1993.

(c) The Pre-Arrival Examination System

As reported last year, the scope of the Pre-Arrival Examination System was expanded and its procedures were simplified in April 1991.

(d) Introduction of the Customs Intelligent Database System (an automated risk judgment system) supported by the Customs Database

The Customs Intelligent Database System (CIS) was introduced to the major customs offices of Tokyo and Yokohama/Kawasaki port areas in October 1991. Its service areas are to be expanded to the major customs offices of Kobe, Osaka/Sakai and Nagoya port areas in January 1993.

(e) Ensuring the transparency of the classification decision

(i) Improvement of the advance ruling program

Measures for improvement, such as an extension of the valid terms of the issued ruling letters, were introduced in September 1990 and April 1991 as reported last year.

(ii) Publication of classification decisions

Individual classification decisions were publicized in the booklet titled "Guidelines for the Classification of Import Goods" in August 1990 as reported last year.

Additional classification decisions have been publicized since March 1992.

(f) Narita-Baraki Issue

The customs clearance of international express carrier cargoes at Narita started in April 1991 as reported last year.

(2) Import Procedures other than Customs Clearance Procedures

In accordance with the report of the Japan-U.S. Experts Group on Import Procedures, the Government of Japan has been implementing the measures which have become feasible.

(a) Establishment of an integrated import processing system

(i) Establishment of the Liaison Committee

The Government of Japan established the "Liaison Committee among Import-related Agencies" in September 1990. Taking account of the results of the survey on the "through" time required from cargo arrival to cargo release, which was carried out in February 1991, the "Liaison Committee" has been examining measures for improvement in achieving more expeditious import procedures.

As a result, the Government of Japan will take such measures as promotion of public relations for the Pre-Arrival Examination System, facsimile information networks adjustment among the import-related offices, conversion of the Pre-Arrival Examination System into Air-NACCS and extension of the effective term of the food examination records as consistent with the conditions provided by the Food Sanitation Law.

(ii) Concurrent processing of customs clearance and procedures required by import-related laws

The Government of Japan implemented concurrent processing of customs clearance and procedures required by import-related laws from April 1991 under the framework of the Pre-Arrival Examination System.

As a result, through the introduction of the Pre-Arrival Examination System, customs clearance procedures will be commenced simultaneously with the commencement of the import procedures other than customs clearance procedures.

(Before the introduction of this system, customs clearance procedures were commenced after the completion of the import procedures other than customs clearance procedures.)

(iii) Facilitation of information transmission among import-related agencies

The "Liaison Committee" has initiated a basic study on facilitation of information transmission among import-related agencies.

(b) Procedures required by import-related laws other than customs clearance procedures

(i) Animal and plant quarantine

With regard to animal quarantine, the Government of Japan increased the number of quarantine officers from 207 to 223 in FY1991 as well as extended the working hours at major airports (Narita, Osaka, Fukuoka, Nagoya)**. It has also been preparing quarantine facilities in Hokkaido.

**Working Hours at Major Airports in Japan
(Monday-Sunday)

Airport	Plant Quarantine	Animal Quarantine
Narita	8:30 - 21:00	8:30 - 21:00
Osaka	8:30 - 21:00	8:30 - 21:00
Fukuoka	8:30 - 17:00	8:30 - 19:00
Nagoya	8:30 - 17:00	8:30 - 19:00

With regard to plant quarantine, the Government increased the number of quarantine officers from 685 to 706 in FY1991.

(ii) Pharmaceuticals

The Government of Japan allowed from July 1991 to apply for Yakkan certificate before the arrival of cargo. In 1991, 7,447 applications were received and 179 were processed before arrival.

(iii) Food Sanitation Law

In FY1991, the Government of Japan:

- publicized the Pre-Filing System which had already been introduced,
- presented a plan for a registration system of food factories in an exporting country (This system would supplement the current port of entry inspection, and plants that are not certified would not be excluded from trade with Japan. However, those certified would be on a fast-track for import acceptance, and essentially exempted from Japanese foods quarantine inspection of MHW.)
- increased food sanitation inspectors by a large number, from 99 to 143,
- increased the number of reception counters for import declaration of foods in quarantine stations from 22 to 26, and
- extended the working hours at Narita and Osaka Airports, from 7pm on weekdays and 5pm on Saturday and Sunday to 9pm throughout the year.

The Government intends to further its study on the introduction of a registration system of food factories in an exporting country and on enlargement of the scope of blanket handling.

(iv) High pressure gas

The Government of Japan amended the High Pressure Gas Control Law at the end of 1991 and simplified the import procedures for high pressure gas, by changing the authorization system to a notification system, and by exempting certain cases from the application of the regulation.

*(B) With the aim to further reducing the period of time between cargo arrival and its release to importers through more expeditious and proper import procedures, the Government of Japan will take the following measures:

(1) The Government of Japan will increase cargo that are to be processed either solely by the Japan Customs or otherwise through simplified procedures, without physical examinations at their arrival, through the implementation of concrete measures, listed below, concerning import-related procedures other than customs clearance procedures.

(a) Enlargement of the scope of Blanket Handling

(b) Expansion of the range of the Pre-Filing System prior to the arrival of cargo

(c) Promotion of accepting examination data obtained in examinations abroad

(d) Introduction of Registration System of Food Factory in Export Country

(2) With respect to import processing at Narita Airport:
(a) construction is planned of two new buildings related to cargo processing and storage:

(i) Common Import Warehouse to be opened in 1993, with a capacity of 3,600 square meters

(ii) Cargo Building No. 4 to be opened in 1995, with a capacity of 44,000 square meters

It is expected that these infrastructure improvements will facilitate efforts to process and release more cargo at Narita without transport to Baraki. These infrastructure improvements will facilitate the review of the sorting criteria that currently determine which imports must be transported to Baraki for processing.

(b) As for Narita-Baraki Issue which has been caused by the physical limitation on the cargo handling capacity in Narita Airport etc., the Government of Japan together with all parties concerned will examine how to eliminate the Narita-Baraki sorting criteria and take appropriate action with regard to the sorting criteria, once the consensus of all parties concerned is achieved.

Subjects of this examination will be progress of infrastructure improvement, achievement of consensus of all parties concerned, and composition of air cargo. The future trend of the aircargo should be also taken into account. Once these sorting criteria are eliminated, importers will be permitted to select whether they prefer their cargo to be processed at Narita or Baraki. It is expected that this development, when importers take advantage of the Pre-Arrival Examination System, should contribute to the reduction of import processing time from arrival to release to importer.

(3) The cargo processing system at the New Kansai Airport, will be discussed among all the parties concerned, including the customs authority, airlines, forwarders, customs brokers, exporters and importers.

In this deliberation process, the actual needs of distribution as well as the policy not to introduce the Narita-Baraki sorting criteria into the New Kansai Airport will be important factors.

(4) It is the policy of the Government of Japan that the following elements will be introduced at the New Kansai International Airport. Similar considerations would be given to other new or expanded international airports taking their cost and benefits into account.

-- Facilities adequate to permit importers to have their cargo expeditiously processed directly at the airport without transfer to an offsite import processing area ("hozei").

-- Cargo processing systems that make maximum use of the processing improvements such as those contained above in "Expeditious and Proper Import Procedures," e.g. NACCS, Pre-Arrival Examination System, Customs Intelligent Database System, as appropriate, to permit expeditious processing directly at the airport.

(5) With respect to customs clearance procedures, the Government of Japan aims to achieve release of low risk cargo processed under the Pre-Arrival Examination System to importers virtually immediately upon presentation of import declaration to customs, and will take the following measures:

(a) As the Pre-Arrival Examination System is expanded, the Government of Japan will encourage importers to increase voluntary utilization of

the system, in order to contribute to more expeditious processing of imports from arrival to release to importers. The Pre-Arrival Examination System will be installed within the Air-NACCS System in February 1993 to further enhance efficiency of the system.

(b) The Government of Japan intends to reach full utilization of the Customs Intelligent Datebase System (CIS) as soon as possible at all offices where the system is operational. Expansion of the use of CIS is expected to contribute to reducing the period of time between arrival and release of cargo to importers, through more efficient selective processing.

(6) For the purpose of achieving more expeditious and proper import procedures as a whole, the Government of Japan will enhance further coordination among the import-related agencies through the activities of the "Liaison Committee Among Import-related Agencies." Concerning, in particular, the computerized transactions of import procedures, the Government of Japan will promote computerization of the import-related offices, and plans to introduce the electronic interfaces between individual systems of import-related offices and the customs clearance information processing system of Japan Customs.

Prior to the introduction of the electronic interfaces, the Government of Japan will improve facsimile information network among the import-related offices for more effective information transmission. In the case of receiving documents to give permissions and/or approvals under import-related procedures other than customs clearance procedures through this network, Japan Customs will process such documents as valid.

(7) The Government of Japan and the Government of the United States will resume the Japan-U.S. Experts Group on Import Procedures, and the Group will regularly report to the SII principals on discussions at the meeting, status of implementation of the relevant measures, and other relevant matters, including the reduction of time for cargo release.

3. Deregulation

(1) Large-Scale Retail Store Law

Concerning the Large-Scale Retail Store Law (LSRSL), in succession to the deregulation measures for appropriate implementation of the law since May 1990, the amended LSRSL and Special Law on Exceptional Measures concerning Floor Space for Import Sales were enforced on January 31, 1992. These new legislations were introduced from the standpoint of sufficient consideration upon consumer interest, ensuring expedited processing, enhanced clarity and transparency of the coordination procedures, and consideration upon international request to Japan to increase imports. The summary of the change in the law and the corresponding reform in the procedures are as follows.

(a) The coordination processing period for opening stores is shortened to within one year.

(b) In order to enhance clarity and transparency of coordination procedures for opening stores, the Council for Coordination Commercial Activities was abolished, and the coordination is conducted by the Large-Scale Retail Store Council.

(c) In order to restrain separate regulations by local public authorities, necessary legal measures are provided.

(d) New opening or expansion up to 1,000m^2 of floor space for import sales in a large-scale retail store is exempted from coordination procedures after notification.

The amended LSRSL will be reviewed two years after the enforcement.

(2) Regulation of Premium Offers

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

Responding to changes in economic environment, Fair Competition Codes on premium offers are being reviewed, and 38 codes have already been reviewed by the end of FY 1991. The regulation of Fair Competition Codes on premium offers in 14 industries including chocolate was relaxed in FY 1990, and among them, the relaxation in Newspaper and Magazine Publishing Industries was related to advertisements with coupons. Furthermore, in FY 1991, the regulation of those in 12 industries (Processed Tomato Products, Instant Noodles, Import Liquor selling, Shochu, Japanese Sake, Medical Laboratories, Newspaper Publishing, Travel Agencies, Household Electric Appliances, Magazine Publishing, Publication Retailing, and Rubber Footwears) was relaxed. Review and relaxation as necessary of other codes on premium offers will be completed in FY 1992.

Furthermore, the FTC, from the viewpoint mentioned-above, has taken measures to clarify and review specific contents of premium and related regulations, and will continue such clarification and review, as appropriate.

(3) Regulation concerning liquor sales and other businesses

(a) As for the issuance of liquor sales licenses, the statement was made in the Final Report of the SII that "the Government of Japan has decided on front-loading licensing to large retail shops (with a floor space of more than 10,000 m^2), which are expected to sell more imported liquors," and also that "the issuance of licenses to all of those shops will be completed by the fall of 1993." In accordance with the Report, the Government of Japan has been putting the measure into practice in a steady manner, that is, the Government of Japan issued about 100 licenses for the period from September 1989 to August 1991 to the large retail shops and, in this manner, will issue about 50 licenses for the period from September 1991 to August 1992.

(b) On trucking business, the Trucking Business Law took effect on December 1, 1990. In addition, the MOT published "The guidance for flexible fare-systems on trucking business" in June, 1991, which contributes to making competitive environment among trucking companies.

4. Improvement of Trade Practices

(1) The FTC, with a view to securing transparency of the enforcement of the Antimonopoly Act, issued the "Antimonopoly Act Guidelines concerning Distribution Systems and Business Practices" (Guidelines) in July 1991. The Guidelines aim to contribute to deterring violations of the Antimonopoly Act and encouraging appropriate business activities, by means of providing guidance on the Antimonopoly Act with regard to distribution systems and business practices, and thus, ensuring the understanding on the part of domestic and foreign firms, trade associations and consumers, etc.

Part II of the Guidelines, keeping in mind manufacturer-distributor transactions relating to consumer goods, describes the Commission's enforcement policy of the Antimonopoly Act on restrictions which manufacturers may impose on their distributors and on abuse of retailers' dominant bargaining position vis-a-vis their suppliers, from the viewpoint of regulation of unfair trade practices.

The FTC, at the publication of the Guidelines, issued its statement that the FTC would endeavor to disseminate these Guidelines and vigorously enforce the Antimonopoly Act in accordance with the Guidelines, and continues to implement such policy.

After the issuance of the Guidelines, firms have actively addressed to establishing internal Antimonopoly Act compliance programs, making reference to the Guidelines, and the FTC has supported such voluntary efforts.

(2) MITI is encouraging the industries concerned to take steps to improve trade practices, based upon the guideline for improving trade practices which was presented in 1990. Private sectors, for the improvements of trade practices, have taken positive steps such as establishing conference on each industry and making reports concerning Automobile, Household Electric Appliances, Apparel and Synthetic detergent industries.

5. Import Promotion Measures

(1) The Government of Japan has been steadfastly implementing the import expansion measures. The details are as follows:

(i) Imports of manufactured products eligible for the Tax Incentives for Manufactured Imports increased by 18% in FY 1990 over the previous fiscal year, while the imports of manufactured products not eligible for the incentives increased by 8% during the same fiscal year.

(ii) The budget allocation for import promotion has increased up to ¥10.1 billion in the FY 1992 Budget from ¥7.2 billion in the FY 1991 Budget. The dispatch of Senior Trade Advisors and Merchandise Specialists, reception and dispatch of trade missions, organization of the Export-to-Japan Study Program seminars, provision of information, organization of exhibitions, and so on have been being implemented.

(iii) In FY 1991 the Export-Import Bank of Japan made ¥193.1 billion worth of loans for the imports of manufactured goods. During the same fiscal year the Japan Development Bank made ¥32.4 billion worth of loans for the facilities for imported products and for the promotion of foreign direct investment in Japan. In addition, the Export-Import Bank of Japan has introduced an import-promotion credit-line system for the companies that have drawn and publicized plans to increase imports of manufactured goods.

(iv) Further, the bill of the "Law on Extraordinary Measures for the Facilitation of Imports and Foreign Direct Investment into Japan" (provisional translation) has been put in force on July 16, 1992. Under the Law, "Foreign Access Zones" will be established at harbors and airports and in their vicinities with a view to assisting import-promoting businesses, and loan guarantee systems has been established for import financing for manufactured products whose imports are deemed particularly necessary and appropriate to promote.

(2) The Import Board compiled general requests and opinions related to import expansion and facilitation expressed at the first meeting of the Import Board, and reported them to the Trade Conference in October 1991. Thus following, the second meeting of the Import Board was held in November 1991. The Government of Japan held the third meeting in July 1992.

Partly based on the requests expressed, especially by American members, at the first meeting of the Import Board, the Committee for Drawing up and Promoting the Action Program agreed on "the Understanding on Government Procurement" in November 1991.

Further, in response to the various requests expressed at the second meeting of the Import Board, especially by American members, it was decided in March 1992 to convene a special subcommittee meeting of the Import Board (Ad Hoc Group Meeting), and the first Ad Hoc Group Meeting was held in April 1992 and the second in May 1992.

To note: it was stated in the Japan-U.S. Global Partnership Plan of Action of January 1992 that "The Government of Japan intends to intensify the work of the Japan Import Board".

*(3) Import/Foreign Investment Promotion Incentives

(i) Business Initiatives for Global Partnership

The Government of Japan, recognizing the significance and importance of the Business Initiatives for Global Partnership (BGP), will support the voluntary efforts made by Japanese companies through the BGP which is aimed at promoting imports to Japan, local procurement by Japanese-affiliated companies operating abroad, and cooperation between Japanese and foreign firms.

It is expected that many foreign companies will fully take advantage of such opportunities and establish cooperative working relationships with Japanese companies.

The Government of Japan, to grasp the development of private activities, will follow up voluntary plans of private firms concerning the BGP, and will explain at the SII meetings the outline of the progress of their activities under the BGP and evaluation of the result.

(ii) Import/Foreign Investment Incentives Programs

The "Law on Extraordinary Measures for the Promotion of Imports and the Facilitation of Foreign Direct Investment in Japan" (provisional translation) was enacted in March, 1992, to

promote imports to Japan and facilitate the foreign business activities in Japan. The Government of Japan will explain to the SII meetings on the implementation of the measures based on this law and evaluation of the result of the program.

(iii) JETRO Senior Trade Advisers

The Government of Japan will seek to increase the number of overseas JETRO Senior Trade Advisers, including to the United States, to facilitate Japanese corporate procurement and other import expansion efforts.

(4) The Office of Trade and Investment Ombudsman (OTO) decided the "New Review" on the standards, certification and inspection, and the "On the present activities of OTO" on June 27, 1991. In addition to receipts and processing of complaints, OTO is carrying out various measures which include the investigations of foreign standards and inspection, preparation of the documents concerning the resolutions of the complaints, and consideration of opinions and requests raised to OTO.

At the visit of the U.S. President Bush to Japan in January 1992, OTO intently considered the complaints on the standards and certification in such areas as auto, industrial machinery, chemicals, transportation equipment, processed food, cosmetics and pharmaceuticals which were raised to OTO as the matters of concern by the U.S. Government. All of the 14 auto issues and other 49 issues were resolved or will be resolved in a satisfactory manner. The "Global partnership plan of action" mentions that "The Government of Japan will continue to actively address market access issues raised by foreign companies and others through the OTO".

The Government of Japan addressed those opinions and requests which were filed with the OTO, at the OTO Executive Meeting in June 1992 after the report and deliberation at the OTO Advisory Council and others. Those covered the issues raised by the Delegation of the Commission of the European Communities, Japanese economic bodies such as KEIDANREN in addition to those concerning standards, certification, inspection and import procedures raised by the U.S. Government at the visit of the U.S. President Bush to Japan.

As of May 1992, OTO has accepted 475 complaints, of which 436 cases have already been processed since its establishment in January 1982. Of the processed

complaints, improvement measures have been taken for 144 cases, or about 30 percent of the total, while eliminating misunderstanding for 174 cases, or about 40 percent, thereby contributing to promotion of import. OTO shall continue to process complaints and to consider opinions and requests taking account of opinions of the OTO Advisory Council and the Special Grievance Resolution Meeting through the report to and the deliberation by them. Information on the receipt and processing of complaints is published and distributed home and abroad including foreign chambers of commerce and embassies in Japan in a timely fashion as a monthly, quarterly and yearly report.

(5) MITI decided to study trade practices with regard to production goods and capital goods to better understand practices in the industrial product and wholesale distribution sectors and started work on the study at the end of FY1991. The results of the study will be drawn up by the end of FY1992.

*(6) General Trading Companies

The Governments of Japan and the United States will conduct a joint survey on the roles of the Japanese Sogo Shosha. The period of the survey will be one year, and the results of the survey will be reported to the SII meetings.

The items for the survey will be as follows:

(i) the impact of Japanese Sogo Shosha in the United States on U.S. exports to Japan and other countries, U.S. investments in Japan, and technology transfer;

(ii) with respect to the same products, comparison of the U.S. market prices and Japanese market prices for imports into Japan handled by the Sogo Shosha together with price surveys including these prices of the same products which are transacted in channels other than Sogo Shosha with a view to highlighting the role of the Sogo Shosha in the determination of final prices, and,

(iii) relations including ownership links between Sogo Shosha and import-related infrastructure (docks, warehouses, etc.) to the extent feasible.

The Governments of Japan and the United States will set up a working group to discuss and determine contents and methods of the survey. The first meeting of the working group will be held by the end of September.

6. Standards and Regulatory Framework

(1) The Government of Japan has already committed itself to the basic guidelines that standards and certification framework on products based on provisions of national laws and other regulations should be at least approximately comparable to those of other countries in terms of market accessibility, as stated in the "Action Program for Improved Market Access" adopted on July 30, 1985. Along with these guidelines, the Government has been implementing the measures that would ensure "fair and equal opportunities" for foreign products with respect to access to the Japanese market, and "transparency in the policy making process in the establishing or revising of standards". Along with the same guidelines, the Government has been conducting a strict check-up thereafter in establishing or revising standards and certification framework.

The Government of Japan is committed to deregulation wherever possible and desirable in order to be responsive to the needs of entrepreneurs and consumers, while taking into consideration international norms as judged against practices of industrial countries.

*(2) In order to further enhance the openness of standards and certification framework and others, the Government of Japan will, based on the above-mentioned Action Program, continue to steadily observe the following principles.

(a) Developing Japanese standards in a transparent environment;

(b) Ensuring Japanese standards to be consistent, in principle, with international ones;

(c) Basing Japanese standards on objective and scientific data as much as possible;

(d) Simplifying and expediting inspection and other procedures as much as possible through such efforts as accepting foreign test data; and,

(e) When the lack of a safety standard is the only standards issue impeding market access, establishing new standards for products, including foreign ones, as swiftly as feasible, wherever new or foreign technologies can be demonstrated to the satisfaction of the Japanese Government to be safe. In making such a determination, the Japanese Government will pay full consideration to foreign analyses based not only on safe use but also on scientific data.

(3) Based on the above-mentioned principles, the Government of Japan has made efforts to improve market access, addressing those opinions and requests which were filed with the OTO by foreign chambers of commerce and industry in Japan, the Keidanren and others concerned with OTO activities. These steps will further improve market access in sectors such as industrial machinery, chemicals, transportation equipment, processed food, cosmetics, and pharmaceuticals.

(4) The Government of Japan has taken steps to be responsive to the standards concerns,

(a) Foods and toys etc. from the same lot arriving in Japan after the original safety testing certificate has expired need not be retested, if they are accompanied by copies of the original import notification and documentation on the safety results.

(b) With respect to foreign safety testing data on foods etc., a list of foreign testing laboratories that have been recognized by the Ministry of Health & Welfare (MHW) has been available.

*(5) Further, pursuant to complaints by foreign enterprises and others concerned, the OTO Advisory Council will identify problems concerning Japanese standards and certification framework and others, including datemarking system of foods, and put forward its opinions on necessary policy actions in a report to be published by around the end of March 1993, from the viewpoint of principles (a) to (e) in para (2). By the end of May 1993, the Government is subsequently to decide on responses, respecting duly these opinions in the report. This report will include the consideration on governmental regulations concerning market opening issues in all of the primary, secondary and tertiary industries.

*(6) The Government of Japan will positively take up specific complaints by foreign enterprises and others concerned, through such channels as meetings with foreign chambers of commerce and industry in Japan, foreign government representatives, and OTO missions to foreign countries. The Government will enhance the activities of the OTO with a view to facilitating such process. The OTO will promote further prompt and appropriate processing of raised complaints.

* New commitments

IV. Exclusionary Business Practice

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

The progress has been made as described below since the issuance of the Joint Report and the First Annual Report of the SII. Through such positive steps taken in these areas, fair and free competition has been further promoted in the Japanese market.

a. Enhancement of the Antimonopoly Act and its enforcement.

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

*c. Encouragement of transparent and non-discriminatory practices of private companies.

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

*e. Dispute Resolution.

*f. Increased Opportunities of Government Procurement.

1. Enhancement of the Antimonopoly Act and its Enforcement

(1) Resorting More to Formal Actions

The Fair Trade Commission (FTC) has rigorously dealt with activities violating the Antimonopoly Act and has strictly excluded such conduct through resorting more to formal actions. In FY 1989, the FTC made seven recommendations, 22 recommendations in FY 1990 and 30 recommendations in FY 1991.

The FTC also issued surcharge payment orders to 101 firms involved in 10 cartel cases, which amounted about ¥2billion (about $15.4 million) in FY 1991.

The FTC will continue to deal rigorously with antimonopoly violations through resorting more to formal actions.

(2) Ensuring Greater Transparency

The FTC has published the contents, including the names of the offenders, the nature of the offense and circumstances surrounding it, of all formal actions such as recommendations and surcharge payment orders.

Furthermore, since October 1990, the FTC has followed a policy of publishing all warnings other than in exceptional cases. 24 warnings were issued in FY 1991 and the names of the parties concerned and contents of the warnings in these 24 warning cases were made public.

The FTC will publish in its annual report description of the cautions issued during the relevant reporting period. Each discription will state the line of business in which the conduct occurred, and the nature of the conduct for which the caution was issued.

(3) Consultation and complaint from Foreign Firms

The FTC established the Consultation and Complaint Section for Foreign Firms in June 1990, and has dealt with consultations and complaints from foreign firms concerning the Antimonopoly Act. 14 consultations and complaints were received since the establishment.

The FTC will ensure that the Section works more effectively, and respond to consultations and complaints from foreign firms in a prompt and adequate manner and with strict confidentiality.

(4) Personnel and Budget of the FTC

The Government of Japan expanded the budget and personnel for the FTC, mainly aiming at the enhancement of the FTC's investigation department, from FY 1990 to FY 1992. Concerning investigation department, in particular, the total number of personnel for both headquarters and local offices was increased in a large extent (about 40%) from 129 to 178, and six new offices were created.

The Government of Japan will continue with its efforts to steadily improve and strengthen the FTC, focusing the enhancement of investigation department.

(5) Surcharges

The Government of Japan submitted the bill to revise the Antimonopoly Act to increase the level of surcharges in principle, by four times, to the Diet during the regular session last year, in order to enhance the deterrent effect against cartels. The bill was enacted on April 19, 1991, and the revised Antimonopoly Act took effect as of July 1, 1991.

The FTC will continue to vigorously enforce the surcharge system under the revised Act.

(6) Resorting to Criminal Penalties

a. The FTC will actively accuse to seek criminal penalties on the following cases, and this policy was made public in June, 1990:

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

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

In January 1991, Liaison Meeting on Criminal Accusations was established between the Public

Prosecutor's Office and the FTC, and the two agencies have been exchanging views and information regarding specific problems on individual antimonopoly violation cases, in order for criminal accusations to be brought in a smooth and appropriate manner.

Under the policy, the FTC, after holding the Liaison Meeting with the Public Prosecutor's Office concerning price-fixing case of wrap for business use, brought criminal accusations against eight manufacturers and their 15 executives and employees in violation of the Antimonopoly Act in November and December 1991. The Public Prosecutor's Office indicted them in December and the case is now on trial.

The FTC will continue to make efforts to exercise its accusation authority strictly and promptly and, where the FTC makes an accusation, the Public Prosecutors Office will continue to make special efforts to rigorously pursue such cases.

b. Recognizing the necessity to enhance the overall deterrent effect against antimonoploy violations, on March 27, 1992, the Government of Japan submitted the bill to revise the Antimonopoly Act to the Diet to raise the upper limit of criminal fines against firms from the current ¥ five million (about $ 40 thousand) to ¥100 million (about $ 800 thousand), on offenses of private monopolization, unreasonable restraint of trade and substantial restraint of competition by trade associations.

(7) The Damage Remedy System

a. In order that the damage remedy system be effectively utilized concerning antimonopoly violations on which the FTC's decisions have become final and conclusive, the FTC has been taking the following measures:

(a) The FTC has described and will describe its findings on the violations as concretely and clearly as possible in its document of decisions, so that any party suffering damage from violation of the Antimonopoly Act be facilitated to resort to damage remedy suits based on Section 25 of the Antimonopoly Act or Article 709 of Civil Code. Furthermore, in May 1991, in order to alleviate plaintiffs' (injured parties') burden of proof in damage remedy suits, the FTC made public specific standards concerning submission to the court and retention by the FTC for three years of materials and data regarding antimonopoly violations on which the FTC's decisions have become final and conclusive.

In October 1991, the FTC, based on the standards, submitted to the court materials and data, concerning a bidrigging case at the Yokosuka U.S. Naval Base, in which the FTC had issued surcharge payment orders, in a private suit related to damage claim by the U.S. Government (injured party).

(b) The FTC held "the Study Group on the Methodology for Calculation of Damages" consisting of scholars, and conducted its deliberations, in order to improve the content of the FTC's opinion based upon Section 84 of the Antimonopoly Act regarding causation between damage and violations, the amounts and calculation methodology of damages. The report of the Study Group was publicized in May 1991.

The FTC, paying due consideration to the report, will describe its views concerning the causation between violations and damages and the amount and calculation methodology of damages in its opinion to be submitted to the court upon request, and will attach materials and data which serve as a basis of its opinion to the possible extent.

(c) The FTC has conducted and will continue to conduct public relations activities in a positive manner, so that companies and consumers well recognize the significance and the role of the damage remedy suit system under Section 25 of the Antimonopoly Act and the measures by the FTC described above.

b. The FTC will also provide, upon request from the injured parties, or their representatives, i.e. attorneys, or the courts, with copies of the warning documents in cases where the warnings have been made public.

c. The Ministry of Justice, as stated in the First Annual Report, has conducted its basic study on whether the current filing fee for civil actions with huge amount in controversy should be reduced. As a result of the above mentioned study, the Government of Japan has concluded that such filing fees should be reduced in the view of realization of civil action system which would be utilized with ease adequately following the current changes in social and economic situations both domestic and abroad. The Government of Japan, therefore, has submitted a bill to the Diet to substantially decrease filing fees for civil actions with huge amount in controversy -- e.g. as for civil actions with amount in

controversy of more than two billion yen, their filing fees are to be reduced approximately to half or less than half. The bill became a law in May on passage by both Houses. And the law is to take effect on October 1, 1992.

(8) Effective Deterrence against Bidrigging

(a) The Government of Japan has been taking appropriate measures (such as the enforcement of the suspension of the designation) to eliminate bidrigging on government-funded projects. For example, with regard to AMA violations involving 66 companies in Saitama Prefecture, these 66 companies have been suspended from bidding for 1 or 2 months by the ministries and agencies of the GOJ and local governments. In accordance with provisions of Construction Contractors' Law, instructions were also issued to all the 66 companies to take such steps as requiring their executives and staffs to attend a training program. Moreover, procuring agencies will increase their vigilance against bidrigging activities on their procurements, and will on their own judgment report relevant information regarding such activities to the FTC. Furthermore, in the National Coordinating Committee for Implementation of Public Works Contract Procedures, procuring agencies were clearly directed to observe the above mentioned policies.

(b) The FTC has strictly enforced the Antimonopoly Act against bidrigging, and took formal actions against four cases in FY 1990 and FY 1991 respectively.

The FTC will continue to vigorously eliminate bidrigging.

(c) In reviewing the fines provided in the Criminal Code, the bill to revise the Criminal Code to increase the maximum fine against bidrigging from current one million yen to 2.5 million yen (among the highest in the Criminal code) was enacted on April 11, 1991. The revised Criminal Code took into effect on and after May 7, 1991.

*(9) International Contract Notification

The Fair Trade Commission (FTC) revised the Rules on Filing Notification of International Agreements or Contracts on March 30, 1992. Under the revised Rules,

international contracts involving licensing of trademarks or copyrights are excluded from filing requirements, and the scope of filing requirements on other types of international contracts are drastically reduced. This revision has so far resulted in a decrease in the number of notifications by approximately 85% from the same period of the previous fiscal year (May and June of FY 1991) levels and this trend is expected to continue. The JFTC confirms that antimonopoly enforcement concerning international contracts will not discriminate against the foreign parties to such contracts.

2. Government Practices

(1) Promotion of Administrative Reform

(a) The Government of Japan has steadily implemented the General Plan for the Promotion of Deregulation decided by the Cabinet on December 13, 1988, in particular, by enacting 23 deregulatory laws between 1989 and 1992. Last November, the Government of Japan issued the third follow-up report concerning deregulation.

(b) On December 28, 1991, the Cabinet affirmed a Cabinet Decision entitled "the Administrative Reform Plan of 1992," to promote further deregulation in accordance with the above-mentioned General Plan for the Promotion of Deregulation and the SII reports. In the 1992 Plan, the Government of Japan committed to the promotion of deregulation in the fields of distribution, telecommunications, finance, and others.

(c) Since its inauguration, the Third Provisional Council for the Promotion of Administrative Reform submitted to the Prime Minister several reports and opinions, including three reports on administrative reform for promoting internationalization and better quality of life, and a report for the introduction of uniform legislation for fair and transparent administrative procedures, etc.

In the Administrative Reform Plan of 1992 and the Cabinet Decision of June 30, 1992, the Government of Japan has made public its commitment to promote administrative reform, while paying maximum respect to the above-mentioned reports and opinions.

(d) The Council continues its work on administrative reform.

(2) Administrative Guidance

(a) Draft of the Administrative Procedure Law

The Third Provisional Council for the Promotion of Administrative Reform completed its deliberations on the Draft Administrative Procedure Law (Draft) in December, 1991. The Draft contains provisions applicable to administrative guidance. Such provisions on administrative guidance stipulate, among other things, that: (1) administrative guidance will be issued making clear its purpose, content, and responsible officer; (2) upon request by a party who has been given the administrative guidance, the ministry or agency will, in principle, provide a written document which will contain relevant information as mentioned in (1) above on the administrative guidance; and (3) when administrative guidance is issued for the same purpose to multiple parties, the guidelines of such administrative guidance will be established and published, unless there are special reasons not to do so which are generally described in the Explanation Section of the Draft. Through these provisions, the Draft is intended to ensure that administrative guidance is transparent and clear.

(b) The Interagency Understanding on the Criterion Applicable to Administrative Information Disclosure

In December 1991, Directors of the Documents and Archives Offices of all ministries and agencies met and adopted "The Interagency Understanding on the Criterion Applicable to Administrative Information Disclosure" (Criterion). The Criterion is a uniform criterion to be used by each ministry and agency in making their determinations whether to disclose government information pursuant to a request by parties.

Each ministry or agency is to apply the Criterion to each case, striving to disclose the documents under government control as much as possible from the point of view of securing public confidence in the government and utilizing administrative information.

The Criterion is applied to all documents (i.e., papers, graphs, photographs, film, magnetic tapes, etc.) managed by the ministries and agencies. Those documents are categorized into 23 cagetories

and the standards to decide whether to disclose such documents or not are described in each category in the Criterion. The grounds for refusal of disclosure common to each category (personal data, business proprietary information, information concering national security and foreign affairs, information on public safety such as criminal investigation, and information about decision-making process) are also described in the Criterion.

In December 1991, in the Administrative Reform Plan of 1992, the Cabinet adopted as its Cabinet Decision that respective ministries and agencies will "apply the Criterion precisely and aim at spreading the scope of disclosure."

In this Criterion each ministry or agency is to disclose documents relating to administrative guidance in principle.

(3) Advisory Committees and Study Groups

(a) The Interagency Understanding on the Criterion Applicable to Administrative Information Disclosure

As one of the categories described in the Criterion, documents concerning the meetings, inquiries, submissions, and proposals of Councils and Advisory Committees are in principle, required to be disclosed.

(b) The Government of Japan has been and will continue to make efforts to implement the principles stated in Part 2(3) of the Exclusionary Business Practices section of the Joint Report. In particular, continuing efforts are being made to hear the opinions of foreigners or representatives of foreign companies in due course of the deliberation of government-sponsored industrial advisory committees and study groups and to consider the participation of qualified foreigners in industrial study groups when such study groups address matters relevant to the interests of foreign firms.

Some of the examples of government-sponsored industrial advisory committees that have solicited foreign views since the adoption of the Joint Report are as follows: The Trade Conference, the Provisional Council for the Promotion of Administrative Reform, the Securities and Exchange Council, the Insurance

Council, the Committee on Foreign Exchange and Other Transaction, the Research Committee for Agricultural and Forestry Standard, the Industrial Structure Council, the Chemical Products Council, the Industrial Technology Council, the Council for Transport Technology, the Council for Tourism Policy, the Telecommunications Council, the Telecommunications Technology Council.

(4) AMA Exemptions

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

b. The FTC had independently held a study group consisting of scholars and other experts, and in July 1991 the study group published a report which contained the results of its deliberation. Among the proposals in the report, based on the recognition that the existing exemption systems and their administration should be reviewed, are limited use of the exemption cartel systems, including discontinuance of cartels whose effectiveness as a policy tool seems doubtful, and fundamental review of the exemption systems for resale price maintenance, including the possibility of withdrawing commodity designations.

*c. With regard to the exemptions from the application of the Antimonopoly Act (AMA), the Government of Japan recognizes that such exemptions should be kept at a minimum in order to maintain and promote fair and free competition in a free market economy. As recognized in the Third Report of the Administrative Reform Council, issued June 19, 1992, antimonopoly exemption systems can "limit fair and free competition on product prices, quality, and production volume, retain marginal businesses, and make it possible for a small number of companies to obtain excessive profits and, as a result, impede sufficient business efforts to supply goods and services with good quality and low prices, hurting consumer benefits." Respecting the Report fully, the Government of Japan will conduct a broad review of AMA exempted cartel systems under individual laws (as of June 1992, 47 systems under 28 laws) by the end of FY1995. In this review, the Government of Japan will quickly advance

the review of those AMA exemptions which, among others, have lost the necessity or substantive meaning in light of the changes in economic environment, the introduction of substitute measures and other factors, and those which have caused adverse effect through excessive restriction of competition, with a view to, in principle, eliminating or narrowing the scope of those AMA exemptions.

The Government of Japan will also take the following specific measures based upon the recognition above:

(a) Those cartels of textile industries which are exempted from the application of the AMA in accordance with provisions of Law Concerning the Organization of Small and Medium Enterprises Organizations will be abolished by the end of October 1995.

(b) With regard to those cartels which are exempted from the application of the AMA in accordance with provisions of Law on Extraordinary Measures for the Rationalization of the Coal Mining Industry, an amendment to the Law including the elimination of the related provisions was promulgated and became effective on March 31st, 1992, following its enactment in the 123rd Diet;

(c) The FTC, taking into account of the recommendations in the report published in July 1991 by the Study Group on government regulation, etc., and competition policy, conducted a thorough review of AMA exemptions on the resale pricing, including fact-finding surveys and extensive hearings from the industries concerned, consumers, academic experts and others.

As a result of such review, in April 1992, the FTC has decided that, concerning cosmetics and pharmaceuticals, designation of AMA exemptions which cover approximately half of the currently designated items will revoked, in principle, from April 1993 and the rest will be reviewed in 1998. The FTC will implement the above-mentioned measures.

*(5) Transparency and Due Process in Government Processes

In order to ensure further transparency in government practices, the Government of Japan will implement the following measures:

a. The Government of Japan will work at submitting a bill of the Administrative Procedure Law and a bill to

amend related provisions of existing laws to the next ordinary session of the Diet, in accordance with the outline of the draft of the law described in the recommendations of the Administrative Reform Council.

b. The Government of Japan will establish an appropriate interagency group to examine the preparation of guidelines concerning the formation and operation of government-sponsored industrial advisory committees and study groups with the view to ensuring transparency and reasonable opportunities to reflect views of interested parties, including those of foreign parties where appropriate.

c. The Government of Japan will make the existing review mechanism function in a smooth manner in order to effectively process complaint against administrative activities.

*3. Practices of Private Firms

(1) Procurement Practices of Private Firms

The Minister of International Trade and Industry issued his statement, July 26, 1990, in order to encourage private firms to promptly make their procurement procedures transparent and non-discriminatory against foreign goods. The Government of Japan reaffirms the principles of open, transparent, and non-discriminatory corporate procurement contained in the MITI statement. To this end, MITI conducted surveys both in 1991 and 1992. The 1992 survey results collected from 329 major companies (25.5% response rate) indicate steady progress in a number of areas for example: 81.8% of the respondents had established a specific department to handle overseas procurements (up from 65.4% in the 1991 survey) and 79.6% had established internal procurement procedures (up from 67.6% in the 1991 survey). Areas showing limited progress include: 32.1% of the respondents had created manuals on observance of laws related to procurement activities such as the AMA and 36.5% of respondents indicated they had established the system to ensure transparency and avoid discrimination in procurement. The surveys show that efforts are being made by Japanese businesses to realize open and transparent procurement activities. At the same time, there is a need to do more to improve transparency and avoid discrimination in procurement practices. In addition, the Government of Japan will initiate its third statistical survey by the end of the FY1992.

Recognizing the importance of encouraging, from an international view point, private firms to make their procurement procedures and practices transparent and non-discriminatory vis-à-vis foreign suppliers, the Government of Japan will expand upon its efforts to encourage private firms, among others, to develop and publicize company-specific pamphlets on procurements and to advance their efforts to develop internal programs to ensure compliance with relevant laws and regulations concerning procurements.

The Government of Japan will examine the possibility that a seminar, with the participation of interested Japanese, U.S., and other foreign firms, will be held on the procurement practices of private Japanese firms with the leading role of appropriate private organizations. The Government of Japan hopes to have the cooperation of the U.S. Government: in (1) inquiring whether U.S. firms wish to volunteer to speak on their own procurement practices; and (2) identifying and notifying select U.S. companies that might be interested in attending the seminar. In the seminar, matters related to transparency and non-discrimination in procurement procedures will be discussed with the participation of interested Japanese, U.S., and other foreign firms.

The Government of Japan encourages the cooperative efforts of Japanese industry and U.S. industry to conduct seminars in the United States to assist U.S. firms in expanding sales opportunities with Japanese subsidiaries in the United States. Examples of such cooperative efforts were the seminars between the American Electronics Association and the Electronics Industry Association of Japan held in 1992. The Government of Japan will encourage further efforts along these lines to be expanded to other industries, where appropriate.

The Government of Japan highly appreciates, as a voluntary undertaking, the intention of the Japan Federation of Economic Organizations (Keidanren) to prepare a list of contact points for procurement made public voluntarily by its member firms and to make available pamphlets on procurement voluntarily submitted by its member firms as a follow up to the "Guidelines of Procurement Policies", which were produced by Keidanren and released on April 1990.

(2) Trade Association

Reconfirming that trade associations play a useful role in various dimensions of economic and social development, and that their activities should not hinder foreign trade and investment in Japan, the Government of Japan will take the following measures:

(1) The FTC will vigorously deal with violations of Antimonopoly Act (AMA) by trade associations and monitor their activities. Furthermore, the FTC will advance the review of matters relating to trade associations' activities from a viewpoint of competition policy, in the Study Group on Trade Associations, which has been held since January 1992. The Study Group is examining the organization and activities of trade associations with a view to identifying the implications for antimonopoly policy of the activities of trade associations. The results of such review and any proposals will be published. The FTC, based on the results, will take appropriate measures as necessary.

(2) The Government of Japan reconfirms that it will pursue policies based upon free and fair market principles and make efforts to ensure that the activities of trade associations which act as representatives of each industry and commerce are open, transparent, and non-discriminatory in order to improve market access for foreign firms in the Japanese market.

To this end, and because certain trade associations play a major role in information dissemination, industrial and market research, industry coordination efforts and in some instances the development of standards, among other functions, each ministry of the Government of Japan will undertake the following;

(i) prepare and make available a list of major trade associaitons under its jurisdiction;

(ii) encourage such trade associations to prepare reports, describing their activities, membership and on-going activities with the Government of Japan, to the extent possible; and

(iii) compile such reports and make them avilable to interested foreign parties.

4. Effective Patent Examination

Regarding the harmonization of the patent system and its practices, the Government of Japan has actively participated in discussions at Multilateral forums such as WIPO and GATT-TRIPs, etc. and has made its utmost efforts to promote the discussions there. The Government of Japan, together with the U.S. Government, will actively participate in these discussions and contribute to concluding the treaty as well as other initiatives.

As for the average patent examination period of Japan, the Government of Japan has vigorously promoted comprehensive policy measures to expedite patent examination disposals. And through such comprehensive policy measures, there has been improvement in the situation of delays in patent examination. The average patent examination period of Japan has already been reduced from 37 months in 1988 to 30 months in 1991.

Furthermore, the budget for FY 1992 will greatly expand our comprehensive policy measures. Thus the budget will include an increase in the prescribed number of patent examiners and other officials involved in patent disposals by 66 persons (an increase in patent examiners and other relevant officials by 66 persons in FY 1991), as well as funding for further promotion of the paperless system (an increase in budget of 9% over FY 1991), for expansion of contracting with a specialized outside agency for prior arts search necessary for patent examination and for use of outside patent experts to assist patent examiners in examining patent applications (an increase in budget of 43% over FY 1991).

Through continued promotion of these comprehensive policy measures, the Government of Japan will make its utmost efforts to implement the contents of the final SII report.

* The Government of Japan will issue a report, by the end of 1992 and 1993, to indicate in detail the content of comprehensive policy measures which have been taken and how much these measures have shortened the average period of patent examination by 1991 and 1992, respectively, as an overall effect of such comprehensive policy measures.

*5. Dispute Resolution

(1) Review of Civil Litigation Procedure

The GOJ fully supports increased access to civil justice. In this regard, irrespective of what is being done in SII, the Ministry of Justice began a study in July 1990 of amendment of the Civil Procedures Code in the Legislative Council. The Council is reviewing all aspects of the provisions of the Code as to civil litigation procedure. Since these provisions as a whole were revised in 1926, many changes have occured in the Japanese society and economy, and civil disputes have become more complicated and been diversified along with development of the society. The Council is now continuing its review, having the goal of the end of 1995 in mind to formulate

the outline of draft revisions to the Code. The MOJ will continue to assist the work of the Council so that necessary improvements to the civil litigation system, making the civil litigation procedure more suitable in filling the needs of today's society, and civil litigation more usable and understandable, can be realized.

(2) New Mechanisms for Resolving International Commercial Disputes

International commercial arbitration schemes in Japan have been improved, as evidenced by the adoption of the UNCITRAL arbitration rules by the Japan Commercial Arbitration Association. Through such improvement, the international commercial arbitration schemes in Japan have definitely become comparable to those of other countries.

The Government of Japan will support efforts by the Japan Commercial Arbitration Association to enhance public relations and other activities for effective resolution of international commercial disputes by schemes other than the civil litigation system.

The Government of Japan will also actively support endeavors by the Japan Commercial Arbitration Association to examine, keeping close contact with the arbitration organizations in foreign countries, possible additional measures for resolving international commercial disputes in further effective and expeditious manner through schemes other than the civil litigation system, through the establishment of a study group. The Government of Japan will welcome if JCAA voluntarily will decide that the study group includes foreign members who are knowledgeable about international commercial dispute resolution mechanisms.

6. Government Procurement

In the interest of expanding government procurement opportunities based on the principles of non-discrimination, transparency, and fair and open competition, the GOJ has taken a series of steps with regard to government procurement, and will take additional steps set out below with a view to seeking to further improve its procurement practices.

(1) It should be noted that since April 1992, the Government of Japan has taken a number of new steps with regard to government procurement in accordance with the understanding in November 1991 on measures to expand opportunities. They include: (a) the enhancement of the

transparency of bidding procedures such as adding new items to the English summary, listing inquiring offices in tender notices in the "Kampo", and the extension of the bid time; (b) lowering the threshold for application of the GATT Government Procurement Code (GATT Code) procedures from SDR 130,000 to SDR 100,000; (c) the expansion (addition of 28 organizations) of the coverage of quasi-governmental organizations; and (d) the announcement of large-scale procurement plans (above the threshold of SDR 1 million) in the "Kampo", at an early stage of each fiscal year.

(2) Further, the Government of Japan reconfirms the government procurement principles, established under the GATT Code, or set forth in the "Action Program for Improved Market Access" of 1985, that competitive bidding should be adopted and single tendering should only be used in exceptional cases, and that the procurement of competitive foreign products will be expanded and the transparency of the government procurement procedures further enhanced.

In accordance with such principles, the GOJ will take the following steps from April 1st 1993:

-- Single-tendering will be used only in those cases which are justified in accordance with procedures of the Code so that the use of single-tendering will be held to a minimum, and single-tendering will not be used to favor domestic suppliers.

-- Lists of individuals responsible for procurement in each procurement entity (Ministry, Agency or quasi-governmental organization to which either the GATT Code, the Action Program of 1985, or the Action Program of 1991 is applied.) will be made available to interested foreign and domestic parties on a non-discriminatory basis. Such lists will include action officers, not just those nominally responsible for procurement. Further, tenders published in the "Kampo" will include names of sections and officials responsible for the procurement. Names of other relevant officials will be made available upon request through the officials named in the "Kampo."

-- The procurement entities will seek further to simplify and unify qualification procedures and application forms among themselves. This will include keeping qualification requirements to the minimum necessary for determining supplier capability and other related factors. Further, the procurement entities will publicize the existence of qualified suppliers lists and the steps necessary to be added to those lists on a regular basis.

-- At no time may a procurement entity deny an interested supplier the opportunity to be added to a qualified supplier list and all inquiries regarding such lists will be promptly answered so as to permit qualification without delay through examination on a regular or ad hoc basis.

-- The procurement entities will disseminate among procurement officials information related to the formulation of specifications in a neutral manner including the formulation of performance specifications. Training programs for procurement officials will be implemented.

-- All potential foreign and domestic suppliers will be accorded equal access to pre-solicitation information, where available, and provided with equal opportunities to participate in such pre-solicitation phase. In this regard, the procurement entities are encouraged to conduct explanation sessions even prior to publishing tender notices, where necessary, such as in cases of especially complex procurements.

-- A seminar on government procurement will be held at an early stage of every fiscal year, at which government procurement officials make presentations about the procurement schedule of large-scale projects announced in the "Kampo". At the same time, procurement officials will be available to explain government procurement procedures. At the seminar, foreign vendors and others may make presentations to those officials.

(3) In addition, the GOJ will expand the scope of organizations and the areas of coverage and provide bid challenge procedures based on the result of negotiations on the GATT Code.

(4) The Government of Japan will take the following additional steps for the effective deterrence of practices which infringe the Antimonopoly Act (AMA), including bid-rigging.

-- The procurement entities will assign a contact person with the FTC to provide information concerning practices that may violate the AMA.

-- Training programs for procurement officials from the procurement entities will be implemented from JFY 1993, from a viewpoint of preventing antimonopoly violations, in particular, in order to improve procurement officials' identification of, and collection of relevant information concerning,

bid-rigging activities. In this regard, the FTC will advance cooperation with the procurement entities, in terms of developing such training programs and also will provide lecturers and written materials to the procurement entities.

-- The GOJ will seek to ensure the effective deterrence of bid-rigging through strict enforcement of the AMA, suspending of the designation of those companies that have been involved in the bid-rigging, and other means. In this regard, the GOJ, through civil suits where appropriate, will give consideration to seeking to recover damages suffered by the GOJ as a result of unlawful bid-rigging, when such damages are identified.

*New Commitment

V. Keiretsu Relationships

The Government of Japan, recalling that there are certain aspects of economic rationality of Keiretsu relationships, in response to concerns that Keiretsu relationships may give rise to anti-competitive business practices, negatively affect foreign direct investment, and promote preferential group trade, reaffirms its intention to take necessary steps to make Keiretsu relationships more open and transparent.

The Government of Japan has implemented a wide range of measures in the following areas discussed in the Joint Report so that business transactions among companies with the background of Keiretsu relationships do not hinder fair competition and transparent transactions and thereby have an exclusionary effect on the entry of foreign firms into the Japanese market. In addition, the Government of Japan has been implementing a wide range of measures to facilitate the entry of foreign firms into the Japanese market.

a. Strengthening the Function of the Fair Trade Commission

b. Foreign Direct Investment

c. Revision of the Take-Over Bid System

d. Enhancement of Disclosure Requirements

e. Reexamination of the Company Law

1. Strengthening the Function of the Fair Trade Commission

(1) The Fair Trade Commission (FTC) has strengthened its monitoring of transactions among Keiretsu firms, to determine whether these transactions are being conducted in a way that impedes fair competition.

(2) The FTC, with a view to securing transparency of the enforcement of the Antimonopoly Act, issued the "Antimonopoly Act Guidelines Concerning Distribution Systems and Business Practices" (Guidelines) in July 1991. The Guidelines aim to contribute to deterring violations of the Antimonopoly Act and encouraging appropriate business activities, by means of providing guidance on the Antimonopoly Act with regard to distribution systems and business practices, and thus, ensuring the understanding on the part of domestic and foreign firms, trade associations and consumers, etc.

Part I of the Guidelines keeping in mind producer-user transactions relating to producer goods and capital goods, describes the Commission's enforcement policy of the Antimonopoly Act primarily on business practices effected to create or enhance continuous transaction relationships or conducted on the strength of such relationships, which may result in hinderance of new entries of firms into a market or exclusion of existing ones from the market chiefly from the viewpoint of regulations of unreasonable restraints of trade and unfair trade practices.

The FTC, at the publication of the Guidelines, issued its statement that the FTC would endeavor to disseminate these Guidelines and vigorously enforce the Antimonopoly Act in accordance with the Guidelines, and continues to implement such policy.

After the issuance of the Guidelines, firms have actively addressed to establishing internal Antimonopoly Act compliance programs, making reference to the Guidelines, and the FTC has supported such voluntary efforts.

(3) The FTC, in order to grasp actual conditions of corporate groups, conducted research on interlinkages among member companies and intra-group transactions within the six major corporate groups. The result of the research, which covered mainly FY1989, was published in February 1992.

The FTC, from a viewpoint of competition policy, will continue to monitor the functioning of the six major corporate groups, and to conduct regular surveys on the actual conditions.

The FTC has also conducted surveys on actual conditions of transactions among companies in specific industries from the viewpoint of competition policy. In June 1991, the FTC published the result of the surveys on continuous transactions in four specific industries (Household Electric Appliances Manufacturing, Shipbuilding, Synthetic Fiber Manufacturing, and City Gas Service). The FTC has commenced surveys in other four industries (Paper, Glass, Automobiles, and Autoparts), and the result of the surveys will be published. The FTC will take such action as necessary to remedy anti-competitive exclusionary behavior in case where such behavior may have been revealed in the surveys.

2. Foreign Direct Investment

(1) A bill to amend provisions of the Foreign Exchange and Foreign Trade Control Law concerning foreign direct investment and importation of technology was approved by the Diet in April 1991, as is stated in the SII Final Report.

Thereafter, the Government of Japan promulgated the Cabinet Order, Ministerial Order, Public Notice etc. concerning the amended Law, as is stated in the First Annual Report of SII. The amended Law has been put into effect since January 1, 1992.

The following is the outline of the new regime of foreign direct investment and importation of technology.

1) Foreign Direct Investment

(a) The old procedures that required prior notification for every foreign direct investment have been revised to the procedures under which almost all investments, except the cases as investment in industries related to national security or related interests and in four sectors as reserved under Article 2 of the Code of Liberalization of Capital Movements of OECD, could be executed upon the judgment of foreign investors and they have only to submit ex post facto reports to the authority after the execution.

(b) The Public Notice which was published on December 21, 1991 includes an extensive list of all sectors clearly excluding those which concern national security or related interests as described in Article 3 of the Code and those as reserved under Article 2 of the Code, and thus requiring only ex post facto report. Consulting this list, foreign investors can easily judge whether they are expected to submit an ex post facto report or file a prior notification; hence, legal procedures have been rendered more transparent.

(c) This list is prepared on the basis of the most fractionalized classification of The Standard Industrial Classification for Japan (SICJ). As a result, transparency has further increased and a broader range of sectors have been enumerated in this list. While the old procedures required prior notification for every foreign direct investment, sectors enumerated in this new list for ex post facto reporting cover the greater part of sectors listed in SICJ, thereby openness of the regime has been substantially strengthened.

The sectors on the list which are related to national security-aircraft, ordnance, atomic power and space development-require prior notification. They are identified in the Notes alongside the table of the list. However, the number of those sectors is limited.

(d) It should be emphasized that foreign direct investments in those sectors which are not enumerated in the list remain under prior notification procedures, but those foreign direct investments can not be restricted, unless they, if executed, are deemed to threaten national security or related interests, or might adversely and seriously affect smooth performance of the Japanese economy.

That is to say, the provision of the Law stipulating "it might adversely and seriously affect the smooth performance of the Japanese economy" will be used to further limit the application of restrictions in the sectors reserved under the OECD Code.

(e) The Government of Japan will continue to review the list, reflecting the changes of the economic circumstances and the development of the discussions in the OECD.

In the interest of promoting foreign direct investment, the GOJ recognizes that restrictions to FDI should be kept to a minimum. Therefore, recognizing the Policy Statement on the Openness of Japanese Foreign Investment Policy issued in June, 1990, and the objectives of the OECD Code of Liberalization of Capital Movements, the GOJ continues to review carefully its reservations with regard to the sectors requiring prior notification only for economic reasons under the Foreign Exchange and Foreign Trade Control Law within the framework of the OECD.

* In line with the above mentioned statement, the GOJ has amended provisions of the Foreign Exchange and Foreign Trade Control Law, and adopted several measures to facilitate the foreign business activities in Japan. As a part of such FDI policy, the GOJ will undertake, by the time of the next annual report of SII follow up, through an appropriate organ to compile and publish a guide on investing in Japan for the convenience of foreign investors. This guide will include, among other information, a description of the new regime of foreign direct investment, a detailed list of sectors and the corresponding SICJ codes requiring only ex post facto report and a description of incentive programs made available by the GOJ.

2) Importation of technology

(a) Ex post facto report procedures have been also introduced for importation of technology. As an exception, importation of technology could be restricted when it satisfies the same criteria below as applied to foreign direct investment.

(i) Importation of technology for which there is no obligation of liberalization under the Code of Liberalization of Current Invisible Operations of OECD, and

(ii) Among such importation of technology under item (i) above, those which, if executed, are deemed to threaten national security or related interests, or might adversely and seriously affect the smooth performance of the Japanese economy.

(b) Under the new regime, only 5 technologies concerning national security or related interests remain under prior notification procedures. They are technologies related to aircraft, arms, explosive manufacturing, atomic power, and space development. Other technologies require only ex post facto report.

(2) The low-interest loan facility offered exclusively to foreign companies and Japanese affiliates of foreign companies by such financial institutions as the Japan Development Bank (JDB) was drastically expanded or newly established in June, 1990.

The budgetary measures in the FY 1992, furthermore, will be taken for the reduction of the interest rate applied to the relevant projects contributing to import expansion and international exchanges enhancement.

In addition to arranging seminars and missions for potential investors which have been implemented by JETRO, the Government of Japan has increased its fiscal 1992 budget for JETRO in order to enable it to further implement measures such as designating advisors on investment at its overseas offices.

3. Revision of the Take-Over Bid System

Regarding the Take-Over Bid (TOB) System, as is stated in the SII Final Reports, an amendment bill of the Securities and Exchange Law to revise the TOB system was approved by the Diet in June 1990, thereafter the revised system has been placed into effect since December 1, 1990.

4. Enhancement of Disclosure Requirements

(1) Regarding the so-called 5 percent rule, which requires the disclosure of substantial shareholding as is stated in the SII Final Report, an amendment bill of the Securities and Exchange Law to introduce the rule was approved by the Diet in June 1990, thereafter the rule has been placed into effect since December 1, 1990.

(2) Among the measures to enhance the disclosure requirements related to the Keiretsu problem, in relation to enhancement of reporting of related-party transactions, disclosure of the consolidated financial statement in the primary annual statement and inclusion of sales amounts by major customers in unconsolidated financial report, the Government of Japan promulgated a ministerial ordinance on December 25, 1990 that incorporated the whole contents that were stated in the SII Final Report. These measurers have been implemented from the business year beginning on or after April 1, 1991.

With respect to the rule for segmented financial reporting, it was described in the SII Final Report that sales amounts and operational profits and losses by industry as well as sales amounts in a home country and in abroad would be disclosed. The Government of Japan, in accordance with the Report, has implemented this rule from the business year beginning on or after April 1, 1990.

* The GOJ considers it important to further improve the scope of segmented disclosure requirements and recognizes that standards of disclosure in other major industrial countries include information by overseas subsidairies by geographic regions.

The GOJ agrees to report to the 1993 follow-up meeting of the SII on the state of GOJ review with a view to possible implementation for the purpose of furthering investor protection.

*(3) In order to enhance deterrent effect of the penalties against corporations violating the Securities and Exchange Law, the Government of Japan has submitted a bill to the Diet which includes increased penalties against failures to disclose required information or fraudulent disclosure. The bill was approved on May 29.

5. Reexamination of the Company Law

The Ministry of Justice has been seriously pursuing the goal of next amendment of the Commercial Law as

evidenced by the swift resumption of the Legislative Council following the enactment of the amended Commercial Law in June, 1990. The Legislative Council has been currently advancing the deliberation on the necessity to examine the items raised in the SII Final Report and the First Annual Report of SII Follow-up as well as on those on the original agenda of the Council.

* From the viewpoint of enhancing the disclosure requirements and the shareholders' rights in the Commercial Law, the Legislative Council has been currently examining such specific issues as improving shareholders' access to corporate financial books and records by relaxing share requirements needed for access to a meaningful extent, and facilitating derivative lawsuits. It is continuing the examination on the issue of simplifying the rules on mergers and acquisitions. It has also commenced its reexamination of restrictions on the companies' repurchase and holding of their own shares.

The Ministry of Justice will seek to further expedite such discussions of the Legislative Council, and will submit a bill for amending the Commercial Law to the Diet immediately after the Recommendation of the Legislative Council is available and consultations with other related Ministries are concluded.

The GOJ will use its best efforts to ensure that amendments to the Comercial Law will enter into effect at an early date, and will report at the next SII meeting on progress.

The Government of Japan expects that the Japanese Companies will operate shareholders' meetings properly according to the provisions of the Commercial Law. The GOJ confirms that the Commercial Law enables shareholders to exercise their voting rights through their proxies and to exercise them disunitedly, and it also expects that the parties concerned will give their careful considerations to avoid possible obstacles to the exercise of shareholders' voting rights by foreign shareholders.

VI. Pricing Mechanisms

Based upon the recognition that it is undesirable, in realizing a high quality of life, for large and unreasonable price differentials between domestic and overseas markets to continue to exist for a long time, the Government of Japan has been implementing policies to adjust the differentials, and the policy measures have been implemented as follows after presenting the First Annual SII Follow-up Report.

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

b. Promotion of Deregulation

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

(1) The adjustment of price differentials between domestic and overseas markets has been pursued, from a consumer-oriented standpoint, mainly by the Government-LDP (Liberal Democratic Party) Joint Headquarters for Adjustment of Price Differentials between Domestic and Overseas Markets. The Headquarters reviewed, in its fifth meeting held on May 26 this year, the implementation of measures that it had acknowledged to be taken with a view to adjusting the price differentials.

(2) The implementation of the measures has brought about a number of concrete results such as:

- The amendments of the Anti-Monopoly Act and the Large-Scale Retail Store Law;
- The lowering of various prices for public utilities such as telephone charges;
- Wider public interest in comparative price information, such as that included in the two SII Joint Price Surveys;
- The creation of the Foreign Access Zones (FAZ) for the further promotion of imports; and
- The review of the exemption from the Anti-Monopoly Act with respect to resale price maintenance.

(3) The Government intends to continue its efforts to implement the measures further.

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

The two governments have agreed, despite the description at point 2.(2) of the Pricing Mechanisms section of the SII Joint Report, that the independent surveys by the Japanese government agencies conducted in the framework of the SII have finished in 1991, and that any survey of price differentials conducted as part of SII should be hereafter conducted jointly by both governments, in order to establish a common understanding for proceeding with the SII talks.

3. Promotion of Deregulation

(1) The General Plan for the Promotion of Deregulation has been steadily executed; 23 deregulatory laws have been enacted as of June 1992. Last November, the third follow-up report was made public.

(2) On December 28, 1991, the Cabinet made a decision titled "The Administrative Reform Plan of 1992", to promote deregulation in accordance with the General Plan for the Promotion of Deregulation and the reports of SII.

(3) Since its inauguration, the third Provisional Council for the Promotion of Administrative Reform (PCPAR) has submitted to the Prime Minister several reports and opinions; two reports on administrative reform for promoting internationalization and improving quality of life, and a report for the introduction of uniform legislation for fair and transparent administrative procedure, etc.

In the "Administrative Reform Plan of 1992", the Government has made public its commitment to promote administrative reform, paying maximum respect to, and, in accordance with, these reports and opinions.

On June 19, 1992, the third PCPAR made public the third report on administrative reform for promoting internationalization and improving quality of life. The Government has made its commitment to promote adminstrative reform, paying maximum respect to, and, in accordance with, this report.

STRUCTURAL IMPEDIMENTS IN THE U.S. ECONOMY

I. Saving and Investment Patterns

During 1991 the U.S. current account deficit declined substantially to $9 billion from $92 billion in the previous year, taking into account the one-time $43 billion positive effects of Operation Desert Shield/Desert Storm. Reducing the current account deficit remains an important goal of U.S. economic policy. An increase in the U.S. saving rate would make an important contribution toward reducing the deficit. An increase in the saving rate would also contribute to a lowering of long term interest rates and would increase the incentive to invest which in turn would increase both productivity and the rate of economic growth. Since the Report of May 1991, the Administration has taken several steps intended to promote increased saving by both the private and public sectors. These steps, as elaborated in the following sections, should facilitate an increase in the U.S. saving rate.

I.A Update on the Federal Budget Deficit

Controlling the Federal budget deficit is a necessary step in order to increase overall saving in the United States. Federal deficits reduce saving in the economy by channelling resources mainly to public consumption. The Administration's top budget priority has been, and continues to be, the elimination of the overall consolidated Federal Budget deficit. The enforcement provisions embodied in OBRA 90 have been implemented in order to attain this goal, though all of the intended effects have not materialized yet due to the recession which has had a significant effect on revenue.

In the July, 1992 Mid-Session Review of the Budget the Administration has projected a total budget deficit of $333.5 billion for FY 1992, down from $399.7 billion estimated in February principally due to a deposit insurance change of $69.1 billion. The projected deficit represents 5.7 percent of projected GDP, compared with 4.8 percent in FY 1991 and 4.0 percent in FY 1990. The budget deficit for the first nine months of FY 1992 (through June, 1992) was $227.7 billion, versus $178.1 billion for the same period last year.

The increase projected in the estimated deficit for FY 1992 reflects several factors, most notably technical and economic adjustments that present a more realistic assessment of the effect of existing laws, the impact of a weaker-than-anticipated economy on revenues and outlays, and the cost of resolving insolvent financial institutions. These increases in the budget deficit are perceived to be temporary by the Administration; further efforts are needed to make steady progress on reducing the structural deficit (the deficit excluding cyclical components) in FY 1993, compared to FY 1992, and after.

- o After slowing in 1989, the U.S. economic expansion ended in July 1990. Economic growth in the fourth quarter of 1991 was 0.4 percent; recent data indicate first quarter 1992 growth was significantly higher, 2.7 percent. The

sluggish economy has generated substantially lower levels of Federal revenues than anticipated and higher-than-expected Federal outlays for those programs affected by the downturn.

- The economic outlook for 1992 has improved somewhat: the consensus among private economists is that the U.S. economy has experienced a shallow recession and growth is now beginning to resume. The revenues and outlays in the 1992 Mid-Session Review for FY 1993 are based on assumed rates of of 5.8 percent (current dollars) and 2.7 percent (constant dollars) economic growth in CY 1992 (fourth quarter over fourth quarter).

o The financial transactions of the Resolution Trust Corporation (RTC) and other deposit insurance programs, now classified as "on-budget", have severely aggravated projected Federal budget deficits in the near-term. For example, these transactions are projected to result in net outlays of $66.3 billion in FY 1991, $11.0 billion in FY 1992, $59.4 billion in FY 1993, and $26.7 billion in FY 1994. In the longer-term, however, the sale of assets acquired from failed financial institutions is expected to lead to a net inflow of revenue: an estimated $28.1 billion in FY 1995, $22.6 billion in FY 1996, and $21.9 billion in FY 1997. Moreover, despite their magnitude, RTC transactions are unlikely to have any significant impact on the national saving rate or the U.S. current account.

- Unlike most other on-budget expenditures and receipts, RTC transactions have little effect on interest rates and the overall economy. The RTC's transactions would not induce depositors to change the level of deposits they hold or other aspects of their saving behavior.

- The cyclical component of the budget deficit was estimated in the February Budget at $53 billion in FY 1992 and $50 billion in FY 1993. The budget estimates also reveal an increase in the structural deficit in FY 1992. A resumption in the reduction in the structural deficit of $41 billion, however, is forecast for FY 1993, and a $28 billion decline in FY 1994.

- The Office of Management and Budget estimates the structural deficit by subtracting from the consolidated deficit the estimated cyclical portion of the deficit. In addition, OMB also deducts the net outlays for deposit insurance in order to derive an adjusted structural deficit.

- The 1992 and 1993 budgets contained estimates of the adjusted structural deficit -- the actual deficit adjusted to remove a cyclical component and outlays and receipts for deposit insurance. The

estimated cyclical components, however, were estimated quite differently for the 1992 budget and for the 1993 budget; the cyclical component of the 1993 budget deficit estimate in the 1992 budget was $34 billion, while the corresponding figure in the 1993 budget increased to $50 billion. At the same time, the adjusted structural deficit for FY 1993 increased from $124 billion in the 1992 budget to $227 billion in 1993. The changes in estimating methodology between the two budgets include: a change in the high employment benchmark period (from 1988Q4 to 1990Q3); the benchmark changes associated with the shift from use of GNP to GDP and the rebasing from constant 1982 dollars to constant 1987 dollars; plus a significant shift in the base economic forecast between January 1991 and January 1992 (with a consequent implicit shift in potential GNP/GDP).

- In addition, Treasury significantly reestimated the yield of the Federal tax system between the 1992 and 1993 budgets, substantially changing the estimated level of the structural deficit (and, to a lesser extent, the cyclical component). Thus, the 1992 and 1993 budget structural deficit estimates, while each internally consistent over a period of years out to 1996 and 1997, respectively, should not be compared to each other in an effort to discern a progression of change in the structural deficit outlook over time.

Revenue Developments

The President's Mid-Session Review of the budget for FY 1993 projects revenues of $1,162.9 billion, an increase of $87.2 billion (8.1 percent) over FY 1992. Of the total:

o $507.0 billion (44 percent) is expected from individual income taxes;

o $444.5 billion (38 percent) is expected from social insurance taxes;

o $112.2 billion (10 percent) is expected from corporate income taxes;

o $48.0 billion (4 percent) is expected from excise taxes;

o $51.3 billion (4 percent) is expected from other taxes, fees, and receipts.

On March 20, 1992 the President vetoed "The Tax Fairness and Economic Incentives Act of 1992" because it included a number of tax increases. Although this action may have introduced some delay, both the House and the Senate budget legislation for FY 1993 project revenues quite close to the President's budget estimates.

Progress on Budget Process Reforms

The Omnibus Budget Reconciliation Act of 1990

- o The budget agreement which was codified in OBRA90, was designed to reduce the budget deficits by $485.2 billion over the five years ending with FY 1995 relative to what they were projected to be in the absence of OBRA90. Of this amount,

  - $151.3 billion were from receipt increases net of tax credits ($15.2 billion);
  - $13.1 billion were from increased user fees;
  - $73.4 billion were from reductions in entitlements;
  - $183.2 billion were from reductions in discretionary defense programs; and
  - $64.2 billion were from debt service savings.

  It is not possible to identify these savings explicitly in the budget numbers because the effects have been camouflaged by higher spending for certain mandatory programs and by the recession, which has had a significant negative effect on revenues.

- o OBRA90 includes a set of reforms giving the Executive Branch substantially more leverage both to set priorities and to curb future expenditures. These reforms give the Administration the means ultimately to rid the budget of deficits as had been targeted in the Gramm-Rudman-Hollings (GRH) budget law.

- o Most important perhaps for the longer run control of budget spending was the agreement to implement tougher measures of fiscal discipline consisting of pay-as-you-go control of entitlements, mandatory spending and receipts and caps on discretionary spending.

- o These fiscal measures are now effectively slowing down spending increases, although the results are currently largely camouflaged by the ballooning costs of deposit insurance and by the recession's negative effects on revenue growth and the needed expenditure for counter cyclical measures which have, in turn, increased the cyclical budget deficit.

- o OBRA90 recognizes the desirability of automatic stabilizers -- such as the reduction in revenues or rise in outlays that occur when the economy is in recession -- and does not require actions to offset such increases in the deficit as was required by GRH law.

New Constraints on Entitlements

A pay-as-you-go system for taxes and entitlement expenditures was established by OBRA90. Decreases in taxes or increases in entitlement spending must be deficit neutral -- offset by increases of other taxes or cuts in entitlement spending elsewhere.

- o New entitlement or revenue legislation in total cannot increase the deficit under OBRA90.

- o The pay-as-you-go mechanism, although similar to the old GRH law, is quicker to respond to evidence of over-spending and better targeted on the problem area.

- o OBRA90 provides for a "look-back" sequester on entitlement spending. Any legislation violating the pay-as-you-go system that adds to the deficit would trigger automatic across-the-board cuts of all non-exempt entitlement programs within 15 days of the end of the Congressional session.

- o The maximum sequester cuts for entitlements subject to such cuts for FY 1993 equals just over $31 billion based on the February budget estimates. If a larger sequester is required, then a sequester to reduce discretionary programs would become necessary even if they themselves are below the OBRA90 imposed caps.

- o In the July, 1992 Mid-session Review, the Administration has projected total expenditures for entitlement and mandatory outlays of $796.3 billion in FY 1993, rising to $810.2 billion in FY 1994. Although there is a drop in these outlays to $806.8 billion in FY 1995 they are estimated to rise to $944.4 billion by FY 1997.

- o The Executive Branch has the final word on any violations.

Caps on Discretionary Spending

For the first time in the history of Federal budgeting, legally binding caps were placed on all discretionary spending over the five year period 1991-1995. Discretionary spending that exceeds the caps triggers an automatic across-the-board reduction (sequester) of discretionary programs.

- For FY 1991 through FY 1993, caps were imposed on each of the three categories of discretionary spending: domestic, defense and international.

- In FY 1994 and 1995 a single cap will be required on total discretionary spending.

o The caps are adjusted annually for conceptual changes, differences between actual and projected inflation, emergencies and other factors specified in OBRA90, as determined by the Office of Management and Budget (OMB) and submitted with the President's budget.

o The discretionary caps and the Administration estimated Mid-Session outlays for FY 1993 are as follows:

- The defense outlay cap is $296.8 billion and the Mid-Session estimated outlays are $291.8 billion.

- International outlays are capped at $20.6 billion with budget outlays projected at $20.5 billion.

- Domestic discretionary outlays are capped at $225.9 billion and budget outlays are projected at $226.2 billion.

o In the President's FY 1993 budget, all categories of discretionary outlays were equal to or below the caps as required by OBRA90, adjusted for allowances intended to provide a cushion for estimating differences between the Office of Management and Budget and the Congressional Budget Office.

o Appropriations exceeding the caps trigger automatic sequesters. Briefly:

- For regular appropriations bills, sequesters occur 15 days after the end of the Congressional session.

- For supplemental appropriations enacted before July 1, sequesters are applied immediately after enactment (so-called "within-session sequesters"); for supplemental appropriations enacted in the last 3 months of the session (after July 1) there is a so-called "look-back" procedure which reduces the spending caps for the following year.

o The sequester is ordered against the programs within the specific spending category that is exceeded in order to focus and target the enforcement mechanism. Across-the-board cuts apply to all programs within that category.

- o Caps can be exceeded without triggering a sequester only by legislation designated as an emergency by the President and Congress.

- o The OBRA90 requirements effectively constrained the appropriations committees last year during consideration of the FY 1992 budget. The committees could not exceed spending caps without triggering a sequester of programs within the violated category. The FY 1992 appropriations bills were enacted within the OBRA90 limits. This represents significant progress.

Changes to the Old GRH Budget Law

OBRA90 extended the old GRH budget law by replacing the old budget deficit targets under GRH (projected at zero in FY 1993) with new targets through FY 1995; and improved on GRH by placing caps on discretionary spending and imposing pay-as-you-go requirements on entitlements and mandatory spending. The old GRH targets were specified in terms of the consolidated budget deficits whereas the new OBRA90 targets, or maximum deficit amounts (MDAs), are specified in terms of on-budget deficits. The enactment of OBRA90 supports the Administration's continued efforts to reduce the federal budget deficit.

- o The deficit targets, fixed under GRH, are, under OBRA90, adjusted by OMB to account for changing economic and technical assumptions that underlie the President's annual budget submission. This change, while recognizing the desirability of automatic stabilizers especially when the economy is in recession, is not intended to weaken the commitment of the U.S. Government to eliminate the overall consolidated Federal Budget deficit. The MDA for FY 1993 originally specified in OBRA90 was $236 billion. The "adjusted" MDA provided in the July, 1992 Mid-Session Review for FY 1993 is $418.5 billion, while the corresponding deficit for FY 1993 is estimated at $402.2 billion, thereby avoiding a sequester.

- o The amount the deficit targets can be exceeded without triggering a sequester is set at zero for FY 1993 by OBRA90. This amount, however, has been raised from $10 billion allowed under the old GRH law to $15 billion for FY 1994 and FY 1995 under OBRA90.

Adjusting Deficit Targets

Maximum deficit amounts (MDA) under OBRA90 are adjusted at the time the President submits his budget. The adjustments are to be made only for up-to-date re-estimates of economic and technical assumptions and any changes in concepts or definitions, and adjustments to the discretionary caps.

- o For FY 1991 through FY 1993, the President must submit the re-estimates with his annual budgets.

- o For FY 1994 and FY 1995, the President has the option of choosing to make such adjustments at the time he submits his budget to the Congress for those fiscal years. If he chooses not to make the adjustments for all programs, then the MDAs estimated in the previous budget submission would be updated only for reestimates of deposit insurance outlays and the adjustments to the discretionary caps, leaving unadjusted only receipts and mandatory spending.

- o For each fiscal year, the adjustments required to be made with the submission of the President's budget for the year have to be updated when OMB submits the sequestration update report and reestimated again for the final sequestration report for that year. But OMB must otherwise continue to use the economic and technical assumptions in the President's budget for that year.

Consistent Economic Assumptions

OBRA90 requires the economic assumptions used for the President's budget must be used throughout the fiscal year by the Administration and the Congress. This change has the distinct advantage of providing only one reference or baseline from which proposed receipts and outlay changes are to be measured.

Sequestration Suspension in the Event of Low Growth or War

The budget enforcement procedures can be suspended in the event of war or low growth. If the Department of Commerce reports actual real economic growth for each of the two most recently reported quarters is below one percent, or if CBO or OMB project negative real growth in two consecutive quarters, then the Congress automatically votes on a joint resolution suspending the OBRA90 enforcement procedures. The procedures are suspended if the President signs the joint resolution. It should be noted that, although the 1990-91 recession met these conditions, the Congress disapproved suspending the rules. Refraining from suspending OBRA90 in a recession demonstrates the commitment of the Congress and the President to bringing down the deficits.

Scorekeeping Authority

OBRA90 gives OMB the final scorekeeping authority related to all budget enforcement actions. Comments are welcome from all interested parties during the comment period.

- o As soon as possible after Congress completes action on any appropriation, direct spending or receipts legislation, CBO provides OMB its estimate of budget authority and outlays and OMB transmits its own estimates along with the COB estimates to the Congress with an explanation of any differences.

- o The same procedure essentially is in place for any look-back that may need to take place within the 15 days after Congress adjourns.

This shift in scorekeeping authority, though a subtle reform, could have very significant ramifications for the President's ability to affect the budgeting process and to bring about deficit reduction. It vests with the President enforcement powers that are different, and possibly more potent, than those described in the SII Joint Report.

Scoring of Credit Programs

An important scoring change of the 1990 Budget was the Credit Reform Act which introduced very significant reforms in the budgetary treatment of Federal credit programs. These reforms had been pursued unsuccessfully by different Administrations since 1967, when the President's Commission on Budget Concepts made recommendations which now, for the most part, have finally been adopted. Under the reforms, the costs of Federal credit programs are measured more accurately, and these programs have been put on a budget scoring basis equivalent to other Federal spending. This requires appropriations to cover the subsidy cost of all Federal direct loans and all loan guarantees when they are made. This removes the incentive to provide Federal benefits through implicit subsidies embedded in Federal loans and loan guarantees rather than through direct appropriations, even when the Federal credit program might cost more in the long run. The reform therefore encourages fiscal restraint and definition of spending priorities.

Protecting Social Security Surpluses

OBRA90 revised the definition of the old GRH deficit targets to exclude the retirement and disability part (OASDI) of the U.S. Social Security System. The social security surpluses (including interest) are not counted in the new maximum deficit amounts specified in terms of on-budget deficits. Once the targeted on-budget totals are balanced, the consolidated budget will be in surplus, reducing the government's outstanding debt held by the public by the approximate amount of the social security surplus.

- o These revisions to the budgetary treatment of social security are similar in effect to the Social Security Integrity and Debt Reduction Fund, as proposed by the President in his FY 1991 budget (and described in the SII Joint Report).

- o In order not to erode social security surpluses in the future, provisions in OBRA90 were adopted which would make it difficult for the Congress to increase benefits or reduce social security taxes.

  - A point of order must be overcome, in either the House or the Senate, before any legislation can be considered that either increases OASDI benefits without offsetting increases in OASDI taxes, or reduces OASDI taxes without offsetting reductions in benefits. A "super-

majority" of 60 votes would be required to overcome a point of order in the Senate.

- The offsets must be such that the OASDI Trust Fund remains both in short-term (5-year) and long-term (75-year) actuarial balance, thus maintaining the OASDI Trust Fund build-up.

o The Administration is opposed to proposals, such as lowering the payroll tax rate, that would reduce or eliminate the OASDI Trust Fund build-up.

- Such a proposal was introduced last year in the Senate and was defeated by a large majority. It may be resubmitted this year.

I.B <u>Financial Safety and Soundness</u>

o The FDIC Improvement Act of 1991 establishes a number of reforms in the U.S. banking system. It prohibits all but the most strongly capitalized banks from offering above market rates on insured deposits and requires the FDIC to institute a risk-based premium system. In addition, it limits the FDIC's ability to protect insured depositors and constrains the Federal Reserve's use of its lending authority to keep failing banks in operation.

o Government Sponsored Enterprises (GSEs) legislation, designed to institute regulations and supervisory controls to address financial safety and soundness, is at different stages of the legislative process. Status:

- Farmer Mac legislation was enacted in December 1991;

  The legislation clarifies the authority of the Federal regulatory Farmer Mac provides for enhanced capital standards, including minimum capital standards and use of a stress test for determination of Farmer Mac's risk-based capital requirement.

- Sallie Mae legislation is still pending in both the House and the Senate;

  The Administration's proposal creates a regulator within the Treasury Department and provides for enhanced, risk-based capital standards, including minimum capital standards and intervention by the regulator at present levels of capital.

- Fannie Mae and Freddie Mac legislation passed in the House and is pending in the Senate.

The Administration's proposal provides for enhanced, risk-based capital standards, including minimum standards and intervention at present levels, and establishes as regulator a separate office within the Department of Housing and Urban Affairs.

I.C Progress on Incentives to Save and Invest

Enhancing Saving

The Administration is working to promote private saving. It strongly supports the measures to promote saving described in the SII Joint Report and proposed the initiatives in the President's FY 1993 Budget.

Proposals Designed to Increase Investment

- o Lower Capital Gains Tax Rates. The Administration has proposed lowering the effective tax rates on capital gains. The proposal would induce more savings and investment by raising after-tax rates of return, especially for longer-term investment.

  - In 1994, when fully phased-in, the exclusion on capital gains would be 45 percent for assets held more than three years, 30 percent for assets held between two and three years, and 15 percent for assets held between one and two years.

  - Thus, for a taxpayer currently subject to a 28 percent statutory tax rate on sale of a capital asset, the effective tax rate would be 15.4 percent, 19.6 percent, and 23.8 percent, respectively.

  - For dispositions after February 1 but before January 1, 1993, the full 45 percent exclusion applies. For dispositions in 1993, the 45 percent applies to assets held more than two years, and the 30 percent exclusion applies for assets held between one and two years.

  - Depreciation deductions would be recaptured in full as ordinary income. Excluded gains, other than those attributable to sale of real estate or interests in closely held businesses, are included in the alternative minimum tax.

- o Extend Research and Experimentation (R&E) Tax Credit. The Administration proposes a permanent extension of the 20 percent incremental R&E tax credit, which expired on June 30, 1992, but is expected to be extended and made retroactive before Congress adjourns.

- Extend Research and Experimentation (R&E) Allocation Rules. The Administration proposes to extend through 1993 the current R&E allocation rules, which expired on June 30, 1992, but are expected to be extended and made retroactive before Congress adjourns.

  - These rules allow U.S. companies with foreign operations to allocate 64 percent of their domestic R&E expenditures to domestic source income, with the balance to be allocated between domestic and foreign source income based on gross sales or (within certain limits) to gross income.

  - Corresponding rules apply to the allocation of foreign R&E expenditures.

- Establish Flexible Individual Retirement Accounts (FIRAs). The Administration has proposed the introduction of flexible Individual Retirement Accounts which would stimulate private saving by allowing tax-free earnings on contributions to these accounts.

  - Individuals would be able to make non-deductible contributions of up to $2,500 per year ($5,000 per family), provided the taxpayer's adjusted gross income (AGI) is less than $60,000 per year (less than $100,000 for heads of households and $120,000 for married couples filing a joint return).

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

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

  - This proposal is very similar to the one made by the Administration to establish Family Savings Accounts (FSA). One difference is that under the current proposal, amounts in existing IRAs (with some exceptions) may be contributed to a FIRA between February 1 and December 31, 1992; the amounts so contributed would be included in income rateably over four years. Such "rollovers" were not allowed under the FSA proposal. A second difference is the current proposal would broaden the eligibility for those who may make contributions to include single

taxpayers with adjusted gross incomes of less than $60,000 as compared with $35,000 under the proposal last year.

- o Extend The Low-Income Housing Tax Credit, The Targeted Jobs Credit, And The Business Energy Tax Credit. The Administration expects to get these credits, which expired on June 30, 1992, extended through 1993. These credits should encourage investment in low-income housing and renewable energy sources, and encourage business to hire workers who may not otherwise find employment.

Treasury's Corporate and Individual Tax Integration Study.

- o Treasury issued its study of comprehensive business tax integration on January 6, 1992. The study outlined options designed to overcome four problems:
  - Achieving greater uniformity of the tax treatment of investment across economic sectors.
  - Achieving a more uniform treatment of debt and equity.
  - Minimizing distortion of the choice between retaining profits and paying them out as dividends.
  - Taxing investment income once instead of two or more times.
- o The main options examined included:
  - Exempt dividends from the recipient's income taxes.
    - -- Accomplishes many of the goals of integration without a major overhaul of the system.
    - -- Would cost an estimated $13.1. billion per year in revenues.
  - Tax both corporations and non-corporate businesses on profits before payment of dividends or interest and stop taxing recipients on dividends, capital gains, or interest income.
    - -- Accomplishes virtually all of the goals of integration.
    - -- Would raise revenues by an estimated $3.2 billion.
    - -- Would be a major overhaul of the tax system and require perhaps as much as a 10-year phase-in.

- Apportion each corporation's income to its shareholders to be included in their taxable income, and give them credit for any taxes paid by the corporation.

  -- Accomplishes most of the goals of business tax integration.

  -- Involves complications with foreign-source income.

  -- Has been criticized as an unwieldy alternative.

o The study is expected to encourage discussion of the incentives built into the current tax system as they affect investment. However, no specific proposal has been endorsed by the Administration and no legislative initiative concerning tax integration is expected to be sent to Congress during this session.

New Commitments

Long-Term Policy Agenda

President Bush has highlighted, both in his January 1992 State of the Union Address and his Fiscal Year 1993 Budget submitted to the Congress, a multidimensional long-term policy agenda to enhance economic growth. The agenda is the product of an intensive policy review undertaken by the Administration, including evaluations of both the state of the economy and its direction.

The growth agenda is composed of a number of long-term policy initiatives to which the Administration is committed. The major elements listed below are designed to generate more saving and investment, accelerate productivity growth, increase output and employment, and foster a higher standard of living in this country.

The Administration is working with business and public organizations to develop broad-based support for its growth agenda. The USG will recommend and promote legislation, where necessary, for:

o Sustained efforts to promote international trade, investment, and competitiveness through:

  - continued efforts to bring about a successful conclusion to the GATT negotiations;

  - negotiations to establish a North American Free Trade Agreement;

  - Enterprise for the Americas Initiative; and

- continued bilateral efforts to open markets for U.S. exports.

o Tax incentives to promote saving and investment.

o Spending restraint that conforms to pay-as-you-go budgeting and other requirements of OBRA90 and new initiatives restraining the growth of entitlements and mandatory budget expenditures.

o Investment in public infrastructure.

o A thorough review and culling of unnecessary regulatory activities.

o Comprehensive reforms to strengthen the education system, reform health care, reduce costly legal impediments to efficient commerce and trade, and reduce energy vulnerability.

In developing policies designed to strengthen the competitiveness of the U.S. economy, the United States reiterates the importance of taking a long-term perspective, of ensuring consistency, and of seeking wide public support. The U.S. Government identifies key elements in its long term policy objectives:

o education and training

o measures to encourage saving and investment in plant and machinery

o research and development and policies toward development and commercialization of technology, and

o export promotion

The U.S. Government urges an open, international, and long-term orientation by U.S. business.

Entitlements Caps

Although OBRA90 constrains proliferation of new entitlements and mandatory programs, there is no current provision for a direct constraint on the growth in outlays for current entitlements and mandatory programs such as food stamps, Medicaid or the Commodity Credit Corporation (CCC) subsidies.

The President's determination to reduce the deficit problem has been addressed by a new initiative proposed in his FY 1993 Budget to cap the growth of all entitlements and mandatory programs, in addition to his proposals to bring better cost control or outright spending reductions to specific programs. The initiative would:

- o Set a cap on "mandatory" program growth in the aggregate;
- o Lower the cap following the enactment of comprehensive health reform;
- o Allow the growth rates of entitlements and other mandatory programs to be adjusted by a maximum of population-plus-Consumer Price Index (CPI) plus an additional annual growth of 2 percent to allow for an orderly transition in the first year and 1 percent in the second.
- o Require any projected growth beyond the mandatory cap would trigger the legislative reconciliation process in order to pare the excess spending growth; and
- o Provide a fail-safe mechanism by modifying the pay-as-you-go system so any uncorrected breach of the mandatory cap automatically triggers the sequester provisions for the mandatory programs under OBRA90 while exempting Social Security from any potential sequester.

The House of Representatives' Budget Committee has endorsed the idea of an "entitlement cost cap", and the Congress is taking it under consideration.

Budgeting for Deposit and Pension Insurance

For most Federal spending programs, the cash-based budget provides good measures of the costs incurred by the Government. This is not the case for insurance programs such as deposit insurance or pension guarantees. To improve the accountability and control of the ultimate costs of these programs to the Government the Administration is seeking, in a FY 1993 Budget proposal, to shift the accounting for insurance programs from a cash basis to an accrual basis similar in concept as already used with the credit programs.

Regulatory Budget

Private expenditures to meet regulatory requirements have many of the same effects as direct Federal budget outlays. Both regulation and budget outlays divert private resources to public purposes. A fully-developed regulatory budget process would involve the President and the Congress in setting overall goals, ceilings, and allocations for the costs of regulation to the private sector, in the same way the current Federal budget allocates direct Government spending. Small scale pilot test applications at the agency level have been successful. As experience is gained it may be applied more broadly and evolve toward a fully integrated budget including regulatory cost estimates and deficit calculations.

Technical Improvements to OBRA90's Budget Enforcement Provisions

The FY 1993 Budget proposed several changes needed to further strengthen the budget process.

- o Extend OBRA90's deficit reduction and enforcement procedures until the budget is in balance.
- o Enact limits on total federal direct loans, loan guarantees, and on the cumulative total of related subsidies.
- o With the exception of Social Security, eliminate or more severely limit most exemptions from sequestration.

Private Sector: Incentives to Save and Invest

The Administration is committed to achieving enactment of its proposals for responsible changes in the tax system to encourage saving and investment. These proposals include:

- o a reduction in the effective tax rates on capital gains;
- o an investment tax allowance which permits an additional 15 percent of the cost of an investment asset to be recovered in the first year;
- o enactment of an Individual Retirement Account that would waive the penalty for premature withdrawals to pay for medical and educational expenses and for early withdrawals for first-time homebuyers;
- o enactment of a Flexible Individual Retirement Account (FIRA), where, unlike the current-law deductible IRAs, the contributions are not tax deductible but if retained for a specified number of years neither the contributions nor the earnings on the contributions invested would be taxed when withdrawn;
- o permanent extension of the Research and Experimentation (R&E) tax credit; and
- o the establishment of enterprise zones designed to create jobs in economically disadvantaged areas.

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

II.A Antitrust Reform

Production Joint Ventures

The Administration has been actively encouraging the enactment of legislation that would improve the legal climate for joint production ventures and reduce uncertainty about the treatment of such ventures under the antitrust laws.

- o The Administration's proposal would extend the coverage of the National Cooperative Research Act to joint production ventures. Courts reviewing antitrust challenges to particular joint production ventures would be required to take into account the potential competitive benefits of such ventures. Any antitrust liability would be limited to actual, rather than treble, damages where the parties to the venture notify the antitrust enforcement agencies of their activities.

- o The Administration's efforts have resulted in substantial progress. Legislation similar to the Administration's proposal was passed by the Senate (S. 479) in February 1992. The House bill, H.R. 1604 was voted out of committee in June 1991 and is awaiting floor action.

- o The Administration will actively encourage early enactment of this legislation and is optimistic legislation will be enacted this year.

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

Nondiscriminatory Enforcement

The Administration affirms its continuing commitment to nondiscriminatory enforcement of the U.S. antitrust laws.

II.B Product Liability Reform

Product Liability reform remains one of the high priorities of the USG.

- o The Administration strongly supports the proposed Product Liability Fairness Act that would reform the U.S. product liability system and heighten U.S. products' competitiveness. The proposed bipartisan product liability reform bill, with over 30 co-sponsors, has been recommended for enactment by the Senate Commerce Committee.

- o The Commerce Secretary testified before the Congress in support of the proposed Act. The Administration will continue to work with the Congress for the passage of a product liability reform bill.

II.C Policy Toward Direct Foreign Investment

On December 26, 1991, the President issued a policy statement strongly reaffirming U.S. support for open and free foreign direct investment among all nations. This applies to foreign investors in the United States and to U.S. investors in other nations. In line with this policy, the United States is seeking to liberalize investment regimes in other nations, both in practice and in law. Direct foreign investment stimulates companies to be more competitive, which can generate exports and promote growth.

- o The President's statement was in fulfillment of the United States' SII commitment to provide a detailed policy statement with regard to direct foreign investment.

- o It reiterated that the United States' open investment policy is based on the principle of national treatment. The United States provides foreign investors fair, equitable, and non-discriminatory treatment.

- o The United States believes that U.S. investment abroad should similarly receive non-discriminatory treatment. U.S. investors should receive the most favorable treatment available to any investor, whether foreign or domestic, at the time of establishment and in the conduct of business.

- o The President's statement pointed out that as other nations embrace free markets, openness to foreign direct investment is an essential contributor to world growth and prosperity. Accordingly, the United States will continue to encourage all nations to open their investment regimes to enhance economic health and diminish distortions in an integrated world economy.

- o The United States maintains a few exceptions to national treatment for foreign investors. These exceptions are generally related to national security, and affect certain sectors, such as atomic energy, air and water transport, and telecommunications. This policy is consistent with our commitments in the OECD, our treaties of Friendship, Commerce and Navigation and with the provisions of Exon-Florio.

- o The Department of the Treasury published final Exon-Florio implementing regulations in the Federal Register on November 21, 1991. The final regulations took into account comments received from all affected sectors as well as accumulated experience in implementing the provision.

- o The key characteristics of the final regulations are:

  - Filing an Exon-Florio notification of a proposed or pending acquisition is voluntary.

  - Foreign control is defined functionally, rather than through an arbitrary rule based, for example, on percentage of stock ownership.

  - The procedures provide sufficient basis for governmental review of transactions with the private sector.

- o As of mid-March 1992, 687 transactions had been reviewed under Exon-Florio procedures; thirteen were the subject of a formal investigation and nine of those were referred to the President for decision (four were withdrawn). The President has prohibited one transaction.

- o The Administration continues to oppose legislation which would not be consistent with the United States' policy of open foreign direct investment. For example, the President's senior advisors have advised the Congress that they would recommend he veto the Technology Preservation Act, a bill which would change implementation of the Exon-Florio provision in a manner that would adversely alter the balance between U.S. investment policy and national security.

II.D Developments in the Tax Treatment of Foreign Investors

- o The United States and Japan have entered into a bilateral income tax treaty that provides the type of non-discriminatory tax treatment traditionally found in such agreements.

- o In June, 1991, Treasury issued final regulations under section 6038A of the Internal Revenue Code to implement new compliance measures

imposed to ensure comparable access to information in audits of both foreign- and U.S.-owned corporations.

- In 1989, Congress determined that the current compliance and record maintenance provisions were inadequate to provide the information needed in this area. As a result, the Revenue Reconciliation Act of 1989 substantially amended Code section 6038A, introducing four statutory enhancements.

- The threshold for information reporting for foreign-owned companies was reduced to apply to any U.S. corporate taxpayers that are at least 25 percent-owned by a foreign person.

- Records documenting the U.S. tax treatment of related party transactions are required to be maintained in the manner and in the location prescribed by regulations.

- The foreign related party is required to appoint the U.S. subsidiary as its limited agent solely for IRS summons enforcement purposes.

- Penalties are provided for non-compliance with the above rules. In particular, where the IRS is denied access to relevant records, it is granted broad discretion (subject to judicial review) to set appropriate transfer prices for the related parties.

- Foreign subsidiaries of U.S. corporations are subject to stringent annual reporting provisions which in many ways exceed the requirements imposed on foreign-owned corporations. Form 5471 (which must be filed each year for every foreign subsidiary to meet the reporting requirements of section 6038) contains twenty pages of questions, schedules, worksheets and instructions. In contrast, Form 5472 (which is used to report related party transactions by foreign-owned corporations under section 6038A) requires only half a page of questions and one page of instructions. The new compliance measures must be viewed in this context of the different reporting rules, information production requirements, and enforcement procedures applicable to U.S. and foreign corporations.

- The regulations which implement these provisions generally apply the same requirements that are imposed on all U.S. taxpayers by Code section 6001. Accordingly, the record-keeping requirements imposed on foreign-owned corporations are substantially similar to those on U.S.-owned domestic corporations. In addition, several procedural protections and safe harbors were added by the final regulations. For

example, all but the largest 10 percent of corporations as well as corporations with low levels of foreign related party transactions are exempted from the record maintenance and summons appointment requirements.

- o The Administration will continue to seek to ensure, in the application of these regulations to actual cases, Japanese investors will be given non-discriminatory treatment under the U.S.-Japan Income Tax Treaty.

II.E Other Measures to Build Supply Capacity

- o The President's Council on Competitiveness, chaired by the Vice President, continues to seek ways to relieve the burden imposed on the nation's economy by unnecessary regulation.

- o In its Report on National Biotechnology Policy, the Council on Competitiveness describes the competitive status of the U.S. biotechnology industry and outlines the Administration's policy to support free market development of biotechnology products. This includes efforts to:

  - ensure regulations and guidelines affecting biotechnology are based solely on the potential risks and are carefully constructed and monitored to avoid excessive restrictions that curtail the benefits of biotechnology to society;

  - continue to oppose fundamental legislative changes to the Orphan Drug Program that undermine the economic incentives to produce new drugs for rare diseases;

  - support passage of legislation to provide necessary process patent protection for products, such as those in the biotechnology area, which can be protected only through process patents.

  - The Administration has issued government-wide guidance that will reduce the regulatory costs of developing and marketing innovative biotechnology technology products and help the industry maintain competitive edge.

New Commitments

Regulated Industries

The Administration is committed to eliminating or narrowing unnecessary government regulations, which impose needless costs on consumers and substantially impede economic growth.

- o To this end, the Administration in March 1992 transmitted to Congress proposed legislation -- the "Interstate Commerce Commission Sunset Act of 1992" -- that would eliminate all Interstate Commerce Commission regulation of interstate trucking, intercity bus service, household goods freight forwarder, freight broker, domestic water carrier, interstate rail passenger carrier, ferry service and ICC-regulated pipeline industries. This bill was introduced in the House of Representatives as H.R. 4703.

- o This legislation would eliminate all grants of antitrust immunity, including antitrust immunity for collective ratemaking, in all of these industries. In addition, the legislation would subject all mergers, acquisitions, corporate interlocks and agreements among common carriers to the full operation of the antitrust laws. Rail rate agreements, pooling arrangements and mergers would also be made fully subject to the antitrust laws.

- o On March 31, 1992, the Secretary of Transportation testified in support of this proposed legislation before a subcommittee of the House Committee on Public Works and Transportation. The Administration will continue making efforts to obtain early passage of this legislation.

Product Liability Reform

The Administration will work closely with the Congress to take legislative measures for the improvement of the product liability system, in the belief that product liability reform can improve the international competitive position of U.S. companies.

- o President Bush is fully committed to these efforts and has stated, "A legislative priority for our Administration will be the reform of our costly product liability laws. The burden of our present product liability system is excessive and adversely affects our ability to compete abroad."

- o The USG commits to expedite the passage of the Product Liability Fairness Act, introduced by Senator Kasten, during the 102nd Congress by working closely with the Congress. The bill would contribute to uniformity in all 50 states and limit damage awards.

- o It is designed to restore basic principles of fairness: adequate compensation for accident victims, fault-based liability, expedited settlements and alternative dispute resolution procedures. While the bill does not explicitly define "fault-based" liability, it does attempt to bring predictability and certainty to the product liability system by providing for liability for non-economic damages based on percentage of responsibility, seller's responsibility based on failure to exercise reasonable care, and standards for punitive damages.

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

- S. 640, if passed, would supersede state laws in areas the bill addresses, thus adding consistency to the U.S. product liability system. Moreover, the bill is non-discriminatory, as it would treat equally all plaintiffs and defendants subject to the jurisdiction of the United States. For example, the bar on joint liability for non-economic damages, the standard for the award for punitive damages, and the expedited claims settlement procedures, among others, apply to all plaintiffs and defendants that are subject to the bill's requirements.

- The Federal government published the 1979 Model-Integrated Bill to serve as a guide for states to follow in reforming their product liability laws. This model bill does not mandate states to adopt new procedures; it instead puts forth the suggestions for states to streamline and improve upon the tort procedures governing these laws.

- All states have in force their own product liability laws and procedures; however, since manufacturers and retailers operate on an interstate basis, the Administration endorses Federal legislation that brings some uniformity to the laws.

- The pending Product Liability Fairness Act will incorporate some of the fundamental concepts introduced in the 1979 Model Integrated Bill. The Administration will work to fulfill the 1979 Model-Integrated Bill's objectives of eliminating the burden of excessive product liability and increasing U.S. competitiveness.

National Energy Strategy (NES)

Energy cost, availability, and efficient utilization are key factors in determining the competitiveness of U.S. business. While the U.S. is, relatively speaking, blessed in the availability of domestic energy resources and the efficiency of its energy markets, a growing proportion of its energy needs are being met through imports and a number of impediments remain in the way of attaining maximum energy efficiency.

In early 1991 President Bush proposed to the Congress a National Energy Strategy (NES) designed to reduce the range of institutional and regulatory barriers hindering the best use of the nation's energy resources. With increased dependency on imported oil, the objective is to become less vulnerable to major shifts in the supply or price of oil without incurring unacceptable social costs or interfering with economic performance. The NES addresses these issues with proposals to:

- o Enhance greater efficiency and competition throughout the energy sector;

- o Expand fuel and technology choices;

- o Improve research, development, and educational efforts; and

- o Expand the United States' leadership in shaping world responses to energy and related environmental issues.

In the 14 months since the NES was announced by the President, the Administration has implemented more than 90 of the NES-specific initiatives not requiring statutory action and has sent to the Congress legislation to implement the initiatives requiring a change in the law or new law. Both houses of Congress have now passed comprehensive energy bills. The Senate passed legislation which effectively meets the President's requirements and the Administration is currently working with the Congress to produce a bill in the House/Senate conference acceptable to the House of Representatives as well.

Examples of some of the actions the NES has engendered to date include:

- o Increasing efficiency in electricity generation and use by allowing builders of power plants to own and operate facilities in more than one area;

- o Increasing commercial and residential energy efficiency through expanded research and development, and more immediate activities such as identifying public housing projects where significant savings can be achieved;

- o Increasing industrial energy efficiency through expanded energy use audit programs and examination of regulatory policies;

- o Increasing transportation energy efficiency by accelerating scrappage of older cars and developing advanced technologies; and

- o Encouraging the use of alternative transportation fuels such as natural gas and electricity in vehicles; and

- o Facilitating environmentally responsible development of potentially major sources of domestic oil and gas production.

Health Care Reform

The U.S. health care system is in need of reform. In February, 1992, the President's commitment to dealing with the problem was expressed in his proposed blueprint for comprehensive health care reform. The proposal included provisions for addressing insurance market reforms, universal access, cost containment, administrative cost reforms,

and improved consumer information. Reform in this area is crucial to controlling medical costs and protecting the competitiveness of U.S. firms.

The major components of the President's health insurance market reform proposal are:

- o Employer-sponsored health insurance coverage will be guaranteed renewable, and pre-existing condition limits will be eliminated. Thus, workers would be able to change jobs without fear of losing their insurance coverage, increasing the efficiency of labor markets.
- o Insurers will participate in broad risk-pooling arrangements in order to assist in spreading health risks across insurers, allowing more uniform insurance premium rates.
- o Small companies will be able to pool their insurance purchasing power, giving them some of the same advantages as large employers.
- o Malpractice insurance reform will reduce costs by lowering premiums and decreasing the need for unnecessary "defensive" tests.
- o A streamlined administrative system will lower overhead costs.

A health care reform bill that embodies these principles has been introduced in Congress and was endorsed by the President on July 2. This bill will advance the realization of the goals set out in the President's February 1992 blueprint.

Two fundamental problems plague the U. S. health care system, a rapid growth in health care expenditures and the lack of universal health insurance coverage (about 15% of the population is not covered). The President's plan is intended to address these problems by building on the strengths of the existing market-oriented system.

The Administration's reform program is one of several approaches under consideration by the Congress. Our expectation is that the President's approach will ultimately form the basis for reform and result in significant cost reductions in the U.S. health care system. The Administration will make best efforts to develop a national consensus around this approach so that reform will be in place and substantial cost saving will be achieved as soon as possible.

Civil Justice Reform

- o The American system of civil justice is one of the cornerstones of our free and democratic society. This system protects the individual's rights to life, liberty and property by providing all citizens an opportunity to be heard in an impartial court of law.

- o The Administration is committed to protecting and enhancing every citizen's access to the courts by reducing the costs and delays in our legal system. Litigation expenses -- both time and money -- are transaction costs that ultimately are passed on to consumers. A legal system with unnecessarily high costs also affects the competitiveness of American firms in the global marketplace.

- o Based on studies by the President's Council on Competitiveness, chaired by Vice President Quayle, the Administration has published a report, Agenda for Civil Justice Reform in America. Civil justice reform is one of five key ways that the Administration has proposed to keep the country forward-looking and future-oriented.

- o Effective reform will require action on many levels: federal legislation, executive branch action, federal rules changes, and model state law packages. The Administration is in the process of implementing its reform package.

- o On October 23, 1991, the President issued Executive Order 12778, which put the United States Government itself in the lead in implementing civil justice reform. The Executive Order directs all Federal agencies to implement unilaterally a number of specific reforms to streamline civil litigation initiated by the U.S. Government.

- o On February 4, 1992, the Administration transmitted to Congress the "Access to Justice Act of 1992." The Act, which is currently pending in the House and Senate, would

  - provide alternatives to litigation through a multi-door courthouse plan;

  - require losing parties to pay legal fees in federal court diversity cases;

  - encourage pre-trial settlements by requiring pre-complaint notice; and

  - promote swifter case handling by encouraging better case and docket management.

- The Administration intends to work toward obtaining enactment of this legislation at the earliest possible time. High level officials of the Administration, including the Solicitor General, have briefed Congressional staff on the need for civil justice reform. The Administration has also encouraged the relevant Congressional committees, through the sponsors of the legislation, to hold hearings on the bill during this session of Congress. The Administration will continue to work to encourage consideration of the legislation during this Congressional session.

- The Administration has also proposed changes in the Federal Rules of Civil Procedure, Federal Rules of Evidence and the Federal Rules of Appellate Procedure that will address discovery abuse, expert evidence reform, encouragement of settlement alternatives and strengthened sanctions against frivolous lawsuits. These proposals are currently before the Judicial Conference and its relevant committees.

- On June 17-19, 1992, the Standing Committee to the Judicial Conference met and approved several of the amendments to the Federal Rules of Civil Procedure supported by the Administration that were proposed by the Advisory Committee on Civil Rules. At that time, the Standing Committee forwarded a set of rule changes to the Judicial Conference for review. The Judicial Conference is scheduled to meet in September 1992 and, to the extent that it recommends the rule changes, it will forward them to the United States Supreme Court, for approval. Any rule changes approved by the Supreme Court and forwarded to the Congress by May 1, 1993 will become effective December 1, 1993 unless the Congress affirmatively disapproves or amends them.

- The Administration, through its participation on the relevant committees of the Judicial Conference, has encouraged, and will continue to encourage, adoption of its proposed rule changes. It expects that by May 1, 1993 Federal Rules changes will be submitted to Congress for consideration.

- In an effort to encourage civil justice reform at the state level, Vice President Quayle on February 13, 1992 presented the Civil Justice Reform Model State Amendments. These Amendments, which include both model legislation and model rules of procedure and evidence, implement the recommendations of the Council on Competitiveness with respect to litigation under state law. Particularly noteworthy is the Model State Punitive Damages Act, also released on February 13, 1992, which presents a six-part proposal for punitive damages reform at the state level.

- The Administration is actively assisting the states in their consideration of possible adoption of these model amendments. For example, the

Administration has distributed thousands of copies of the Model State Amendments and the Model State Punitive Damages Act to state legislators in every state of the country. In addition, the Vice President has held roundtable discussions on civil justice reform with leaders in more than 20 states, and expects to hold similar discussions in several other states.

- o These efforts are beginning to bear fruit. The model amendments have been introduced as bills in the legislatures of more than 20 states. The Administration will continue its efforts in order to promote prompt action on its civil justice reform initiative at the state level.

- o In the area of alternative dispute resolution (ADR) mechanisms, the Administration has long been in the forefront of efforts to improve ADR techniques. The Administrative Dispute Resolution Act, enacted in 1990, provides for the encouragement of ADR use in the administrative processes of federal agencies. It also makes it easier for agencies to settle claims under the Federal Tort Claims Act. The Attorney General has quadrupled the settlement authority of agencies with established track records of resolving claims and has promulgated new regulations to encourage ADR in federal tort claim litigation. The President's October 23, 1991 Executive Order directed the Executive Branch to use of ADR where appropriate. In this regard, extensive training seminars featuring ADR utilization have been conducted by federal officials.

- o The Administration will continue to promote the use of alternative dispute resolutions mechanisms, including through its efforts to encourage adoption of the Access to Justice Act of 1992, which would facilitate ADR through multi-door courthouse programs.

- o The Administration's civil justice reform package is intended to help ensure that deserving victims actually receive their compensation earlier and with less expense, and yet will not impair any substantive legal rights.

- o The Administration is firmly committed to pursuing civil justice reform and intends to continue its efforts to improve the competitiveness of American firms through adoption of its legislative, administrative, judicial and state-level proposals.

Foreign Direct Investment

- o The U.S. reaffirms its policy of free and open foreign direct investment among nations as contained in the President's statement of December 1991, and will continue to implement the Exon-Florio legislation in a manner consistent with that policy.

III. Corporate Behavior

The Administration continues to pursue policies to encourage managers to take decisions that will benefit their companies in the long-term thereby making them more competitive.

III.A Long-term Outlook

- o As part of the USG's ongoing efforts to promote U.S. competitiveness and to facilitate lower capital costs in the U.S., the Treasury Department reviewed factors affecting the U.S. corporate sector's investment horizons. Improving the relationship between managers and shareholders could reduce equity capital costs, thereby strengthening competitiveness.

- o In order to increase overall U.S. competitiveness, the board of directors should be strengthened by making management more accountable to the board and by making the board more accountable to shareholders.

- o Treasury officials have advocated several specific suggestions made by private sector managers. They include:

    - strengthening boards of directors by limiting membership in nomination, compensation and audit committees to non-management directors.

    - establishing executive compensation plans which are directly tied to long-term company performance.

Reform of Quarterly Reporting System

- o In the process of conducting its review of financial competitiveness, the Treasury also undertook a review of proposals to modify current quarterly reporting requirements. As an ongoing activity, Treasury undertakes to continue to review current research in this area.

- o The Administration favors current U.S. law which requires the prompt reporting to investors of material information. Quarterly reporting serves investors by requiring timely and regular reports on corporate performance. Timely and accurate disclosure contributes to fair and credible markets, thereby improving efficiency and liquidity. The U.S. investment community has expressed opposition to curtailing quarterly reporting practices.

- o The Competitiveness Policy Council is a 12-member federal advisory committee created by the Omnibus Trade and Competitiveness Act of 1990.

The legislation stated that the purpose of the Council is "to develop recommendations for national strategies and on specific policies intended to enhance the productivity and international competitiveness of United States industries."

The Council has identified corporate governance and financial markets as one priority area they intend to address. The Council believes that one national objective should be to create an environment of economic and policy stability within which managers can do what many of them already want to do -- manage the corporation for long-term growth.

The Council has recently established a subcommittee on Corporate Governance that will study the following issues:

- the degree to which long-term performance is the shared goal of both corporate managers and shareholder-owners;

- the degree of management's accountability to owners;

- the impact of the "short-term" signals sent by the trading practices of institutional investors and management's reaction to them;

- the desirability of dampening current rapid stock turnover patterns;

- the degree to which management's goals of creating shareholder value, creating corporate wealth and advancing the interests of stakeholders (including workers, suppliers and communities) conflict or harmonize with each other, and the preference for one over the other.

o The U.S. Government will report on the subcommittee's report, scheduled for submission to the President and Congress by January 1993, at the next SII.

o The SEC has conducted a review of the proxy voting system. This review was in part designed to examine ways to strengthen the accountability of management to shareholders through the proxy system, and encourage a long-term outlook.

The SEC's most recent proposals, announced on June 23, 1992, directly address the long-term issue. These proposals provide shareholders with more disclosure and easier communication to hold boards of directors more accountable to shareholder interests. The purpose of the rule changes is to facilitate effective shareholder communication and participation in the corporate governance process by removing unnecessary regulatory barriers; and to reduce the costs of complying with the proxy rules.

- Also, under the proposed rule change, total shareholder return through stock price appreciation and dividends would be required to be shown for a 5-year period in a new graph. The graph would compare this performance to the performance of two separate indices -- the S&P 500 and a separate index comprised of a group of peer companies. This would allow shareholders to measure relative corporate performance. More extensive disclosure will encourage more informed voting and management accountability.

o The Department of Labor (DOL), which oversees the regulation of private pension funds, is taking steps to ensure plan fiduciaries are properly voting their shares. Steps include:

  - DOL has initiated a project focused on the proxy voting procedures of bank trustees following on its earlier letter which articulated the responsibilities of various fiduciaries of pension plans with respect to voting of proxies.

  - DOL developed a proposal to amend "ERISA" to provide for better disclosure by plan fiduciaries with respect to proxy voting. This amendment was included in Department of Labor's enforcement legislation which was introduced at the end of 1990 and which is anticipated to be reintroduced this session.

o The private sector is doing a great deal to strengthen management accountability to its shareholders.

  - The main impetus is coming from institutional investors, particularly public pension plans. The primary focus of these investors is to strengthen management accountability to the board of directors and to increase the board of director accountability to shareholders.

  - In the current proxy season, a number of shareholder resolutions are calling for a majority of independent outside directors or for the establishment of nominating committees composed of independent directors.

o The Administration has worked to promote a greater long-term outlook by corporate managers through the Financing Technology Roundtables (FTR) held last year. The purpose of the FTRs was to examine ways in which the government and private sector can work together to facilitate a lower cost of capital and to facilitate long-term funding for U.S. technology.

- The Financing Technology Roundtables (FTR) consisted of three meetings held during 1991 in the United States hosted by the Department of the Treasury and the Department of Commerce. The attendees included government officials, executives of high-tech companies, managers of pension and mutual funds, venture capitalists, bankers, accountants, and members of the academic community. The goal of the meetings was to facilitate discussion and generate ideas through which the government and private sector could remove impediments to lowering the cost of capital and obtaining financing for US technology companies.

- In April 1992 a report was released outlining the findings of the meetings. The participants developed ideas and lists of possible actions, although opinions differed on the issues and the merits of various actions. Thus the report is a summary of the various participants' views and is not an empirical study with specific recommendations founded on factual data which could serve as the foundation for an action plan.

- The Financing Technology Roundtable sessions consisted of intensive discussion by participants on numerous issues. These included whether U.S. capital markets provide adequate funds for long term investments in technology needed by U.S. companies to meet global competition; an overview of the different participants in technology financing, and the changing roles of these participants; how financing issues will differ depending on the type and stage of the company -- start-up, small company, large company, family-owned or public. The participants did not reach a consensus on any of the issues discussed. The USG believes that the roundtables have served their purpose of facilitating discussions on these complex issues which would not have occurred without the formalized roundtables.

- As a result of the Financing Technology Roundtables, a number of additional actions have been initiated:

  -- The Department of Commerce has printed its report summarizing the Financing Technology Roundtable discussions and has made it widely available.

-- The Departments of Energy, Commerce, Transportation and NASA along with other agencies like EPA and NIH are conducting a series of regional meetings as part of the Administration's National Technology Initiative. Meetings have been held in Boston, Austin, and Orlando, and nine others are planned.

-- Each of these regional meetings has a plenary session and a workshop on partnerships for long-term investment and financing technology. Local and national leaders participate in these programs, which are intended to show how U.S. companies are responding to the financial challenges of commercializing technology.

III.B Cost of Capital

o The Treasury completed its review of the factors affecting the cost of capital. The findings of this review have been made public through speeches given by senior Treasury Department officials.

o The Administration has taken the following measures to facilitate lower capital costs:

- Increase Saving. To increase saving, the President has proposed flexible Individual Retirement Accounts (FIRAs) for lower and middle income taxpayers. The Administration would also promote retirement saving through a series of measures designed to encourage employers to sponsor retirement plans and simplify the taxation of pension distributions.

- Increase U.S. Total Saving by Reducing Federal Dissaving. The Administration is continuing to adhere to the Omnibus Budget and Reconciliation Act of 1990 to reduce the Federal budget deficit.

- Reduce the Capital Gains Tax. The President in his FY93 budget again has proposed excluding a percentage of the capital gain realized when a long-term asset is sold. Assets held three years would be entitled to a 45 percent exclusion, assets held 2-3 years would get a 30 percent exclusion and assets held 1-2 years would receive a 15 percent exclusion.

- Financial Institutions Reform. The Treasury Department completed its study of deposit insurance and has proposed comprehensive legislation aimed at reforming and improving the competitiveness of the existing U.S. banking system.

- Initiating Convergence in International Accounting and Disclosure Standards. The Securities and Exchange Commission has begun a project to examine ways in which international accounting standards might be developed which would provide for more efficient cross-border allocation of capital. The SEC has initiated discussions with various jurisdictions to develop systems for mutual acceptance of disclosure documents prepared according to regulations of an issuer's home country. Such discussions resulted in the implementation of a multi-jurisdictional disclosure system (MDJS) with Canadian regulatory authorities in the summer of 1991.

- Harmonizing State and Federal Regulations. The SEC is reviewing ways to improve harmonization between state and Federal regulations. Such harmonization would reduce capital market inefficiencies within the U.S. by reducing filing and registration costs. Specifically:

  -- The SEC has worked with the states to develop a uniform form for registration.

  -- The SEC is working with the Congress to develop and implement a one-stop filing system that would permit an adviser to make one filing at one location which would then automatically go to the SEC and the states in which the advisor wishes to register. Legislation is expected shortly.

New Commitments

Executive Compensation

The Administration is opposed to any direct government intervention in setting pay, and believes pay should be set by market forces. Recently, there have been developments in executive compensation reforms in a number of leading U.S. companies.

The Securities Exchange Commission (SEC) has recently announced significant regulatory initiatives designed to allow shareholders of publicly held corporations to become better informed on executive compensation matters, and to make their views on such matters known to boards of directors.

Reform 1: Allow Non-binding Shareholder Resolutions on Corporate Pay.

-- The SEC altered its interpretation of "ordinary business" to allow non-binding shareholder resolutions regarding executive compensation to be included in the company's proxy statement. This change is effective immediately and affects this year's proxy proposals.

-- By allowing shareholders to voice their opinions in this area, there will be enhanced accountability in the corporate governance system.

-- The full effect of the SEC rule change will not be seen until next year's proxy season because the changes were implemented too late in the 1992 proxy season to affect the majority of US publicly held corporations. However, ten companies faced shareholder proposals on executive compensation in 1992 because of the SEC rule change.

Reform 2: Disclosure

-- The SEC has proposed to clarify and simplify the disclosure of executive compensation. New rules would require companies to disclose options in a more understandable form. By increasing disclosure standards, the SEC is allowing shareholders to judge for themselves whether such compensation is reasonable. Under the current rules, it is difficult for shareholders to tell how much an executive is being paid. This in turn makes it difficult for the market to impose adequate discipline.

-- More specifically, under the SEC's June 1992 proposed rule changes, the compensation committee of a company's board would be required to report and present the specific factors on which the executives' compensation was based. The report would also describe how compensation packages are related to company performance. This report would be presented in the proxy statement signed by the members of the compensation committee.

IV. Government Regulation

Great strides have been made since the last report to liberalize national security export controls. 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 achieved since the May 22, 1991, First Annual SII Report are the most dramatic since the 1949 creation of the Coordinating Committee for Multilateral Export Controls (COCOM). To strengthen the competitiveness of firms, the Administration has taken several actions to reduce the regulatory burden on the private sector.

IV.A National Security Export Deregulation

- The May 23, 1991, COCOM liberalization agreements, which were implemented in the U.S. on September 1, 1991, resulted in a 50 percent reduction in export controls to a "Core List" of dual use goods and technologies necessary to safeguard U.S. and allied security. These initiatives further broaden the reductions in multilateral export controls on high technology items (i.e., machine tools, computers, and telecommunications) to COCOM-proscribed countries.

- The U.S. and Japan signed a Supercomputer Control Regime Agreement in June 1991, that leaves virtually no distinction between exporting personal computers and supercomputers to Japan. (Commerce is now reviewing the possibility of eliminating prior written USG approval for exports of supercomputers to other COCOM-member countries who became supercomputer Regime members.)

- Pursuant to the President's November 1990 directive to eliminate all dual-use export licenses that are currently required under Section 5 of the Export Administration Act to COCOM-member countries, Commerce published regulations updating General License COCOM Trade (GCT) on May 1, 1992. This substantially reduced the few remaining export controls existing for export from the United States to Japan to include only cryptographic equipment, night vision, high speed cameras, flash x-ray systems, and items on the missile technology annex.

- The Commerce Department expanded GCT on May 21, 1991, to add exports to Austria, Finland, Ireland, and Switzerland, on October 16, 1991, to add Sweden, and on May 5, 1992, to add Hong Kong and New Zealand because of these countries' demonstrated ability to safeguard strategic goods and technology.

IV.B Progress on Removing National Security Reexport Controls

- o Regulations liberalizing reexport controls were published on May 1, 1992. These substantially reduced the few remaining controls existing for reexports of U.S.-origin items from Japan to other countries. This allows reexports of all items eligible for General License GCT, but does not include reexports to countries of proliferation concern.

IV.C Progress on Import Liberalization

Steel Trade

- o The steel Voluntary Restraint Agreements (VRAs) were terminated on March 31, 1992, as scheduled.

- o The U.S. has been and will continue to focus on developing an international consensus to end government supported distortive and unfair practices in steel. The MSA stalled in late March due to the lack of agreement in "greenlighted" subsidies, antidumping consultations provisions, and issues relating to "waivers" from MSA provisions. During the U.S. and Japan bilateral consultations on the MSA, we have discussed ways of restarting the talks, without compromising our position that any MSA must yield a truly "GATT-plus" agreement.

    - The USG is focusing its efforts on developing this consensus, known as the multilateral steel agreement or "MSA."

    - Both the U.S. and Japan are participating in MSA negotiations. U.S. and Japanese officials have met several times over the past months to discuss outstanding issues. The proposed MSA is based on disciplines contained in the bilateral consensus agreements (BCAs) negotiated in 1989 and currently in effect with certain of the United States' steel trading partners.

- o U.S. authority to enforce the VRAs under the Trade and Tariff Act of 1984, as amended, was contingent on a positive determination by the President that major steel companies had committed substantially all of their net cash flow from steel product operations to reinvestment and modernization.

    - For the period from October 1, 1990 to May 31, 1991, the International Trade Commission determined collective expenditures on steel plant and equipment exceeded net cash flow from steel operations. The ITC also forecasted such expenditures would continue to exceed

net cash flow for the remaining months of the 12-month period ending September 30, 1991.

- The U.S. steel industry has undertaken major efforts to improve its competitiveness. For example, current programs to install continuous casters should raise the U.S. percentage of steel cast by this method to over 80 percent by 1995. Man-hours per ton of steel produced in the United States are among the lowest in the world.

Machine Tool Voluntary Restraint Agreements

o The U.S. and Japan have reached an agreement to phase out Japan's voluntary restraint of machine tool exports to the United States during the two years ending December, 1993.

o Upon announcing his decision to negotiate a progressive removal of the machine tool VRA, President Bush announced a number of domestic policy initiatives for the U.S. machine tool industry. These include:

- The Secretaries of Commerce and Defense shall continue to implement the Domestic Action Plan of programs to support the revitalization of the U.S. machine tool industry, including support of the National Center for Manufacturing Sciences and DOD's Manufacturing Technology Research and Development Program.

- The Secretary of Commerce, as chairman of the Cabinet-level Trade Promotion Coordinating Committee, shall give special focus to ways to promote machine tool exports.

- U.S. export control regulations shall be reviewed to ensure restrictions on machine tools are kept to the minimum consistent with national security.

- The Secretary of Labor shall help the machine tool industry improve technical training, human resource management, and the utilization of new and emerging technologies.

- The Secretaries of Commerce and Energy shall examine which research and development efforts in the national laboratories could benefit the domestic machine tool industry and will recommend appropriate investment and technology transfer to realize such benefit.

IV.D. Trade Laws and H.R. 5100

In accordance with the Administration's goal to open markets and expand trade, the U.S. Government will continue to fairly, objectively, and vigorously implement U.S. trade laws consistent with its GATT obligations.

As stated by Ambassador Hills in her testimony on the content of H.R. 5100 on May 14, 1992, "... however well intentioned the Trade Expansion Act may be, the effect could well be trade contraction. The bill contains many provisions that threaten to close markets, not open them. Such legislation could be particularly destructive at a time when the U.S. economy and job creation are enjoying sustained support from strong export growth."

New Commitments

IV.E. Regulatory Burden

On January 29, 1992 the President initiated a 90-day period of regulatory review, which, owing to its success, has been extended for four months (through August 29, 1992). Inefficient or unnecessary regulation hampers the competitiveness of U.S. business by raising costs and impeding the development and utilization of advanced technologies. Substantial reduction of the regulatory burden is being achieved without compromising public safety or health through a careful review of each regulation's cost effectiveness.

As a part of this review each agency, to the extent permitted by law, is to refrain from proposing or issuing new regulations and programs which retard economic growth.

- o Under the auspices of the Council on Competitiveness, the heads of the major Federal regulatory agencies review regulations and programs hindering economic growth. They also identify and accelerate actions to reduce the burden of existing regulations. Each regulation is reviewed to determine whether it satisfies five requirements.

  - The expected benefits to society should clearly outweigh the costs.

  - The regulation should be fashioned to maximize the net benefits to society.

  - To the maximum extent possible, the regulation should rely upon performance standards instead of command-and-control requirements.

  - Market mechanisms should be relied upon to the maximum extent possible.

- The regulation should provide clarity and certainty to the regulated community and be designed to avoid litigation.

o As a result of this review, the Administration has already taken specific steps to remove regulatory roadblocks to growth. Some examples are:

- Under a new policy developed by the President's Council on Competitiveness, federal regulators will exercise oversight over the use of biotechnology processes only when a specific product poses an unreasonable risk. With the help of this new policy the U.S. biotechnology industry is expected to grow from a $4 billion to a $50 billion a year industry by the year 2000.

- Financing costs, a significant part of the price of almost all goods and services, have been reduced by an agreement among the four agencies regulating banks and thrifts to apply uniform supervision policies and procedures. Further, EPA has clarified that lenders are not ordinarily liable for environmental damage done by their borrowers, removing a significant barrier to lending.

- The Department of Agriculture has announced a number of actions to reduce labelling costs. Exemptions will be implemented to provide flexibility for small businesses, and the transition costs of new labelling standards will be eased by extending the implementation period by one year;

- The Administration has developed several innovative, market-based approaches to reduce the costs of meeting environmental goals. These include the use of emission reduction credits for removing high-polluting vehicles from the road, expediting the creation of futures contracts in emission reduction credits, and eliminating a requirement for "onboard refueling vapor recovery systems" for new cars;

- The Interstate Commerce Commission and the Federal Maritime Commission have trimmed complex regulations which needlessly increase the cost of truck, rail and ocean transportation.

- The Securities and Exchange Commission proposed a regulation to increase from $500,000 to $1 million the amount a small business can raise through stock offerings without registering with federal authorities. Also, the SEC made it possible for thousands of small businesses to use streamlined registration forms, saving more than $180 million on accounting and legal fees.

V. Research and Development

The first Annual Report on the SII described several initiatives proposed by the Administration that would promote U.S. research and development through both public and private sector efforts. Substantial progress has been made with each of these initiatives since the publication of the report.

V.A Federally-supported Research and Development

- o Federal support enacted for the conduct of research and development (R&D) in FY 1992 will increase by $8 billion, to approximately $74.5 billion.

  - Support for civilian R&D will increase by 7 percent, to more than $28 billion.

  - Support for defense-related R&D will decrease by 13 percent, to approximately $42.7 billion.

  - Spending on Federal civil space activities will increase by 6 percent.

- o The President's FY 1993 budget calls for a nearly $2 billion increase in Federal funding for research and development, to a record high of more than $76.5 billion. Under the President's plan, support for civilian R&D would increase by over 7 percent and defense-related R&D would increase by 1 percent. The share of defense R&D in total Federal support for R&D would decline from 60.0 percent to 58.7 percent in FY 1993 and the share of civilian R&D would increase from 40.0 percent to 41.3 percent.

- o A 13 percent proposed increase for Federal civil space activities includes an 11 percent increase for space station development, and a 24 percent increase for the global climate change research program.

- o Part of the $2 billion proposed expansion in funding for Federal R&D would be devoted to a 21 percent increase for the National Science Foundation. The Administration remains committed to doubling the NSF budget by 1994.

V.B Support for Private Research and Development

Industry is the largest supporter of R&D in the United States, providing slightly over 50 percent of total national outlays on R&D. Private research and development will be bolstered by lowering the cost of capital by making permanent the R&E tax credit and by reducing regulatory and legal barriers to investment.

- o The use of tax credits stimulates R&D, but it is a near-term revenue loser to the Treasury. In the longer-term those losses may be offset by the revenues from taxes on profits and income derived from new products and processes stimulated by the credit.

- o The President's FY 1993 budget again proposes a permanent extension of the research and experimentation tax credit and an 18 month extension of the allocation rules.

- o The Congress accepted the Administration's objections to the foreign participation provisions in Title II of the American Technology Preeminence Act of 1991. The Act does not restrict foreign participation in the U.S. market. It requires both foreign and domestic firms' participation be in the interest of the United States, as evidenced by R&D, manufacturing, and significant employment in the U.S., and agreement to future commercial application of resulting technology. In addition, the Act contains important safeguards for U.S. investors overseas, by ensuring foreign governments provide national treatment to U.S. investors in their home markets and adequate protection of their intellectual property rights.

V.C <u>Adoption of the Metric System</u>

- o Beginning fiscal year 1993, Federal departments and agencies must use the metric system of units in procurements, grants, and other business-related activities, except where it is impractical to do so or significant inefficiencies or loss of markets by U.S. firms will occur.

- o The Department of Commerce is working with different industry sectors to develop timetables for adoption of the metric system of units. One example is the metric design and engineering of all commercial government buildings. The goal is for all Federal commercial construction to be in metric units by 1994.

- o Federal agencies are cooperating in the formation of an ad hoc committee to work with industry, to develop information, and to set timetables for a transition of government paper and printing to metric sizes. The Congressional Joint Committee on Printing is expected to require that the Government Printing Office use the metric system of units in all of its documents.

- o Federal agencies put metric transition plans into effect November 30, 1991, as mandated by the President's July 25, 1991, Executive Order 12770 "Metric Usage in Federal Government Programs." Commerce has also established

metric system of units transition guidance for Federal agencies. The Order designated the Secretary of Commerce as the coordinator of the government's units. According to the Order, Federal agencies will report to the Secretary on their metrication progress and give recommendations to overcome transition problems and barriers by June 30, 1992. The Secretary will use this information for a special report due to the President on October 1, 1992.

- As part of their FY93 budget submissions, Federal agencies reported on actions taken during the previous fiscal year to implement the metric system of units.

- Progress on the transition to metrication is being made at all levels of government. The National Council on State Metrication met on July 19, 1991 to discuss Federal metric grants to states, the states' metric transition public awareness campaigns, and state metric procurement policy.

- The Commerce Department is developing plans to survey industry on its progress on making the transition to metric.

- The Federal government's own imminent transition to metric units will serve as an important catalyst for U.S. firms to begin metric usage and to enhance already existing metric programs.

- Companies bidding on Federal procurements and grants will have to change to the metric system to the extent feasible, or, alternatively, risk being precluded from bidding beginning September 30, 1992. At the same time, Federal procurements, grants, and all business-related activities are required to be in metric, to the extent such use is practical and does not cause significant inefficiencies or loss of markets to United States firms.

- The Department of Commerce will work even more closely with industry this year to heighten its awareness of the benefits of the metric system.

- The President's Export Council (PEC), a leading U.S. private sector Commerce advisory committee, endorsed the Federal government's efforts to convert to the metric system and has strongly urged industry to adopt the system. The PEC issued a formal statement in this regard during the week of March 29, 1992.

- Moreover, U.S. exporters are taking the initiative to make the conversion to metric more and more as they become increasingly aware they must use metric units to effectively compete overseas.

Examples of the Commerce Department's Efforts on Metric System

- To enhance Federal efforts, the Commerce Department held its first annual "Metric Awareness Week," from October 6-12, 1991, to highlight that the government's transition to the metric system of units is well underway. Also within Commerce during "Metric Awareness Week," "Metric is Coming" posters were distributed and displayed in government buildings nationwide. Additionally, the National Oceanic and Atmospheric Administration (NOAA) publicized its imminent transition to metric by distributing its poster "NOAA Goes Metric" to 1,000 nautical chart distribution offices, yacht clubs, ship chandlery shops, and other appropriate industry representatives. Other agencies have similar awareness activities.

New Commitments

Federally-supported Research and Development

The Advanced Technology Program makes grants to companies on a cost-sharing basis to fund pre-competitive generic technology. Many other governments have pre-competitive, generic technology programs covering a wide range of technologies and often with very substantial funding.

- The Cooperative Research and Development Agreement (CRADAS), the Office of Research and Technology Applications (ORTA), and the Regional Manufacturing Technology Centers of NIST demonstrate the Administration's commitment to technology transfer and strong commercialization programs.

- The U.S. has sharply increased its efforts to transfer technology from federally-supported programs. President Bush's budget for FY 93 calls for $579 million to be allocated for technology transfer activities. Funds for ORTAs would increase 19% to $32 million. Administrative procedures for establishing CRADAs are being streamlined and over a thousand are now in place. The National Technology Initiative meetings have explored a wide variety of possible actions to further improve the effectiveness of technology transfer efforts. The U.S. must carefully evaluate its efforts, including the Manufacturing Technology Centers, the Engineering Research Centers, and other programs, in order to obtain the greatest leverage from federal expenditures.

- At the present time, U.S. laws provide small businesses and nonprofit organizations (e.g., universities) performing Federal research work may seek

the intellectual property rights to inventions coming out of their research. The contractors can then either develop the commercial aspects of these inventions themselves or license the inventions to others for implementation.

- o A related law is the Federal Technology Transfer Act, which authorizes Federal laboratories to enter into Cooperative Research and Development Agreements (CRADAs) with private sector partners. The parties perform cooperative research on subjects of mutual interest and the private party is able to secure intellectual property rights to inventions generated by the work.

- o The Bush Administration has worked hard to implement these laws and to make the private sector aware of the opportunities for technology transfer from Federal programs.

  - The ongoing National Technology Initiative (NTI) meetings have focused private sector attention on the work of the Federal laboratories and the opportunities for collaboration arising from that work. Industry awareness of and interest in these opportunities is increasing and individual companies and consortia are beginning to enter into a wide variety of agreements with Federal laboratories.

- o The United States has fully implemented the provisions of the Federal Technology Transfer Act in its agencies and laboratories. All delegations of authority are in place and substantial efforts are underway, including the National Technology Initiative, to promote industry interest in partnering with the Federal Laboratories.

- o The President's FY 1993 budget again proposes a permanent extension of the research and experimentation tax credit and an 18-month extension of the allocation rules.

Support for Private Reasearch and Development

The Congress accepted the Administration's objections to the foreign participation provision in Title II of the American Technology Preeminence Act of 1991. The USG will continue to consult with the Congress on non-discriminatory participation by foreign firms in the ATP.

- o The Administration has requested an extension of the ATP and an increase in its funding in the FY '93 budget. Through this, and similar increases and extensions, the government has manifested its intent to increase the federal share of R&D funding targeted on enhancing the competitiveness of the U.S. private sector in the non-defense area.

Adoption of the Metric System

The progress report, which will be compiled in October, should describe to what extent the metric system has been adopted in the U.S. within the government. Thereafter, the USG will consider ways to review and report on the metric system adoption in the private sector. Further, the USG will strengthen measures to ensure metric system usage not only by the federal government but also local governments from the viewpoint of strengthening the overall industrial competitiveness of the United States.

With respect to effective educational programs, these should be implemented for the general public on the metric system. Such educational programs are essential especially in the process of changing measurement units.

The U.S. Government again recognizes that increases in private sector metrication are essentially important and that metric usage in general is paced by the degree of metric usage in the private sector and the ability and willingness of private business to adopt metric usage. The Department of Commerce will continue to study ways including mandatory measures and voluntary programs for the private sector to expand and increase significantly the use of the metric system.

- o The U.S. Government will provide to the Japanese Government an opportunity to review the progress report well in advance of its publication.

- o The U.S. Government welcomes comments by the GOJ regarding its progress reports on implementation of SII commitments and future plans and, as appropriate, will consider these comments.

VI. Export Promotion

The Commerce Department has dedicated an unprecedented amount of resources to promoting exports to Japan and worldwide since the inception of SII.

Overview of Worldwide Export Promotion Efforts

- The Commerce Department's U.S. and Foreign Commercial Service (US&FCS), which manages our export promotion program, has successfully implemented many of the initiatives outlined in the May 1991 Joint SII Report. Specifically:

  - Thirty-six Industry Sector Analyses were produced during FY91 on the Central European markets. World Trade Data Reports (WTDRs) and the Agent Distributors Service (ADS) have both been expanded for Poland, Romania, Czechoslovakia, and Hungary.

  - In FY92, there will be a continued high-level production of Industry Sector Analyses, an additional 1,000 more are anticipated.

  - A new planning and counselling tool was introduced in late FY 91 which will provide companies with a rank order of the markets with the greatest potential for export sales in a given sector.

  - Over 850 market insight reports were entered into Commercial Information Management System and the National Trade Data Bank last year on incoming information from the posts. Since November 16, 1991, all market insight reports have been loaded on to the Economic Bulletin Board daily for immediate access by District Offices and the business community.

  - Leads generated through the Trade Opportunities Program (TOPS) program are now distinctly categorized by private and public tenders. TOP government tenders now are entered in the Commerce Business Daily and the Journal of Commerce.

  - The distribution of Commercial News USA has been upped dramatically through private sector economic bulletin boards in 17 countries. A special issue (September 1991) featured products of over 200 firms to give them exposure and access to Persian Gulf reconstruction export opportunities.

The Trade Promotion Coordinating Committee

- o In February 1991, the Secretary of Commerce, in his role as Chairman of the Trade Promotion Coordinating Committee (TPCC), kicked off a national series of conferences, "Exports Generate Jobs for Americans," in Minneapolis, Minnesota. More than 7,000 industry representatives attended the 30 conferences he conducted last year.

- o The TPCC's mandate is three-fold: It coordinates Federal trade promotion efforts to focus on new and emerging markets; it gives government agencies a unified trade promotion presence; and it informs American firms about available government assistance and provides "one-stop shopping" to USG programs.

  - The Trade Promotion Coordinating Committee (TPCC) is the first step towards development of a unified Federal trade promotion effort. It has made substantial progress, though USG export promotion strategy remains less than fully integrated. Through the TPCC the Department of Commerce is working closely with other 18 government agencies to develop a coordinated trade promotion program. The plan is based on three components:

    -- Focus Federal trade promotion efforts on priority overseas markets and U.S. industries with the highest export potential, which reflects our industries' greatest strengths, and competitiveness, and supports our trade policy objectives.

    -- Offer American firms a unified Federal trade promotion presence, and cooperate in creating a coordinated export effort.

    -- Educate the business community about specific Federal export assistance programs and offer "one-stop" access to these programs.

  TPCC's activities and those of the Commerce Department's International Trade Administration's export promotion efforts have raised the awareness of U.S. companies concerning the essential importance of exports to corporate growth and the national economic interest. U.S. industry is now fully aware of having reached a critical turning point for commitment to the development and implementation of global marketing strategies.

- o The Secretary also created the Commerce Trade Information Center, so U.S. firms can one-stop shop for exporting information.

New Commitments

Following the GAO report issued in January 1992, stipulating that the U.S. government export promotion programs lack strategic cohesiveness, the USG will enhance the efforts of the sub-cabinet working group to strengthen the export promotion programs.

The USG commits to fully implement the objectives outlined in the TPCC's action plan. This should further augment the TPCC's efforts to illuminate the exporting process and assist U.S. firms advance in seizing business opportunities overseas.

The TPCC will:

- o Focus Federal trade promotion efforts on priority overseas markets and U.S. industries with the highest export potential, which reflects our industries greatest strengths, and competitiveness, and supports our trade policy objectives.

- o Offer American firms a unified Federal trade promotion presence, and cooperate in creating a coordinated export effort, which is achieved through the National Export Initiative, the Trade Information Center (NEI), and working groups.

- o Educate the business community about specific Federal export assistance programs and offer "one-stop" access to these programs through the successful NEI and the Trade Information Center, respectively.

TPCC's activities and those of the Commerce Department's International Trade Administration's export promotion efforts have raised the awareness of U.S. companies concerning the essential importance of exports to corporate growth and the national economic interest. U.S. industry is now fully aware of having reached a critical turning point for commitment to the development and implementation of global marketing strategies.

The new Secretary of Commerce, Barbara Hackman Franklin, kicked off the TPCC's National Export Initiative (NEI) seminar this year with an event in Dallas, on June 18. This was attended by approximately 250 people. Future planned NEI seminars are as follows:

Louisville, Kentucky	July 31, 1992
Rochester, New York	September 15, 1992
Charleston, South Carolina	September 30, 1992
Orlando, Florida	October 1, 1992
Orange County, California	October 14, 1992

The last two events of 1992 are currently being planned but it is believed they will be held in New Orleans, Louisiana and Salt Lake City, Utah.

The U.S. Government will report annually to Japan on accomplishments of the TPCC.

Presidential Awards for Successful Exporters

The Presidential Awards System to honor successful exporters is receiving renewed priority attention. This was demonstrated most recently when the new Commerce Secretary, Barbara Hackman Franklin, presented an "E" award immediately after her confirmation.

- o The President's "E" Awards Committee is chaired by the Commerce Department with representatives from the Departments of Agriculture, Interior, and Labor, the Small Business Administration, and the Export-Import Bank.

- o To qualify for the President's "E" award, a manufacturer must show evidence of a substantial increase in the volume of exports over a four-year period. Exports should constitute a significant portion of total product sales and/or be materially in excess of the industry's average percentage. The company should demonstrate breakthroughs in especially competitive markets, introduce a new product into U.S. export trade, or open a new market.

- o "E" Award ceremonies are arranged to give maximum publicity to both the recipient and the Department of Commerce's export promotion efforts.

- o The President's "E Star" Award, introduced in 1969, recognizes continued superior performance in increasing or promoting exports. Only recipients of the "E" Award are eligible, and the level of performance must exceed the level for which the "E" award was given.

"E" award winners must show the commitment to 1) competitiveness, 2) demonstrated success in international markets, and 3) commitment to export, which the U.S. Government will also emphasize through its various export promotion programs.

The U.S. Government will fully utilize the President's E awards in order to award American businesses which are making efforts to increase export to Japan.

The U.S. Government has in place an action plan to enhance the public awareness of the "E" awards. The USG will also research ways to further publicize the awards. The USG will report on its entire public awareness campaign at the next SII meeting.

Japan Export Promotion Program

Since the beginning of SII, the Department of Commerce has:

- o Increased its United States and Foreign Commercial Service staff in Japan from 45 persons in FY90 to 61 persons in FY92. The US&FCS opened a branch office in Nagoya, with one American commercial officer and one professional Japanese employee, in 1991 to better seek and report on commercial opportunities in this important industrial region.

- o Appropriated more funds ($4.9 million in FY92 compared to $3.6 million in FY90) to help U.S. firms pursue market opportunities in Japan. The FY 1993 budget proposes an increase to $5.3 million.

- o Enhanced the Japan Export Information Center (JEIC) by increasing its staff and by implementing a Japan outreach program. Since the President's trip to Japan in January 1992, the JEIC has averaged around 170 calls per week.

- o Assisted U.S. industry (primarily American construction, engineering and design consultants) in seeking commercial opportunities in the Japanese Official Development Assistance (ODA) program. To date, Commerce has compiled a mailing list of over 400, assisted over 150 firms and is aware of approximately $117 million in ODA contract awards to these companies.

- o Published documents on Japanese market entry alternatives. For example, it has 1) produced 64 new Japan industry sub-sector market research reports including a special report on the Distribution System of the Japanese Auto Parts Aftermarket in June 1991; 2) published a comprehensive exporting guide called Destination Japan: A Business Guide for the 90s; 3) highlighted business opportunities in the feature articles of Business America, and 4) expanded the "best exports prospects" list. In FY92, US&FCS Japan will produce an additional 40 industry sub-sector analyses to be added to our database. In addition, JETRO has committed to 10 market research reports on industry sub-sectors under the U.S.-DOC MITI Joint Program.

- o Led an average of ten trade missions a year in addition to sponsoring numerous U.S. and international trade events representing a broad spectrum of U.S. industries and including current and potential export firms.

- o Introduced the Japan Corporate Program (JCP), a five-year export promotion program for 20 selected companies representing a variety of industries and experience in the Japanese market. The JCP has completed its first year. A number of participant-companies have reported an increase in sales and accelerated negotiations with potential Japanese distributors.

The Promotion of Agricultural Exports to Japan

- Japan is the most significant object of the U.S. Department of Agriculture's market development efforts. USDA funding for promotional activities in Japan has grown ten-fold since 1985 to about $60 million per year.

- With the opening of the new Agricultural Trade Office (ATO) in Osaka in March 1992, USDA now has four offices in Japan, more than in any other country. These offices are staffed by a total of nine Americans and seventeen local staff.

- In addition to spending about $3 million on marketing activities carried out directly by the ATO's, USDA helps support the market development activities of some 50 U.S. agricultural producer associations and food companies in Japan, many of which are known as "cooperators." Products promoted range from cherries, to beef and mink, to plywood and feed grains.

- USDA's Foreign Agricultural Service provides a number of services specifically designed to assist U.S. agricultural exporters in identifying market opportunities in Japan. For example, the Agricultural Information and Market Service program helps bring Japanese buyers and U.S. sellers together through communications services such as "Buyer Alert" and "Trade Leads."

New Commitments

Promoting Long-term Exporting Strategies

- The Commerce Department will continue its efforts to advise U.S. companies that a fundamental aspect of successful exporting is devising long-term aggressive exporting strategies.

- The Commerce Department is currently supporting a pilot program, the Japan Corporate Program (JCP), in which we are working with 20 U.S. companies that have designed long-term plans for penetrating the Japanese market. The fundamental goals of the program are to increase export to Japan, to create models of success for other U.S. companies to follow, and to deepen the U.S. exporting companies' understanding on the business environment in Japan surrounding American companies.

- The JCP is a five-year export promotion effort, begun in January 1991. The 20 participating companies involved represent a wide spectrum of industries and experience in the Japanese market. The companies receive extensive support from Commerce Department staff and from use of Commerce export services.

- o The JCP has just completed its first year and many of the companies have reported an increase in sales and accelerated negotiations with potential Japanese distributors. The Department of Commerce is following the participants' progress and will incorporate the knowledge it gains from the JCP into its counseling services to all U.S. business. The program is intended to have a multiplier effect and increase opportunities for all U.S. businesses.

Promoting Exports to Japan

- o The U.S. is fully committed to carrying out and enhancing our export promotion efforts.

- o The USG will assist U.S. exporters to enter and advance in the Japanese market, and support U.S. companies to take advantage of the new market opportunities emanating from MITI's announcement of its Business Initiative for Global Partnership (BIGP).

- o As a follow-up to the President's trip and the BIGP, the Commerce Department has developed an action plan composed of three elements.

  - Working with U.S. industry groups and Japanese counterparts to secure information on the products to be procured by the Japanese companies under the voluntary import promotion programs.

  - Mounting a series of trade missions to underscore new market opening measures for sectors such as paper, glass, and computer procurement.

  - Creating an information dissemination network to inform U.S. firms directly of new export opportunities.

- o Enhanced business counselling and commercial information services are being instituted through an expanded and proactive Japan Export Information Center (JEIC) which is projecting a 25 percent increase in requests for assistance from 12,000 to 15,000 in FY92.

- o Another element of our export promotion strategy is increasing efforts to identify and facilitate commercial opportunities for U.S. suppliers to Japanese domestic infrastructure and third country Official Development Assistance (ODA) funded projects.

- o The Commerce Department is currently planning an ODA seminar, pursuant to the Tokyo Declaration, that will focus on the mechanics of ODA and on bringing U.S. and Japanese firms together in a joint effort to help third world countries.

Private Export Promotion Programs

The U.S.-Japan Business Council, a private sector association, has taken an active and constructive role in following up on the export opportunities arising from the President's January trip to Japan and from the Japanese "Business Initiatives for Global Partnership." The Joint Resolution of the U.S.-Japan Business Council and the Japan-U.S. Business Council in mid-February 1992 resolved to take strong action on the part of both the U.S. and Japanese private sectors to follow up on these opportunities. On July 14, 1992, the Councils concluded its 29th annual Japan-U.S. Business Conference. At the Second Plenary Session, the Councils issued a statement which discussed the joint decision to establish a services task force and consider forming other working groups in appropriate sectors.

- o Current efforts of the U.S. side of the Council are directed towards:
  - arranging U.S.-Japan vendor meetings and joint industry dialogues;
  - mounting an export symposium; and
  - developing a U.S. Export Charter.

- o On February 18, 1992, then Under Secretary of Commerce for International Trade Michael Farren issued a press statement stating that the Commerce Department "is committed to providing full support to the export promotion activities outlined by the (U.S.-Japan Business) Council in its Joint Resolution. To assist the U.S. side of the Council's efforts, ITA (the International Trade Administration of the Department of Commerce) will certify each trade mission, participate in mission activities as requested by the private sector organizations and provide technical assistance and information to mission participants."

- o The Commerce Department, in joint sponsorship with the U.S.-Japan Business Council, has now scheduled a major, one-day U.S. Japan trade symposium for October 19, 1992. The Secretary of Commerce is fully supportive of the event and will deliver the keynote remarks. Representatives from prominent U.S. trade and industry associations will be invited. The objective of the symposium is to pursue commercial opportunities resulting from the President's January trip to Japan and to further encourage U.S. companies to export to Japan.

- o During Prime Minister Miyazawa's July 1, 1992, visit to Washington, the President underscored the importance for the private sector to enhance exports. He stated, "I will work to support the efforts of America's private sector to create an export vision to open foreign markets that means more American jobs."

- o All USG trade development programs and services have been directed toward encouraging U.S. firms to expand exports to overseas markets. The Trade Promotion Coordinating Committee (TPCC) will ensure that the trade promotion activities of 18 USG agencies provide maximum encouragement and assistance to potential and established exporters. It is expected that, with this kind of encouragement, U.S. firms will formulate export plans and implement them.

U.S. Export-Import Bank

The Eximbank will continue its efforts to improve and strengthen the efficiency of its programs, including by pursuing its recent initiative to provide as necessary 100% coverage of principal and interest under its guarantees and by providing guaranteed lenders more repayment flexibility in the event of a default.

Eximbank will seek to expand its program of financing exports on a limited recourse basis for certain types of projects. This program should permit Eximbank to use its resources more efficiently in supporting exports. Eximbank will continue to look for opportunities to increase the competitiveness of smaller export transactions through the bundling of small credits into a single large facility to achieve financing economies of scale.

In addition, the USG will further promote the expansion of the cooperative relationship with the Export and Import Insurance Division of the Ministry of International Trade and Industry and other relevant agencies. Finally, the U.S. will remain active in the efforts under the auspices of the OECD to level the playing field in the export credit area.

VII. Workforce Education and Training

As was recognized in the SII Joint Report and the First Annual SII Report, improving the education and training of the U.S. work force would increase productivity and enhance competitiveness. The Administration has long been committed to this goal. During the past year the President has reaffirmed this commitment. The U.S. has developed far-reaching strategies to reach the goal; with the support of American business and communities, the Administration proposes to undertake unprecedented steps to carry out these strategies.

VII.A Education

National Education Goals

- o Two years ago the President and the nation's governors committed the U.S. to achieving six national goals designed to enhance scholastic excellence and workforce skills. The goals, to be reached by the year 2000, include: a high school graduation rate of at least 90 percent; preeminence in math and science; every adult will be literate and possess the skills necessary to compete in the world economy.

America 2000

- o On April 18, 1991, the President outlined his plan to achieve the National Education Goals, "America 2000". The plan calls for four related strategies: (1) better and more accountable schools for today's students; (2) new types of schools for future students; (3) promotion of life-long learning; and (4) community and family support for learning.

- o As part of the first strategy, the President and the governors established the National Education Goals Panel to oversee the progress in meeting the National Education Goals.

- o Over the past year, the National Education Goals Panel has held extensive regional and national hearings, with testimony from experts, educators and the public. In September, 1991, the Panel released the first of ten annual reports to the nation on the progress toward the goals.

- o The 10 annual National Education Goals Reports will track progress by the nation and the states towards meeting each of the six education goals that the President and the state governors established in 1989. The first report, for the year 1991, presents information on progress made at the state and national level relative to each goal, and describes the Federal Government's role in achieving these goals. Future reports will contain similar information.

- o The National Council on Education and Testing was created by legislation and was charged with: (1) advising on the feasibility and desirability of national standards and tests, and (2) recommending long-term policies and mechanisms for setting voluntary standards.

- o On January 24, 1992, the Council issued a report on "Raising Standards for American Education," which recommended that the nation set national education standards and develop a voluntary system of assessments to help schools and students meet these standards. To carry out this initiative, the Council proposed the creation of a new National Education and Assessment Council. Legislation to create this body is pending before the Congress.

- o High school completion is at an all-time high. Eighty-three percent of all 19- and 20-year-olds in 1990 had finished high school or its equivalent--7 percent short of the national goal.

- o Alcohol use at school by 12th graders dropped from 21 percent in 1980 to 7 percent in 1990. The in-school use of marijuana declined from 14 percent in 1980 to 6 percent in 1990; use of cocaine at school declined from 3 percent in 1980 to 1 percent in 1990.

- o Student achievement in mathematics and science has improved somewhat over the past decade, although much remains to be done over the next one.

- o The President's <u>America 2000</u> plan is a comprehensive strategy for achieving the six national education goals for the year 2000. It contains four parts as follows:

  - Improve today's schools--make them better and more accountable;

  - Create a New Generation of American Schools;

  - Go back to school ourselves, recognizing that learning is a lifelong process and;

  - Make our communities places where learning can happen.

- o American communities have accepted the President's call for commitment under the community support strategy. As of April 1992, 43 states and 1200 communities have signed on to America 2000 and are developing strategies to attain the National Education Goals.

- o In response to the President's challenge in the second strategy, American business formed the New American Schools Development Corporation, a non-

profit corporation which is raising funds to support creative education designs. Over the next five years the Corporation will fund a series of design teams and implementation projects to restructure and revitalize whole schools.

The Federal Role

- o While the states and localities are primarily responsible for helping meet the National Education Goals, the Federal Government has a vital role to play in offering financial support, services and sponsorship of research and demonstration projects.

- o In the FY 1993 budget, the Administration calls for support of over $81 billion for programs administered by 25 agencies, representing an increase of 44 percent since 1989 and 8 percent over 1992. This growth reflects the high priority given education over the past three years and the President's commitment to achieving educational excellence in the future.

  - The Administration proposes funding of over $20 billion to support educational readiness in preschool years, and help move the nation toward achieving the first National Education Goal, having children arrive at school ready to learn. In particular, the Administration requests funding of over $2.8 billion for Head Start, a comprehensive child development program for pre-school, low-income children. This represents a 27 percent increase over 1992 and will allow the program to serve nearly 800,000 children.

- o The Administration proposes funding of nearly $22 billion for elementary and secondary education programs and strategies, including funding for programs contained in the Excellence in Education Act and math and science programs (see below).

  - Under the America 2000 Excellence in Education Act, the Administration requests $500 million, to be matched by an equal amount of state funds, for the Choice Grants for America's Children Act. The over $1 billion total would support innovative local choice proposals to help middle- and low-income families gain more choice of schools and provide incentive for all schools to improve.

  - The proposed America 2000 Excellence in Education Act would provide competitive grants of up to $1 million each to help over 535 communities develop new schooling designs.

- The Administration requests $654 million for programs under the Drug-free Schools and Communities Act, an increase of $30 million over 1992.

- The Administration proposes funding of nearly $37.5 billion in 25 Federal agencies for post-high school programs, an increase of 6 percent over 1992. Under the Higher Education Act, the Federal Government provides for 75 percent of all funds for grants, loans and work-study jobs available to post-secondary students.

o The Administration has requested the highest funding for grants and the largest one year increase in history, a request of $6.6 billion, or 22 percent above 1992.

  - In addition the budget proposes Presidential achievement scholarships to every grant recipient who demonstrates high academic achievement, . providing incentive for improved academic performance.

o The Administration has undertaken significant management reforms and proposed reform legislation to ensure that the largest student aid program, the Guaranteed Student Loan Program, functions effectively. Reforms include: garnishment of wages for defaulted borrowers; credit checks for borrowers age 21 and over; requiring a creditworthy co-signer if a negative credit history is found; and authorizing data matches with Federal agencies to locate defaulters.

o The President has proposed two major tax incentives to help meet the rising cost of and ensure access to higher education; (1) allow deduction of interest on student loans for post-secondary education tuition, fees and living expenses; and (2) allow penalty-free withdrawal of money from Individual Retirement Accounts for educational expenses.

Math and Science Education

o The President established a special Committee under the Federal Coordinating Council on Science, Engineering and Technology, to recommend a coordinated strategy for the use of Federal funds, and to work with the states in achieving the fourth National Education Goal.

o The Administration proposes funding of over $2 billion for mathematics and science education programs in 11 agencies, an increase of 7 percent over 1992.

- o The highest priority of the Special Committee is improvement of pre-college math and science education. The Committee's development of a comprehensive math and science education strategy will help states and localities make significant progress in three areas: teacher training, use of electronic dissemination of math/science learning methods, and use of computers and scientific equipment.

A Nation of Students

- o America 2000 calls for improvement in lifelong education and training for the country's workforce. In July 1991, the Secretary of Labor's Commission on Achieving Necessary Skills (SCANS) identified general competencies and a foundation of skills needed for good job performance. (See VII B below, for a description of the SCANS Commission findings.)

- o The Education and Labor Departments will work together to support work-related education and skill standards in several areas: (1) youth apprenticeship training in high schools; (2) aid for lifelong learning through the student loan program; (3) vocational education programs which integrate secondary and post-secondary education for technical occupations. (Also see VII B below.)

- o Interest in "partnering" programs between educational institutions and businesses is continuing to grow; for example, an increasing number of junior colleges are working together with businesses to improve the work-related education and training of our youth.

- o The President signed the National Literacy Act in July 1991, providing for the National Institute for Literacy Research and Practice, a resource center on adult literacy issues, as well as funds for technical assistance to small- and medium-sized firms.

- o The FY 1993 budget calls for over $300 million for literacy and basic education for adults under the Adult Education Act.

- o In 1992, the first quadrennial national household survey to measure levels of literacy among the adult population will be conducted. Results of this study will be available in 1993.

VII.B Training

Work Force Action Programs

As described in previous SII Reports, the U.S. Department of Labor has initiated and carries on an action program to improve the quality of the work force. To accomplish this, the Department will help to implement the President's America 2000 education strategy. The following documents progress on some of the key elements of the action program.

The Secretary of Labor's Commission on Achieving Necessary Skills

The Secretary's Commission on Achieving Necessary Skills (SCANS) was asked to examine the demands of the workplace and was directed to advise the Secretary on the level of skills required to enter employment. In July 1991 the SCANS Commission reported to the Secretary of Labor on its findings.

- o The report, "What Work Requires of Schools," identifies five general competencies and a three-part foundation of skills and personal qualities that lie at the heart of job performance. The report recommends that the competencies and the foundation be taught and understood in an integrated fashion that reflects the workplace contexts in which they are applied.

- o The Commission also drew three major conclusions regarding achievement of these skills:

  - All American high school students must develop a minimum set of competencies and foundation skills.

  - The qualities of high performance that characterize our most competitive companies must become the standard for the vast majority of our companies.

  - The nation's schools must be transformed into high-performance organizations in their own right.

- o The SCANS final report--Learning a Living: A Blueprint for High Performance--has just been released. It argues for a reorganization of education and work to close skill gaps and prepare the workforce of the future.

- o Another publication, "SCANS in the Schools," is designed for educators planning to incorporate teaching SCANS competencies into their curriculum

and instruction.

- o The SCANS Commission has completed its work and is going out of existence in July 1992. Its work will be carried on through established components of the DOL.

School-to-Work Transition Programs

- o The demonstration project grants made in the fall of 1990 have completed their two year funding allotment. The most effective model programs have been extended for a third year. The grantees continue to meet quarterly to share information and publicize their successes.

- o The school-to-work transition programs consist of a structured combination of academic instruction, classroom training, paid on-the-job training and work experience, and mentoring. Students choosing apprenticeships would make formal agreements with the school, the employer, and parents or guardians.

- o Another round of demonstration grants is presently being completed, based upon the successful experiences of the first round and the growing national interest in this activity. Grant awards are expected this fall.

- o Legislation has been introduced that would provide a framework to support a national system of youth apprenticeship, in order to move students from school into front line jobs requiring high skills. There appears to be broad Congressional support for the Administration's bill, which would authorize funding of $50 million.

- o The Department recently awarded funding to six leading states to support the planning and implementation of youth apprenticeship programs in those states.

- o The U.S. Department of Labor has been working with a private group, the Council of Chief State School Officers, composed of the leading educational officials in each state, to give additional awards for school-to-work projects. This is additional evidence of the expansion of interest in this area, following the President's initiatives.

"LIFT" Awards

- o The Department of Labor is planning to make additional Labor Investing for Tomorrow ("LIFT") awards for the fall of 1992.

- o These awards are given, as before, to business and public organizations that have created model programs to upgrade work force skills.

- o With the interest in the LIFT awards, the National Advisory Commission on Work-Based Learning has recommended expansion in the fall of 1993 of the focus of the LIFT awards. The Commission recommends that they be made into broadly based human resource development awards, based upon the principles of the Malcolm Baldrige Award (the President's National Quality Awards).

National Advisory Commission on Work-Based Learning

- o In carrying out its mission to advise the Secretary of Labor in increasing U.S. worker skill levels, the National Advisory Commission on Work-Based Learning has recommended action steps for DOL to undertake in six areas:

  - developing a national framework of skill standards and certification;
  - integrating human resources development and the introduction of new technology;
  - promoting labor-management cooperative efforts to implement work-based learning;
  - developing new accounting models that promote investment in people;
  - managing cultural diversity as a strategic asset;
  - developing a national award for quality human resource management systems. (See LIFT awards above.)

Work-Based Learning

- o As a major initiative, the Department of Labor has proposed a process for developing a voluntary system of industry-led skill standards and certifications of individual skill achievement. DOL has published an issues paper discussing the key issues, conducted public hearings in ten cities during the spring, and will now prepare to fund several demonstration projects in key industry sectors.

- o The standards will be determined by labor and management from key employers in several industries, and will involve required skills both for entry and career-ladder positions.

- o The Work-Based Learning demonstration programs described in previous SII reports have been successful. Because of their success, many elements of the

original programs are still operating. In particular, the process developed through the grants has attracted widespread attention in the semiconductor industry, and in the health care and aerospace industries. The Department of Labor and other partners have been called upon to give presentations in a number of industry forums.

- The U.S. Department of Labor previously sponsored a symposium, together with the Japanese Ministry of Labor, on work force quality, with the aim of exchanging information on successful workforce practices. The symposium reports were published in the fall of 1991 and are being widely disseminated. The Department continues to maintain the channels of communication opened by the symposium.

- The Department has awarded two grants to study best practices in firms in the process of becoming "high performance work organizations." Such organizations have a structure which empowers front line workers to achieve very high quality operations standards and as a consequence are likely to be the leading edge organizations of the future. The grantees will study the process of change and compile examples of such firms in transition.

Vocational Education

- The FY 1993 budget requests $1.2 billion for vocational education programs, which includes $991 million for grants to states to begin a major overhaul of vocational education programs, and $100 million for "Tech-Prep" vocational education programs which integrate secondary and post-secondary education for students entering technical occupations.

- The Federal Committee on Apprenticeship, re-constituted last year, has continued to meet with the purpose of providing aid to existing apprenticeship programs to make them responsive to the long-term needs of the work force.

Other Federal Commitments for Worker Training

- In July 1991, the President signed the National Literacy Act of 1991, signaling renewed Federal priority for programs and policies to raise literacy levels. (See VII A above, for a description of the Act.) The Act authorizes a new program of technical assistance for middle-and small-sized firms to assist in upgrading worker skills.

- The budget includes $1 billion to finance the Federal share of the Job Opportunities and Basic Skills program (JOBS). This program is targeted to parents receiving assistance under Federal support programs to obtain education, training, and employment services.

- o Included in the JOBS program this year are two new demonstrations, to provide support to for-profit companies to train and place welfare clients in jobs, and to provide lump-sum payments to recipients who work their way off the Federal support programs.

- o The Departments of Health and Human Services and Education plan to initiate a five-year comprehensive process/impact evaluation of the program beginning in 1992.

Job Training Partnership Act

- o Legislation was submitted in May 1991 to amend the Job Training Partnership Act (JTPA), enhancing the states' responsibility to monitor administrative practices and controls. Bills incorporating the features of the legislation are making their way through the Congress; the legislation would take effect in the program year that begins July 1, 1993.

- o For 1993, amendments are proposed to JTPA to replace the existing block grant and summer youth programs with separate programs serving adults and youth. The new programs will be targeted on those with particularly severe barriers to employment and will provide more intensive and comprehensive services.

- o The amendments proposed for 1993 JTPA also would authorize a Youth Opportunities Unlimited demonstration program to provide comprehensive services to youth living in high poverty areas.

New Commitments

Education

The Administration is committed to establishing voluntary world class standards in support of the national goal that "...American students will leave grades four, eight, and twelve having demonstrated competency in challenging subject matter including English, mathematics, science, history and geography;" and to making available assessments/tests that will measure student progress toward the standards.

- o The National Council on Education Standards and Testing was created in response to interest in national standards and assessments by the Nation's Governors, the Administration and Congress. In the authorizing legislation (Public Law 102-62), Congress charged the Council to:

  - advise on the desirability and feasibility of national standards and tests, and

- recommend long-term policies, structures, and mechanisms for setting voluntary education standards and planning appropriate systems of tests.

- On January 24, 1992 the Council recommended that the nation should set national education standards and develop a voluntary system of assessments or tests to measure student progress toward the standards.

- The President's budget includes $25 million to help states redesign their curriculum and assessment systems and to implement the system reform strategies that will help students and schools meet the standards.

- Under the U.S. system of government, education is primarily a state and local responsibility. The Administration therefore supports the development of a national system of assessments which encourages the developmental use of multiple tests by states and localities.

- In accord with the recommendations of the National Council on Education Standards and Testing, the various disciplines are working to establish standards for the consideration of the states. The mathematics group, for example, has already worked out its proposals, and science and geography are expected to have their proposals shortly. Next, these model standards will be promptly circulated to every state with full documentation to encourage their early adaptation.

Enhancement of Exchange and Labor Cooperation

The Administration would like to explore with the GOJ mechanisms for undertaking a range of joint activities related to enhancing cooperation between the two governments in the areas of labor cooperation and productivity improvements. This effort can build on our successful exchange of tripartite delegations in 1990, and further the sharing of views and new ideas between our two countries.

- The DOL is assisting the Department of Commerce (DOC) in developing and implementing a Manufacturing Technology Initiative (MTI) between MITI and DOC.

- The Vice President and the Minister of International Trade and Industry announced the intention of the two governments to begin this program for production engineers and foremen during the Vice President's recent visit to Japan.

o DOL would also welcome discussion on exchanging information on "best practices in the service sector" and how to improve productivity in service industries. Given the growing importance of this sector, both sides would have much to gain from such a dialogue.

Study on Labor Management Policies of Private Companies (Review of Layoff Practices)

The USG recognizes the desirability of having companies take measures to ease the impact of layoffs; although policies and practices regarding layoffs are essentially a private matter between the company and its employees or unions.

The USG in 1988 enacted two pieces of legislation that give state and local governments the opportunity to help workers seek new careers before their jobs are terminated. These premises underlie the legislation:

o Prompt state intervention is an important factor in helping workers cope with job loss.

o Adjustment services are of more benefit if they are available to workers before dislocation, rather than after.

o Worker adjustment assistance is best handled by those directly affected by the workforce reduction.

The Worker Adjustment and Retraining Notification Act (WARN) requires certain employers to give at least 60 days advance notice of a closing or mass layoff to affected employees, and certain other government organizations.

The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) encourages the states to establish and coordinate a worker adjustment system that will provide dislocated workers with a rapid response to their employment and retraining needs.

Both WARN and EDWAA are administered by state agencies and funded by the U.S. Department of Labor.

The USG recommends the use of a labor-management adjustment committee (LMAC) to oversee and manage employment and retraining services in the affected plant. To aid in the establishment of those committees, the USDOL has issued a reference manual titled "Establishing Labor-Management Adjustment Committees". In addition, the USDOL has compiled a directory of companies where labor and management have formed joint committees to deal with layoffs.

The USDOL has appointed a National Advisory Commission on Work-Based Learning comprised of national union, management, government and academic leaders to address a variety of workplace issues. Currently the Commission is in the process of preparing action steps for the USDOL to take. The particular problems of job change, layoffs, and retraining will be addressed by this Commission as it looks at the totality of work organizations and the roles of labor and management in a changing work environment. Another commission, the new Advisory Council on Unemployment Compensation, will address the question of layoff assistance. This group will begin in FY 1993.

The Commission on Work-based Learning welcomes, from any source, input during its decision making process. It convenes public periodic hearings in various parts of the U.S. to gather data, comments, views, and opinions from interested persons and organizations. Input from foreign organizations would be welcome at any opportunity, including those hearings.

Over the last several years, DOL has engaged in many studies of best practice companies and developed technical assistance materials for use by firms wishing to emulate best practice. These products include:

- Plant Closing Checklist: A Guide to Best Practice--USDOL, 1990
- Establishing Labor-Management Adjustment Committees--USDOL, 1991
- Responding to Layoffs: A Labor-Management Adjustment Committee Can Help--USDOL, 1991
- Establishing Labor Management Adjustment Committees--USDOL, 1991

These materials were provided to the GOJ.

Job Training 2000

The Administration forwarded detailed legislation to Congress on April 14 to implement Job Training 2000. It is a major commitment to initiate comprehensive reform of the nation's Federal job-training system in order to better prepare workers for future marketplace demands. The Administration forwarded detailed legislation to Congress on April 14 to implement Job Training 2000. It is a major commitment to initiate comprehensive reform of the nation's Federal job-training system in order to better prepare workers for future marketplace demands. The USG will seek the early enactment of the Job Training 2000 Act.

- o The Job Training 2000 reform program uses market-based approaches to improve the existing job training system.

- o The program will transform a relatively disjointed set of programs, administered by seven federal agencies, into a comprehensive vocational training system responsive to the needs of individuals, businesses and the national economy.

- o The initiative targets primarily three groups: new labor force entrants who need basic education and job training; economically disadvantaged workers and people who currently rely on public assistance; and unemployed workers seeking jobs and placement assistance.

- o The initiative would be coordinated at the community level through the Private Industry Councils established under the Job Training Partnership Act (JTPA). The Council system would be modified and expanded, receiving approved funds to administer or coordinate vocational training services for about $12 billion from Federal programs. While certain programs would retain their existing local program structure, certification and approval would be coordinated through the Councils.

- o Job Training 2000 calls for states to use private and non-profit firms to provide basic training and job placement for welfare recipients.

- o Under the program, the Councils would run "one-stop shopping" skill centers which would function as the primary points of entry into Federally funded job-training and vocational education programs, providing skills assessment and testing, referral services and placement assistance. In areas where there are insufficient training opportunities, the Councils would be able to contract for needed services.

- o The Councils would receive $2.2 billion to finance training vouchers for on-the-job training, classroom training and support services, to be targeted to low-income and disadvantaged youth and adults. Very disadvantaged youth would be eligible for the Job Corps, offering residential education and training services.

Training Assistance for Small Firms

TEAMS, or Technical and Education Assistance to Mid- and Small-Sized Firms, was announced by Secretary of Labor Lynn Martin in May 1992. TEAMS represents an Administration commitment to work cooperatively with organizations that provide training services to small companies.

- o TEAMS will work with community colleges, manufacturing technology centers, industry associations, and similar organizations to enhance the capacity of these organizations to provide services in four areas:

  - workforce literacy;
  - technical training;
  - work restructuring; and
  - labor management relations.

- o Many components of TEAMS are already underway. These include:

  - funding studies and surveys of the current experience and training needs of small businesses;
  - conducting focus groups and training sessions for corporate CEOs offered in conjunction with the National Association of Manufacturers;

  - funding the Commerce Department's manufacturing technology centers--which provide assistance with new technology--to explore ways to provide human resource development assistance to their clients as well.

- o Over the next year, we anticipate additional activity in the following new areas:

  - Establishing a National Workforce Assistance Collaborative to develop training materials for small firms with $1.3 million in appropriated funds;

  - Enhancing the capacity of community colleges to meet the needs of small firms in the four areas noted above by training college trainers and developing model curricula.

U.S. Press Statement

Structural Impediments Initiative

July 30, 1992

We have just completed two full days of useful discussions with the Japanese Government on the U.S.-Japan Structural Impediments Initiative. Reports by both the Japanese and U.S. governments which summarize implementation over the past year and set forth new undertakings by both governments are available this morning.

Good progress is being made in implementing existing commitments and both sides have been able to offer further commitments to new measures to reduce structural impediments. The U.S. welcomes with particular satisfaction the new commitments by the Japanese government in the report which deal with the areas of distribution and exclusionary practices.

Importantly, Japan restated its intention to reduce its current account surplus and agreed to take measures aimed at this objective, and at improving the transparency and openness of Japan's markets. These measures will enhance U.S. exports to the Japanese market, which will help support U.S. jobs.

The Japanese report also takes note of recent announcements by the Japanese Government relating to land use and saving and investment, but these remain important areas where further actions are needed. In the area of keiretsu, although the Japanese Government has offered some new measures, significant further actions are also necessary.

In its report, the U.S. Government committed to a wide range of actions to improve its position in global markets. The report notes the dramatic progress made by the United States in the last two years in reducing its current account imbalance. The Japanese side expressed its support for the measures contained in the President's program to enhance growth and U.S. competitiveness.

Implementation

-- The GOJ continued progress toward deterrence of unlawful exclusionary business practices by increasing the number of its AMA enforcement actions, instituting the first criminal antimonopoly prosecution in 17 years, proposing legislation to increase criminal fines for AMA violations and reducing filing fees and other impediments to private damage remedies.

-- The GOJ has further reduced its patent examination period (from 34 months to 30 months), completed a draft uniform Administrative Procedure Law, and completed its second survey on Japanese corporate procurement practices.

-- The GOJ is pursuing increased import expansion measures; satisfactory resolution of many standards issues; implementation of amended Large Scale Retail Store Law and Antimonopoly Act distribution guidelines.

-- USG and GOJ completed two joint SII price surveys in 1989 and 1991 that confirmed the existence of price differentials in Japan of approximately 40 percent.

-- The GOJ has introduced a new foreign direct investment system and regulatory reforms to increase foreign investment and make keiretsu relations more transparent and promote competition.

-- The GOJ has introduced fundamental land tax and regulatory reforms to reduce land prices and to deregulate leasing of property.

-- The GOJ has increased public infrastructure investment expenditures in a manner consistent with the SII commitment to spend 430 trillion yen over 10 years.

New Commitments:

-- The GOJ will improve antimonopoly enforcement through **bid rigging detection** training, possible civil damage actions by the GOJ against bid riggers, and a broad review of **AMA exemptions**.

-- The GOJ will pursue increased access to the **civil litigation system** and improvements to **commercial arbitration mechanisms**.

-- The GOJ will promote open, transparent, non-discriminatory activities by **trade associations**. JFTC to vigorously deal with violations of AMA by trade associations.

-- The GOJ will submit **Administrative Procedure Law** in next session of the Diet and prepare uniform guidelines concerning advisory committees and study groups.

-- The GOJ will further encourage transparency and non-discrimination in Japanese **corporate procurement**.

-- The GOJ will implement a package of measures to reduce import processing times; standards development process consistent with international norms; deregulation in response to consumers and entrepreneurs; joint study on Japanese trading companies.

-- Measures for future consideration to improve shareholder rights (access to information, proxy voting) have been been identified, as well as steps to further facilitate foreign investment.

-- The GOJ has announced an income to housing price target as a means to reduce the high cost of homeownership, but did not undertake new measures to achieve that objective.

-- The GOJ has announced plans to introduce a substantial supplementary budget to increase domestic growth and reduce the current account surplus, but did not incorporate commitments to specific new measures.

Further Work by Japan:

-- Further efforts to eliminate anticompetitive behavior and to improve the legal environment through greater enforcement focus on exclusionary business practices, enactment of proposed legislation to increase maximum criminal fines for AMA violations, and accelerate efforts to reform civil litigation and commercial arbitration.

-- Increased efforts to open-up more fully Japanese corporate procurement practices, and include foreigners in government study groups and advisory committee.

-- Additional deregulation in specific sectors; improvements in international standards regime; and better airport infrastructure.

-- Fundamental reforms to deal with the exclusionary effects of keiretsu and to make business fully accountable, including by expanding shareholder access to corporate records providing for outside directors and ensuring that shareholders can effectively use their voice and vote to influence management.

-- Develop concrete proposals to enable the average Japanese worker to afford homeownership and reduce the cost of rental property.

-- Implement specific budget and fiscal measures to achieve the 3.5 percent growth target for FY 1992 and curb the rising external surplus.

U.S. Measures

The U.S. has committed to implement a wide range of key elements of the President's economic program designed to improve U.S. competitiveness.

-- Budget deficit reduction and increases in private savings to provide greater resources for private investment.

-- Measures to improve corporate efficiency, longer term perspectives and greater focus on exports.

-- Actions to improve labor productivity by increasing the effectiveness of education and training programs.

-- Health care and civil justice reforms in order to reduce the cost of doing business while meeting basic social needs.

-- Maintaining open U.S. trade and foreign direct investment systems to foster competition.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
August 6, 1992

CONTACT: SCOTT DYKEMA
(202) 622-2960

Statement by Treasury Secretary Nicholas F. Brady
Re: Freedom Support Act and IMF Quota Increase

The House of Representatives took an important step today when it voted overwhelmingly to approve the Freedom Support Act, which includes the International Monetary Fund quota increase. This vote sends a clear message of support for free markets and democracy in Russia and the other new states of the former Soviet Union.

I applaud this solid bipartisan effort and urge Congress to move rapidly to bring this bill to conference so that a final bill might be approved prior to the summer recess.

The IMF quota increase is absolutely crucial to ensuring our support of free and open societies. IMF support for comprehensive market reforms in East Europe, Latin America, and now the former Soviet Union contributes to a stronger world economy in which American exports and employment will increase.

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NB-1930

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
AUGUST 7, 1992

CONTACT: KEITH CARROLL
202-622-2930

HISTORIC U.S. TREASURY BUILDING OPEN FOR TOURS

Did you think all government buildings were plain, austere, and boring? If you did, well, think again! The U.S. Department of the Treasury, which is the third oldest government building in continuous use in Washington, is now open for tours.

The history of this grand old building is intertwined with the riveting history of our country--from the office President Andrew Johnson occupied after President Lincoln's assassination, to the marble Cash Room, the scene of Ulysses S. Grant's inaugural reception following the Civil War.

Many other stories abound in the stately, columned corridors of this magnificent Greek Revival structure, built in 1836 with additions completed in 1869.

Beginning in 1985, using private contributions, extensive restoration has been completed on the Andrew Johnson Suite, where paint analysis and painstaking research have restored the rooms to their 1864 appearance. Original invoices documenting the furnishings and decor, along with period engravings of the rooms, provided excellent resource material. The rooms are now restored to look almost exactly as they did during the days when President Johnson occupied them.

The Offices of former Secretary of the Treasury, Salmon P. Chase, who worked to finance the Civil War, and under whose auspices the first national currency was issued, have also been recently restored to their 19th century condition. Among the many interesting details in the rooms, elaborate allegorical murals were discovered under many layers of paint and have been meticulously conserved.

Come explore and learn more about this hidden gem in our nation's capital, and its role in the continuing history of America.

Guided tours are conducted on alternate Saturday mornings. Registration is required by calling 202-622-0896. Please provide name, date of birth and social security number. A photo I.D. is necessary to gain admittance into the building.

Signed tours are also available for the hearing impaired and can be made by calling 202-622-0692(TDD).

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TREASURY NEWS

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Contact: Claire Buchan
202-622-2910

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
at the
HOUSTON CLUB
Houston, Texas
August 10, 1992

Thank you, Charles Brown. It is a great pleasure to be here today at the Houston Club.

In a few weeks, the presidential campaign of 1992 will begin in earnest, and the next three months will be a time of intense debate: where have we been? where are we going? how do we get there? who do we trust to take us there? These are serious questions; they demand serious answers. And if we do not take the time now for some honest reflection, we run the risk of being led in the heat of the coming campaign by nothing but the quest for partisan advantage. So today I would like to set out the Bush Administration's answers.

First, where have we been? We must recognize that in the last four years America -- and the world -- have been through a profound transition, a structural adjustment greater than any we have seen since the end of the Second World War. Let me give you a few examples:

- During this last four years America and her allies won a war -- a Cold War, but nonetheless the most protracted and expensive war of this century. This victory will bring immeasurable benefits to our economy as we reduce the enormous burden of military spending. But the benefits of peace did not come free: our country now shows the strain of having carried the burden of the free world's defense for almost 50 years. And the transition to a peacetime economy has meant a difficult adjustment period for defense workers, military families and their communities.

NB-1932

- Second, we are undergoing irreversible changes in the way the world does business. The information revolution -- together with advances in transportation and logistics -- has made it increasingly easy for a product to be designed in Illinois, financed in London, manufactured in California, and sold in Mexico. And technological and financial innovations move capital instantaneously to its most efficient use -- whether that is Paris, Texas or Paris, France. This puts direct pressure on our large corporations to meet world competition by reducing costs.

- Third, the volume of debt in every segment of society over the last four years has been at historically high levels. Those levels, however, are now beginning to decline as businesses strengthen their balance sheets and as the baby boomers become the parents of the 1990s, watching their budgets, saving for their retirement and their kids' education. Reducing the country's debt sets the stage for renewed growth in the long term -- even though it has meant slower growth in the short term.

- Finally, economic growth has been hindered by a financial system weakened first by overexposure to Third World Debt, then by failed savings and loans, and most recently by declining real estate markets. Banks, thrifts and insurance companies have become hesitant to provide the credit needed to fuel the economy.

In short, the Bush Administration, from its first days in office, has been faced with a new and broader range of economic challenges; and from its first days in office it has met these challenges head on. The savings and loan clean-up is a good example. By the end of 1988 the S&Ls were losing $13.4 billion annually -- over $36 million per day. Almost 21% of the industry was insolvent. Faced with such an intractable problem, it would have been easy to do the expedient thing: keep troubled institutions afloat; put off the day of reckoning while the tab ran higher and higher.

Instead, just eighteen days after taking office, President Bush proposed a comprehensive solution to the crisis, a solution that has now been tested by three years of execution. This program has cost the country real money, but not one cent has gone to S&L owners. Instead, it has gone to protect more than 22 million depositor accounts -- accounts that were the savings of millions of Americans, and in some cases all they had put away over a lifetime. We have cut the cancer out of the S&L system by seizing 718 insolvent thrifts. We have made S&L crooks pay the price, with over 900 convictions for major thrift crimes.

And the proof is in the pudding: in 1991, the industry as a whole earned $1.6 billion — the first annual profit in 6 years.

And the S&L crisis is not the only hard job that President Bush has taken on and won. When George Bush entered office in 1989, Third World Debt exposure had been wracking the banking system since the summer of 1982 with no end in sight. For seven years the financial press had been filled with cliff-hanger headlines of potential collapse. The Third World Debt crisis was the most visible and persistent international financial problem in a generation, and had come to seem as permanent a part of the landscape as the Rio Grande.

But President Bush called for a thorough reassessment of the nation's policy toward international debt, and in March of 1989 the Administration put forward a new approach. We called on the banks and their sovereign borrowers to do two things: emphasize genuine debt reduction and encourage private investment. Following this voluntary, market-based debt strategy, over 90% of the troubled bank debt to Latin America outstanding just 3 years ago, has been restructured on terms acceptable to both banks and borrowers. The Latin nations have become dynamic trading partners: economic growth last year was 4% in Mexico, 5% in Argentina and a whopping 9% in Venezuela. And the money center banks have reduced their exposure to troubled countries by 65%. The Third World Debt crisis -- that once threatened to destabilize the entire financial system -- is over.

And every bit as important as the problems solved have been the problems avoided. These are worth careful thought: in three years we have seen the collapse of governments throughout Eastern Europe, a coup attempt in the Soviet Union, a war in the Middle East. As triggers for Armageddon, any one of these could have served -- yet the trigger was never pulled. Anyone who thinks about it for a moment can come to only one conclusion: the steady leadership of George Bush has served us well.

This, then, has been the achievement of the first Bush Administration: to face the challenges of a world in transition and retain America's leadership in the new world emerging from the old.

And make no mistake -- America is the leader of this new world. It is time to dismiss the sorrowful, whining lament of the Democrats in Congress that the United States is somehow on its way to becoming an economic backwater. The United States remains, and will remain, the world's preeminent economic power. With one twentieth of the world's population, we produce one fourth of its goods and services. Total U.S. output is about

twice Japan's, four times Germany's, and larger than the whole European Community. America is winning the export race: we lead the world in exports, and in particular we lead in exports of high technology goods, such as aircraft, computers, microelectronics and scientific equipment. Our living standards are 18% higher than Japan's and 15% higher than Germany's. And our productivity, the key to ensuring our living standards remain high, is about 10% higher than Germany's and 30% higher than Japan's.

But to keep our position of leadership, we must follow a clear and determined strategy. What is this strategy? What is our goal?

The goal of the Bush Administration during the next four years will be -- as it has been -- not to hide from change, but to face it; not to stand in place, but to advance -- to guide our economy through a difficult structural transformation and assure our competitive position in the new world. And in that process, President Bush will be guided -- as he has been -- by three strategic objectives:

Secure the Peace

First, we must secure the peace. The most important event of our generation -- not just politically, but economically -- is the end of the Cold War. The nation must not allow a generation's effort to be squandered by giving in to the calls to turn inward, to shirk the burdens of world leadership. Instead we must seize the initiative now so that our children will grow up in a world of peace and prosperity, where the United States aims its exports, not its missiles, at the former Soviet Union.

Securing the peace is not merely a matter of foreign policy, it is at the heart of our domestic agenda as well. We must recognize that in the post-Cold-War world there is no real distinction between foreign policy and domestic policy. Trade negotiations affect domestic employment; education policy affects future competitiveness; peace in the Middle East means secure energy sources to fuel domestic production; and investment from abroad means jobs for Americans.

Under the President's leadership, we are reducing the number of nuclear missiles aimed at this country from over 20,000 to 3,500, and the number will decline even further. Who, sitting with their children or their grandchildren this summer, would argue that this is not domestic policy at its most fundamental? Any politician who divides the complex issues we face today into one box labeled "domestic" and another box labeled "foreign" will quickly find himself in the "out-box."

Ensure America's Economic Leadership

Second, we must ensure America's economic leadership. In the post-Cold-War century, this will mean ensuring free, open and growing markets for our exports. In the 1980s, growth was fueled largely by debt and consumption; in the 1990s, growth must come instead from exports and investment. Our merchandise exports have increased by about $195 billion over the last 5 years, and every billion dollars in exports supports about 20,000 new jobs.

That's why President Bush is working hard to complete the North American Free Trade Agreement with Canada and Mexico. NAFTA will link us with our neighbors to the North and South to create an historic trade partnership, and it is a true measure of the Bush Administration's commitment to create jobs.

And when that agreement is initialled, the next sound you hear will be a wail from the Democrats in Congress who -- like the Flat Earth Society -- cling to the discredited beliefs of the past. They lack confidence in American workers and in their ability to compete; they think that if we travel too far toward the new horizon of open markets and free trade, we will fall off the edge of the earth. Well perhaps they should venture as far as Texas, where trade with Mexico has increased by over $9 billion since 1987. That supports thousands of jobs -- and that's just Texas. We expect NAFTA to create another 300,000 jobs across the country by 1995 -- bringing the total of American jobs directly resulting from opening trade with Mexico alone to 900,000.

But our trading partners also need to understand: it is no longer acceptable for them to close their markets while expecting us to keep ours open. For decades after the Second World War we offered our markets to sustain the alliance and to promote growth in economies that had been shattered by war. In the post-Cold War era, the rule is that all markets must be open, not just our markets.

Ensuring America's economic leadership will also mean adopting policies that foster savings and investment and promote job creation. That means reducing the cost of capital -- in particular by reducing the capital gains tax -- to encourage investment. And it means fixing our regulatory policies -- including reform of our antiquated banking laws -- to reduce the burden government places on economic activity and ensure a sound financial system that can provide the credit needed to sustain economic growth.

And ensuring America's economic leadership means particularly creating an environment in which small businesses can thrive. We must remember that many of America's largest and best known companies are becoming more efficient, trimming their operations, focusing their workforce on core businesses. These efforts are proving successful -- American companies have once again become world class competitors. But that means an inevitable shift in employment from these larger companies to smaller, more flexible firms. Two-thirds of the jobs created in the United States are created by small businesses, and we must not shackle the 4 million smaller firms that are creating the new jobs workers need during this transition. The Bush Administration is committed to providing the incentives for these firms to flourish and is dedicated to killing the regulations that throttle them.

Invest in America's Future

Finally, we must invest in America's future. Investment in education, as well as in technology and in research, is the key to increasing our workers' productivity. More than that, education is the guarantee of job security. Our grandfathers may have worked at a single job their entire lives. Today's employee will, on average, have had five different careers by the time of retirement. Education will be the key to mobility. If in their youth American workers have learned how to learn, they will have laid the foundation for a lifetime of mastering new skills and new occupations.

So America's workforce must be the best educated to remain the most productive. That means fixing our education system -- by implementing President Bush's plan to develop schools that are more accountable, to expand parental choice, to encourage states to set meaningful education standards, and to reward merit in the instruction of our youth.

And investing in America's future means not merely investing in our students, but in our workforce. As we transform our economy, we will not leave out those who must retrain as they shift from one career to another. That is why the Bush Administration has proposed the Job Training 2000 program, to rationalize the bewildering maze of federal training programs and provide an effective, efficient system of helping workers adjust to change.

And finally, investing in America's future means providing affordable health care for all Americans while dealing with the rising health costs of business. That is why President Bush proposed a plan for comprehensive health reform last February, to make health care more accessible by making health insurance more affordable, while reducing the runaway costs of care by making the system more efficient.

These have been -- and continue to be -- our objectives. They recognize the interconnection between foreign affairs and domestic policy; they deal with the dynamic changes in the way the world does business; and they encourage individual initiative rather than fuel the engine of big government.

But it is not merely our objectives that have defined the Bush Administration -- and will continue to define it in a second term -- but our methods of achieving them; not merely our ends, but our means.

The Bush Administration believes that government must achieve its goals by efficiently managing its resources, reducing the burden of government on the nation and its people.

In particular, the Bush Administration believes we must restrict government spending. That means focusing limited federal resources carefully on key problems -- not throwing money at them. We must measure the success of programs by the results they produce, not by the dollars they consume.

And it means seeking the line item veto and a constitutional balanced budget amendment. I cannot stress these points enough. The line item veto may sound like an "inside the Beltway" issue of little importance to those of you in Houston, Denver or Chicago who have real work to do, but I assure you that it is at the heart of any serious attempt to control this nation's deficit spending.

Why? Simply because that's the way Congress works. Every legislative proposal offered up in those halls -- no matter how laudable and responsible it may start out -- is viewed by 535 Representatives and Senators as a potential vehicle for their pet projects. So for the bill to pass, its sponsors must agree to pick up enough of those projects to get the votes they need. They know that, in return, at a later date they can count on support for similar undertakings of their own. That's just the way the system works.

This happens not just to Congress's own legislation, but to the President's proposals as well. Nearly every bill the President sends to Congress gets larded with a host of Congress's pork barrel provisions. And under current law, the President cannot strike those wasteful provisions when the bill is sent back to him for signature. Instead, he must accept the bill as Congress returns it, or reject the core initiative that he first proposed. He is not allowed to keep the essential and delete the superfluous. If the Congress ran this country's convenience stores, no one in America would be allowed to pick up just a carton of milk; he would also have to buy some motor oil, a deck of cards, three copies of People Magazine and a microwave burrito. It is no wonder the budget is out of control. The President must be given the tools to defend the American people from these senseless shopping sprees.

And the habits of the Democratically controlled Congress will not change. The Democrats in Congress believe in a big government that takes an ever increasing share of the national output each year.

In short, the American people must make a fundamental choice of values. We believe in the people, not in bureaucracy. We believe in traditions like hard work and the entrepreneurial spirit, not government omniscience. We 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 trust the American people, not government, to allocate resources, and we trust the American people to create the strength to take on all comers in the world economy. We believe the government should only do what the people cannot do for themselves.

These values are the American peoples' values, and in a time of change, of transition, it is important to remember those constant values and beliefs that have made this country great. We need to remember that America's success is based on the achievements of its people, not on political slogans that come and go. The beliefs that we share -- our belief in a government that works with and for the people; our belief in the entrepreneurial spirit; our belief in the core family values that have sustained us for generations -- these are principles that have stood the test of 200 years of change. These are the principles that we should choose to guide America in the years ahead.

Thank you.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
August 10, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,675 million of 13-week bills to be issued August 13, 1992 and to mature November 12, 1992 were accepted today (CUSIP: 912794ZS6).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.12%	3.19%	99.211
High	3.14%	3.21%	99.206
Average	3.13%	3.20%	99.209

Tenders at the high discount rate were allotted 20%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	28,810	28,810
New York	38,365,755	10,277,885
Philadelphia	13,640	13,640
Cleveland	46,560	46,560
Richmond	81,705	37,705
Atlanta	56,510	32,510
Chicago	2,056,385	133,585
St. Louis	13,670	13,670
Minneapolis	21,195	21,195
Kansas City	28,285	27,485
Dallas	18,880	18,880
San Francisco	596,610	70,610
Treasury	952,510	952,510
TOTALS	$42,280,515	$11,675,045
Type		
Competitive	$37,380,760	$6,775,290
Noncompetitive	1,560,705	1,560,705
Subtotal, Public	$38,941,465	$8,335,995
Federal Reserve	2,584,010	2,584,010
Foreign Official Institutions	755,040	755,040
TOTALS	$42,280,515	$11,675,045

An additional $60,760 thousand of bills will be issued to foreign official institutions for new cash.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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August 10, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,631 million of 26-week bills to be issued August 13, 1992 and to mature February 11, 1993 were accepted today (CUSIP: 912794A61).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.18%	3.28%	98.392
High	3.20%	3.30%	98.382
Average	3.19%	3.29%	98.387

Tenders at the high discount rate were allotted 6%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	26,880	26,880
New York	33,856,035	10,256,035
Philadelphia	13,395	13,395
Cleveland	25,630	25,630
Richmond	46,305	32,205
Atlanta	26,585	26,585
Chicago	1,388,195	99,395
St. Louis	18,620	18,620
Minneapolis	9,410	9,410
Kansas City	32,055	32,055
Dallas	11,640	11,640
San Francisco	747,960	394,080
Treasury	684,770	684,770
TOTALS	$36,887,480	$11,630,700
Type		
Competitive	$32,480,000	$7,223,220
Noncompetitive	1,137,920	1,137,920
Subtotal, Public	$33,617,920	$8,361,140
Federal Reserve	2,600,000	2,600,000
Foreign Official Institutions	669,560	669,560
TOTALS	$36,887,480	$11,630,700

An additional $57,740 thousand of bills will be issued to foreign official institutions for new cash.

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For Immediate Release August 10, 1992

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of June 1992.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $180.8 billion on June 30, 1992, posting an increase of $1,105.7 million from the level on May 31, 1992. This net change was the result of an increase in holdings of agency debt of $2,065.6 million, and a decrease in holdings of agency assets of $650.1 million and in holdings of agency-guaranteed loans of $309.8 million. FFB made 70 disbursements in June.

Attached to this release are tables presenting FFB June loan activity and FFB holdings as of June 30, 1992.

FEDERAL FINANCING BANK
JUNE 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (not semi-annual)
AGENCY DEBT					
FEDERAL DEPOSIT INSURANCE CORPORATION					
Note No. 0005					
Advance #2	6/15	$3,292,000,000.00	7/1/92	3.869%	
NATIONAL CREDIT UNION ADMINISTRATION					
Credit Liquidity Facility					
+Advance #594	6/23	5,000,000.00	9/22/92	3.870%	
UNITED STATES POSTAL SERVICE					
Note #39	6/2	200,000,000.00	9/30/94	5.622%	
Note #40	6/2	200,000,000.00	10/2/95	6.125%	
Note #39	6/22	50,000,000.00	9/30/94	5.294%	
Note #40	6/22	50,000,000.00	10/2/95	5.814%	
Note #41	6/22	150,000,000.00	9/30/97	6.657%	
GOVERNMENT-GUARANTEED LOANS					
RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION					
DEPCO	6/26	125,000,000.00	10/1/92	3.837%	
GENERAL SERVICES ADMINISTRATION					
Chicago Office Building	6/5	37,200.00	6/28/21	7.755%	
Foley Square Courthouse	6/10	4,414,523.23	12/11/95	6.150%	
Foley Square Courthouse	6/12	318,936.40	12/11/95	6.117%	
Foley Square Office Bldg.	6/19	3,745,205.00	12/11/95	5.935%	
Memphis IRS Service Center	6/19	480,483.65	1/3/95	5.424%	
Foley Square Courthouse	6/26	225,436.00	12/11/95	5.811%	
U.S. Trust Company of New York					
Advance #34	6/30	3,627,322.16	11/16/92	3.839%	
RURAL ELECTRIFICATION ADMINISTRATION					
*Northwest Electric #176	6/4	600,000.00	12/31/19	7.712%	7.639% qtr.
Brazos Electric #203A	6/5	1,242,829.80	1/3/22	7.765%	7.691% qtr.
Gibson Electric #363	6/5	1,200,000.00	12/31/25	7.845%	7.770% qtr.
W. Farmer Electric #196A	6/5	1,571,000.00	12/13/15	7.608%	7.537% qtr.
Troup Electric #364	6/29	602,000.00	12/31/25	7.728%	7.655% qtr.
@Alabama Electric #026	6/30	933,751.90	12/31/12	7.326%	7.260% qtr.
@Alabama Electric #026	6/30	10,399,855.12	12/31/12	7.326%	7.260% qtr.
@Alabama Electric #026	6/30	9,280,510.13	12/31/12	7.326%	7.260% qtr.
@Alabama Electric #026	6/30	6,606,887.14	12/31/13	7.362%	7.295% qtr.
@Alabama Electric #026	6/30	8,143,208.96	12/31/13	7.362%	7.295% qtr.
@Alabama Electric #026	6/30	8,237,507.57	12/31/13	7.362%	7.295% qtr.
@Alabama Electric #026	6/30	1,893,679.95	12/31/13	7.362%	7.295% qtr.
*Allegheny Electric #175A	6/30	1,551,048.69	6/30/94	4.947%	4.917% qtr.
*Allegheny Electric #175A	6/30	1,906,118.85	6/30/94	4.947%	4.917% qtr.
*Allegheny Electric #175A	6/30	5,270,659.51	6/30/94	4.947%	4.917% qtr.
*Allegheny Electric #175A	6/30	6,394,897.38	6/30/94	4.947%	4.917% qtr.
*Allegheny Electric #255A	6/30	5,829,973.26	6/30/94	4.948%	4.918% qtr.
*Blueridge Electric #307	6/30	850,585.37	12/31/18	7.527%	7.457% qtr.
*Cooperative Power #130A	6/30	7,252,958.64	6/30/94	4.938%	4.908% qtr.
*KAMO Electric #209A	6/30	74,647.04	6/30/94	4.937%	4.907% qtr.
*KAMO Electric #338	6/30	3,255,951.18	6/30/94	4.941%	4.911% qtr.
@M & A Electric Power #111	6/30	1,055,838.22	12/13/12	7.326%	7.260% qtr.
@M & A Electric Power #111	6/30	475,343.04	12/31/13	7.362%	7.295% qtr.
@M & A Electric Power #111	6/30	309,021.10	12/31/13	7.362%	7.295% qtr.
@M & A Electric Power #111	6/30	790,420.43	12/31/13	7.362%	7.295% qtr.
@M & A Electric Power #111	6/30	190,462.75	12/31/13	7.362%	7.295% qtr.

FEDERAL FINANCING BANK
JUNE 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (not semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (continued)					
@M & A Electric Power #111	6/30	238,078.30	12/31/13	7.362%	7.295% qtr.
*North Dakota Central #278	6/30	138,731.75	6/30/94	4.948%	4.918% qtr.
@Oglethorpe Electric #074	6/30	11,730,370.76	12/31/12	7.326%	7.260% qtr.
@Oglethorpe Electric #074	6/30	13,249,563.10	12/31/12	7.326%	7.260% qtr.
@Oglethorpe Electric #074	6/30	16,305,461.49	12/31/13	7.362%	7.295% qtr.
*Oglethorpe Electric #320	6/30	4,712,727.22	12/31/19	7.558%	7.488% qtr.
*Oglethorpe Electric #320	6/30	17,539,999.95	12/31/19	7.558%	7.488% qtr.
*Oglethorpe Electric #335	6/30	18,853,000.00	1/2/24	7.690%	7.617% qtr.
@SHO-ME Power #114	6/30	2,976,049.28	12/31/12	7.326%	7.260% qtr.
*SHO-ME Power #324	6/30	467,171.75	12/31/18	7.527%	7.457% qtr.
*SHO-ME Power #324	6/30	607,323.21	12/31/18	7.527%	7.457% qtr.
*Tri-State Electric #089A	6/30	638,888.00	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #002	6/30	8,389,388.34	1/3/12	7.289%	7.224% qtr.
@United Power Assoc. #006	6/30	1,585,210.64	1/3/12	7.289%	7.224% qtr.
@United Power Assoc. #006	6/30	2,993,821.45	12/31/12	7.326%	7.260% qtr.
@United Power Assoc. #006	6/30	5,418,563.32	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #067A	6/30	6,036,469.86	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #067A	6/30	1,147,391.10	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #067A	6/30	664,723.34	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #067A	6/30	189,935.18	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #086A	6/30	948,246.26	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #086A	6/30	356,101.75	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #129A	6/30	7,171,194.09	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #129A	6/30	997,084.84	12/31/13	7.362%	7.295% qtr.
@United Power Assoc. #129A	6/30	2,469,157.66	12/31/13	7.362%	7.295% qtr.
*Washington Power #269	6/30	100,093.45	6/30/94	4.936%	4.906% qtr.
*Wolverine Power #101A	6/30	142,877.72	12/31/12	7.326%	7.260% qtr.
*Wolverine Power #101A	6/30	76,144.56	12/31/12	7.326%	7.260% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-92-11	6/30	446,090,091.46	9/30/92	3.836%	

*maturity extension
+rollover
@interest rate buydown

FEDERAL FINANCING BANK
(in millions)

Program	June 30, 1992	May 31, 1992	Net Change 6/1/92-6/30/92	FY '92 Net Change 10/1/91-6/30/92
Agency Debt:				
Export-Import Bank	$ 8,150.0	$ 8,637.9	$ -487.9	$ -3,111.0
Federal Deposit Insurance Corporation	15,160.0	11,868.0	3,292.0	6,864.0
NCUA-Central Liquidity Fund	5.0	5.0	0.0	-108.6
Resolution Trust Corporation	53,694.7	54,786.0	-1,091.3	-9,187.7
Tennessee Valley Authority	9,025.0	9,025.0	0.0	-2,850.0
U.S. Postal Service	9,903.4	9,550.6	352.8	1,702.8
sub-total*	95,938.1	93,872.5	2,065.6	-6,690.4
Agency Assets:				
Farmers Home Administration	44,784.0	45,434.0	-650.0	-5,910.0
DHHS-Health Maintenance Org.	61.2	61.2	0.0	0.0
DHHS-Medical Facilities	72.5	72.5	0.0	-3.3
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	-65.0
Small Business Administration	4.7	4.8	-0.1	-1.6
sub-total*	49,521.2	50,171.4	-650.1	-5,979.9
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,416.0	4,451.2	-35.2	-183.9
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	0.0	-30.0
DEPCO-Rhode Island	125.0	0.0	0.0	125.0
DHUD-Community Dev. Block Grant	186.6	191.1	-4.5	-18.0
DHUD-Public Housing Notes +	1,853.2	1,853.2	0.0	-50.2
General Services Administration +	735.2	728.6	6.5	74.6
DOI-Guam Power Authority	27.7	27.7	0.0	-0.7
DOI-Virgin Islands	23.9	23.9	0.0	-0.6
NASA-Space Communications Co. +	0.0	0.0	0.0	-32.7
DON-Ship Lease Financing	1,576.2	1,576.2	0.0	-48.3
Rural Electrification Administration	18,199.2	18,472.8	-273.7	-397.8
SBA-Small Business Investment Cos.	161.4	166.3	-4.9	-83.6
SBA-State/Local Development Cos.	644.5	648.6	-4.1	-43.8
TVA-Seven States Energy Corp.	2,423.2	2,417.0	6.2	-23.8
DOT-Section 511	19.6	19.8	-0.2	-1.7
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	35,388.7	35,573.5	-309.8	-715.4
grand-total*	$ 180,848.0	$ 179,617.3	$ 1,105.7	$ -13,385.7

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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

LIBRARY ROOM 5310
AUG 13 92 005029
DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
August 11, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for $15,012 million of 3-year notes, Series Q-1995, to be issued August 17, 1992 and to mature August 15, 1995 were accepted today (CUSIP: 912827G48).

The interest rate on the notes will be 4 5/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	4.68%	99.848
High	4.70%	99.793
Average	4.69%	99.820

Tenders at the high yield were allotted 27%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	27,240	27,240
New York	31,678,940	14,229,860
Philadelphia	24,220	24,220
Cleveland	123,535	123,535
Richmond	242,995	91,155
Atlanta	36,815	23,165
Chicago	1,414,605	163,860
St. Louis	27,135	27,135
Minneapolis	16,935	15,205
Kansas City	64,060	63,330
Dallas	19,175	19,170
San Francisco	470,785	108,565
Treasury	95,705	95,705
TOTALS	$34,242,145	$15,012,145

The $15,012 million of accepted tenders includes $807 million of noncompetitive tenders and $14,205 million of competitive tenders from the public.

In addition, $560 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $2,436 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-1936

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
August 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 $23,200 million, to be issued August 20, 1992. This offering will provide about $ 125 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $23,067 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, August 17, 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 $11,600 million, representing an additional amount of bills dated November 21, 1991 and to mature November 19, 1992 (CUSIP No. 912794 ZA 5), currently outstanding in the amount of $ 24,465 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,600 million, to be dated August 20, 1992 and to mature February 18, 1993 (CUSIP No. 912794 A8 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 August 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 $1,396 million as agents for foreign and international monetary authorities, and $5,525 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-1937

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
August 12, 1992

CONTACT: Scott Dykema
(202) 622-2960

Statement by
Nicholas F. Brady
Secretary of the Treasury

The North American Free-Trade Agreement (NAFTA) is another initiative in the President's economic growth program. It will increase U.S. jobs, expand export opportunities and ensure America's prominence in global markets.

Linking the three North American economies will create a single market of over 360 million people with a total output of $6 trillion -- that's substantially larger than any other industrial world market, including the European Community.

This ambitious trade pact is integral to the long-term growth and vitality of our country. Just look at the facts:

- 70% of U.S. growth over the last four years came from exports.

- The U.S. exported $580 billion in goods and services last year, supporting more than 7.0 million U.S. jobs related to merchandise exports alone.

- Export-related jobs are high paying -- they pay 17% more than the national average.

- Following the 1986 market-opening reforms by Mexico, U.S. merchandise exports to Mexico almost tripled ($33 billion in 1991).

- Further increases can be expected since 70% of Mexico's total imports come from the United States.

NAFTA will spur export growth by reducing Mexican trade barriers and positioning American businesses as major suppliers for Mexico's rapidly expanding demand for imports.

We look forward to working with the Congress to enact this initiative. Only then will the American public start to feel the benefits of this landmark trade agreement.

oOo

NB-1938

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
August 12, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Tenders for $11,037 million of 10-year notes, Series B-2002, to be issued August 17, 1992 and to mature August 15, 2002 were accepted today (CUSIP: 912827G55).

The interest rate on the notes will be 6 3/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.47%	99.308
High	6.50%	99.091
Average	6.49%	99.163

$10,000 was accepted at lower yields.
Tenders at the high yield were allotted 8%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	20,239	20,159
New York	23,507,139	10,511,699
Philadelphia	21,390	21,114
Cleveland	42,207	42,207
Richmond	22,285	22,235
Atlanta	18,880	14,040
Chicago	998,120	145,300
St. Louis	17,073	16,073
Minneapolis	17,562	13,802
Kansas City	29,615	29,615
Dallas	6,063	6,033
San Francisco	427,755	167,905
Treasury	26,372	26,372
TOTALS	$25,154,700	$11,036,554

The $11,037 million of accepted tenders includes $618 million of noncompetitive tenders and $10,419 million of competitive tenders from the public.

In addition, $700 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 $1,600,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of $0.34647 per $1,000 of par must be paid for the period August 15, 1992 to August 17, 1992.

NB-1939

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 12, 1992

STATEMENT BY THE PRESIDENT

Today marks the beginning of a new era on the North American continent. This morning, the United States, Mexico, and Canada are announcing the completion of negotiations for a North American Free Trade Agreement -- NAFTA. I want to express deep appreciation to Ambassador Carla Hills, our United States Trade Representative, and to Secretary Serra of Mexico and Minister Wilson of Canada for this outstanding achievement.

This historic trade agreement will further open markets in Mexico, Canada, and the United States. It will create jobs and generate economic growth in all three countries.

The Cold War is over. The principal challenge now facing the United States is to compete in a rapidly changing and expanding global marketplace. This agreement will level the North American playing field, allowing American companies to increase sales from Alaska to the Yucatan. By sweeping aside barriers and expanding trade, NAFTA will make our companies more competitive everywhere in the world. We have seen this happen with the U.S.-Canada Free Trade Agreement; we will see it even more with the NAFTA.

Open markets in Mexico and Canada mean more American jobs. Our nation is the world's leading exporter -- well ahead of Japan and Germany. Today, over seven million Americans are hard at work making products that will be sold around the world. Export-related jobs pay 17 percent more than the average U.S. wage. These jobs are the kind that our nation needs to grow and prosper -- the kind that showcase American talent and technology.

More than 600,000 Americans are now employed making products and selling them to Mexico -- our fastest growing major export market. We sold over $33 billion worth of goods to Mexico last year, and are projected to sell $44 billion this year. In the last five years, as President Salinas has dismantled many longstanding Mexican trade and investment restrictions, our exports to Mexico have nearly tripled -- that's more than one-quarter of a million new American jobs. This agreement helps us lock in these gains and build on them.

Last year the Congress endorsed moving forward with NAFTA by extending the "fast track" procedures for congressional consideration and implementation of trade agreements. The successful completion of the NAFTA talks shows how much can be accomplished when the Executive Branch and the Congress work together to do what is best for our Nation. I will work closely with Congress for rapid implementation.

At the time "fast track" was extended, I outlined steps we would take to address environmental and labor concerns. We have taken every promised step, and we are meeting -- or beating -- every commitment I outlined.

This is the first time a trade agreement has included stringent provisions to benefit the environment. The NAFTA maintains this nation's high environmental, health, and safety standards. In fact, it goes even further and encourages all three countries to seek the highest possible standards.

The Environmental Protection Agency and its Mexican counterpart have already developed a comprehensive integrated border plan to clean up air, water, and hazardous waste along the Rio Grande. These problems are serious, but they will be solved by environmental cooperation, increased trade, and higher levels of economic growth -- not protectionism. Unfortunately, Congress has reduced funding for our border plan in the appropriations process -- I ask Congress to fully fund these important environmental initiatives.

With NAFTA, we are moving forward with our trade strategy. Trade is part of my long-term economic growth plan to create more opportunities for all Americans. In a changing world, we must give our workers the education and skills they need to compete, and assistance and training to find good jobs.

I've said many times: level the playing field and the American worker can out-think, out-produce, and out-work anyone, anytime.

Today's historic agreement links our future with our past. Five centuries ago this very month, a man of courage and vision set sail from the Old World in search of new trade routes and opportunities. Christopher Columbus was an entrepreneur -- and the journey he started 500 years ago continues to pay off abundantly today. By moving forward with the North American Free Trade Agreement, we will replenish that investment, opening up new horizons of opportunity and enterprise in the New World.

# # #

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 12, 1992

The North American Free Trade Agreement

FACT SHEET

The President today announced that the United States, Mexico, and Canada have completed negotiation of a North American Free Trade Agreement (NAFTA). The NAFTA will phase out barriers to trade in goods and services in North America, eliminate barriers to investment, and strengthen the protection of intellectual property rights. As tariffs and other trade barriers are eliminated, the NAFTA will create a massive open market -- over 360 million people and over $6 trillion in annual output.

Background

With sharp increases in global trade and investment flows, U.S. economic growth and job creation have become closely tied to our ability to compete internationally. Since 1986, U.S. exports have increased by almost 90 percent, reflecting our success in opening foreign markets and the competitiveness of American industry. In 1991, the U.S. exported over $422 billion of industrial and agricultural products, and over $164 billion in services, making the United States the world's largest exporter -- ahead of Germany and Japan. More than 7.5 million U.S. jobs are tied to merchandise exports, up from 5.0 million in 1986. Of these jobs, 2.1 million are supported by exports to Canada and Mexico.

For many years, Mexico used high tariffs and licensing restrictions in an effort to encourage industrial development and import substitution.

Under President Salinas and his predecessor, President de la Madrid, the Mexican Government has opened its market and implemented sweeping economic reforms. In 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT) and began reducing its tariffs and trade barriers.

As a result, bilateral trade has increased dramatically. From 1986-91, U.S. exports to Mexico increased from $12.4 billion to $33.3 billion, twice as fast as U.S. exports to the rest of the world. U.S. agricultural exports rose 173 percent to $3 billion; consumer goods tripled to $3.4 billion; and

exports of capital goods surged to $11.3 billion from $5 billion. U.S. exports to Mexico now support approximately 600,000 American jobs, while exports to Canada support 1.5 million.

Economic reforms have also been good for Mexico. Its inflation rate has dropped from over 100 percent in 1986 to under 20 percent in 1991, and its economy has grown at an average annual rate of 3.1 percent over the last four years, after stagnating during the 1980s.

In June 1990, Presidents Bush and Salinas endorsed the idea of a comprehensive U.S.-Mexico free trade agreement and directed their trade ministers to begin preparatory work. Canada joined the talks in February 1991, leading to the three-way negotiation known as NAFTA. Formal negotiations began in June 1991 after Congress extended through May 1993 the "fast track" procedures originally enacted in the Trade Act of 1974, authorizing the Administration to submit the agreement with implementing legislation for an up-or-down vote.

The President's trade strategy, which is a key part of his overall economic growth plan, is designed to create new markets for American products and provide new opportunities for American companies and workers.

The NAFTA Agreement

The NAFTA will create a free trade area (FTA) comprising the U.S., Canada, and Mexico. Consistent with GATT rules, all tariffs will be eliminated within the FTA over a transition period. The NAFTA involves an ambitious effort to eliminate barriers to agricultural, manufacturing, and services trade, to remove investment restrictions, and to protect effectively intellectual property rights. In addition, the NAFTA marks the first time in the history of U.S. trade policy that environmental concerns have been directly addressed in a comprehensive trade agreement. Highlights of the NAFTA include:

> **Tariff Elimination.** Approximately 65 percent of U.S. industrial and agricultural exports to Mexico will be eligible for duty-free treatment either immediately or within five years. Mexico's tariffs currently average 10 percent, which is two-and-a-half times the average U.S. tariff.
>
> **Reduction of Motor Vehicle and Parts Tariffs.** U.S. autos and light trucks will enjoy greater access to Mexico, which has the fastest growing major auto market in the world. With NAFTA, Mexican tariffs on vehicles and light

trucks will immediately be cut in half. Within five years, duties on three-quarters of U.S. parts exports to Mexico will be eliminated, and Mexican "trade balancing" and "local content requirements" will be phased out over 10 years.

Auto Rule of Origin. Only vehicles with substantial North American parts and labor content will benefit from tariff cuts under NAFTA's strict rule of origin. NAFTA will require that autos contain 62.5 percent North American content, considerably more than the 50 percent required by the U.S.-Canada Free Trade Agreement. NAFTA contains tracing requirements so that individual parts can be identified to determine the North American content of major components and sub-assemblies, e.g. engines. This strict rule of origin is important in ensuring that the benefits of the NAFTA flow to firms that produce in North America.

Expanded Telecommunications Trade. NAFTA opens Mexico's $6 billion market for telecommunications equipment and services. It gives U.S. providers of voice mail or packet-switched services nondiscriminatory access to the Mexican public telephone network and eliminates all investment restrictions by July 1995.

Reduced Textiles and Apparel Barriers. Barriers to trade on $250 million (over 20 percent) of U.S. exports of textiles and apparel to Mexico will be eliminated immediately, with another $700 million freed from restrictions within 6 years. All North American trade restrictions will be eliminated within 10 years and tough rules of origin will ensure that benefits of trade liberalization accrue to North American producers.

Increased Trade in Agriculture. Mexico imported $3 billion worth of U.S. agricultural goods last year, making it our third-largest market. NAFTA will immediately eliminate Mexican import licenses, which covered 25 percent of U.S. agricultural exports last year, and will phase out remaining Mexican tariffs within 10 - 15 years.

Expanded Trade in Financial Services. Mexico's closed financial services markets will be opened and U.S. banks and securities firms will be allowed to establish wholly owned subsidiaries. Transitional restrictions will be phased out by January 1, 2000.

New Opportunities in Insurance. U.S. firms will gain major new opportunities in the Mexican market; firms with existing joint ventures will be permitted to obtain 100

percent ownership by 1996 and new entrants to the market can obtain a majority stake in Mexican firms by 1998. By the year 2000, all equity and market share restrictions will be eliminated, opening up completely what is now a $3.5 billion market.

Increased Investment. Mexican "domestic content" rules will be eliminated, permitting additional sourcing of U.S. inputs and, for the first time, U.S. firms operating in Mexico will receive the same treatment as Mexican-owned firms. Mexico has agreed to drop export performance requirements, which presently force companies to export as a condition of being allowed to invest.

Land Transportation. More than 90 percent of U.S. trade with Mexico is shipped by land, but U.S. truckers currently are denied the right to carry cargo or set up subsidiaries in Mexico, forcing them to "hand off" trailers to Mexican drivers and return home empty. NAFTA will permit U.S. trucking companies to carry international cargo to the Mexican states contiguous to the U.S. by 1995, and gives them cross-border access to all of Mexico by the end of 1999. U.S. railroads will be able to provide their services in Mexico, and U.S. companies can invest in and operate land-side port services. The combination of truck, rail, and port breakthroughs will help create an efficient, intermodal North American transport system.

Protection of Intellectual Property Rights. NAFTA will provide a higher level of protection for intellectual property rights than any other bilateral or multilateral agreement. U.S. high technology, entertainment, and consumer goods producers that rely heavily on protection for their patents, copyrights, and trademarks will realize substantial gains under NAFTA. The agreement will also limit compulsory licensing, resolving an important concern with Canada.

The objective of NAFTA is to open markets. It is not designed to create a closed regional trading bloc, and does not erect new barriers to non-participants. The NAFTA is fully consistent with GATT criteria for free trade agreements, and with U.S. support for strengthening the multilateral trading system in the Uruguay Round.

Economic Studies

At the request of the Office of the U.S. Trade Representative, the U.S. International Trade Commission

surveyed and evaluated the various economic analyses of NAFTA. In May of this year, the USITC reported that:

> [T]here is a surprising degree of unanimity in the results regarding the aggregate effects of NAFTA. All three countries are expected to gain from a NAFTA.

These independent studies found that NAFTA would increase U.S. growth, jobs, and wages. They found that NAFTA would increase U.S. real GDP by up to 0.5 percent per year once it is fully implemented. They projected aggregate U.S. employment increases ranging from under 0.1 percent to 2.5 percent. The studies further project aggregate increases in U.S. real wages of between 0.1 percent to 0.3 percent.

U.S. exports to Mexico currently support over 600,000 American jobs. The Institute for International Economics recently estimated this figure will rise to over 1 million U.S. jobs by 1995 under NAFTA.

Environment, Labor, and Adjustment Issues

In a May 1, 1991, letter to the Congress, the President described actions that the Administration would implement to address concerns regarding the impact of free trade on the environment, labor rights, and worker adjustment programs.

Environment. The Administration has moved forward with a comprehensive bilateral environmental agenda to allay concerns that free trade could undermine U.S. environmental and food safety regulations or lead to environmental degradation on the U.S.-Mexico border. During the last year, substantial progress has been made. Highlights include the following:

-- Standards. The NAFTA allows the U.S. to maintain its stringent environmental, health, and safety standards. It allows states and localities to enact tougher standards based on sound science. It encourages "upward harmonization" of national standards and regulations, and prohibits the lowering of standards to attract investment.

-- Integrated Border Plan. In February 1992, EPA and its Mexican counterpart (SEDUSOL) completed a comprehensive plan for addressing air, soil, water, and hazardous waste problems in the border area. Agreement has been reached on measures to implement the first stage of the plan covering the period 1992 - 1994.

-- Border Infrastructure. The President has proposed a 70 percent increase in the budget for border environmental projects to $241 million for FY 1993, including $75 million for the "colonias" (unincorporated communities on the U.S. side of the border that often lack effective sanitation services and running water) and over $120 million for border wastewater treatment plants.

-- Border Plan/FY 1993 Appropriations. To date, in the FY 1993 Appropriations process, the House of Representatives has refused to fund the $50 million EPA request for the colonias and cut the Administration's $65 million request for a Tijuana-San Diego sewage treatment plant to $32 million. For its part, the Senate failed to fund $120 million of the requested funds for border wastewater treatment. The President has called upon Congress to reverse these cuts.

-- Environmental Conference. On September 17, 1992, EPA Administrator Reilly will host a trilateral meeting with the Canadian and Mexican environmental ministers in Washington, D.C. to discuss environmental aspects of NAFTA.

Worker Rights. Mexico has a comprehensive labor law that provides workers with extensive legal rights. The economic benefits of the NAFTA will provide Mexico with resources to move forward with vigorous enforcement initiatives launched by the Salinas Administration.

-- Labor Cooperation. The U.S. Department of Labor has negotiated a five-year Memorandum of Understanding (MOU) to strengthen bilateral cooperation with respect to occupational health and safety standards, child labor, labor statistics, worker rights, labor-management relations, and workplace training. Several joint MOU initiatives are now underway.

Safeguards. President Bush committed that NAFTA would contain measures to ease the transition for import-sensitive U.S. industries. For our sensitive sectors, tariffs will be phased out in 10 years, with particularly sensitive sectors having a transition of up to 15 years. In addition, NAFTA contains "safeguard" procedures that will allow the U.S. to reimpose tariffs in the event of injurious import surges.

Worker Adjustment. Dislocations in the U.S. are likely to be minimal, since U.S. trade barriers are already quite

low. Nonetheless, during the fast track debate, the President promised that dislocated U.S. workers will receive timely, comprehensive, and effective services and retraining -- whether through improvement or expansion of an existing program or creation of a new program. The Administration has already begun consulting with the relevant Congressional committees regarding adjustment services for displaced workers.

Next Steps

The timing of Congressional consideration is governed by the fast track procedures, which require the President to notify the Congress of his intent to enter into the agreement at least 90 days before it is signed. Although today's announcement reflects the completion of negotiations, the draft text probably will not be finished until September, since further legal drafting and review are required to implement the understandings reached by the negotiators.

After the agreement is signed, legislation must be prepared to implement it, including any necessary changes to U.S. law. Under the fast track, the NAFTA will not go into effect until the Congress has approved the implementing legislation on an up-or-down vote. The approval process must occur within a specified time -- 90 "session" days of Congress.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

EMBARGOED FOR RELEASE
11 a.m. August 13, 1992

CONTACT: Desiree Tucker-Sorini
(202) 622-2920

STATEMENT BY NICHOLAS F. BRADY
SECRETARY OF THE TREASURY

Thank you all for coming.

The North American Free Trade agreement is an important initiative in the Bush administration's pro-growth economic strategy. It is truly an historic landmark event that will play an important role in the long-term growth and vitality of our country. It means more prosperity for our citizens, and more and better-paying jobs

Linking the three North American economies will establish a vibrant market of over 360 million people with a total output of $6 trillion -- that's substantially larger than any other industrial world market, including the European Community.

The facts speak for themselves:

- 70% of U.S. growth over the last four years came from exports. The U.S. exported $580 billion in goods and services last year alone.
- Seven million Americans earn a living through jobs related to exports.
- They earn 17% more than the average wage. We expect NAFTA to create jobs across the country bringing the total of American jobs directly resulting from opening trade with Mexico to over a million.
- We exported $33 billion worth of merchandise to Mexico last year and further gains can be expected since 70% of Mexico's total imports come from the United States.

The completion of the NAFTA talks this week is historic in another way. Almost ten years ago to the day, the Latin American debt crisis erupted when Mexico announced it couldn't meet its debt obligations.

NAFTA, in a way, caps that decade-long effort led by the United States to resolve a problem that threatened to destabilize the global financial system. With some 90% of commercial bank debt to the major debtors restructured in just the past three years and the region's economic health restored, the debt crisis is over for the major debtor nations and the international banking community.

The trade accord, like this Administration's international debt strategy, uses open market-based principles to achieve growth and secure more opportunities for the American people. The success of that strategy is reflected in the dramatic turnaround in Mexico, which is one of the fastest growing markets for U.S. exports.

NAFTA will help to lock in the success Mexico has achieved through the debt strategy.

Let me turn to three key areas in which Treasury had a lead role -- financial services, investment and rules of origin.

In financial services we achieved a truly remarkable outcome. For the first time in over 50 years U.S. financial firms will be able to set up wholly-owned companies in Mexico and to compete on the same terms as domestic firms. This will provide American banks, insurance companies, and securities firms with new opportunities in a financial market that is $330 billion in size and growing rapidly.

In investment, the U.S., Mexico, and Canada have agreed on a set of clear and transparent rules that eliminate most barriers to the free flow of investment. U.S. investors will be able to establish new firms and receive virtually the same treatment as Mexican investors. U.S. investors will be able to freely transfer the profits from these investments back to the U.S. and elsewhere. Investors may take disputes to binding international arbitration.

Rules of origin are designed to ensure that only North American producers benefit from the duty free treatment accorded through NAFTA. Goods of non-Mexican origin must be transformed or processed significantly in Mexico before they can receive duty free treatment in the U.S.

And now I will turn the press conference over to Treasury's key negotiators -- Olin Wethington, John Simpson, and Bill Barreda.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
August 12, 1992

CONTACT: Scott Dykema
(202) 622-2960

Statement by
Nicholas F. Brady
Secretary of the Treasury

The North American Free-Trade Agreement (NAFTA) is another initiative in the President's economic growth program. It will increase U.S. jobs, expand export opportunities and ensure America's prominence in global markets.

Linking the three North American economies will create a single market of over 360 million people with a total output of $6 trillion -- that's substantially larger than any other industrial world market, including the European Community.

This ambitious trade pact is integral to the long-term growth and vitality of our country. Just look at the facts:

- 70% of U.S. growth over the last four years came from exports.
- The U.S. exported $580 billion in goods and services last year, supporting more than 7.0 million U.S. jobs related to merchandise exports alone.
- Export-related jobs are high paying -- they pay 17% more than the national average.
- Following the 1986 market-opening reforms by Mexico, U.S. merchandise exports to Mexico almost tripled ($33 billion in 1991).
- Further increases can be expected since 70% of Mexico's total imports come from the United States.

NAFTA will spur export growth by reducing Mexican trade barriers and positioning American businesses as major suppliers for Mexico's rapidly expanding demand for imports.

We look forward to working with the Congress to enact this initiative. Only then will the American public start to feel the benefits of this landmark trade agreement.

oOo

NB-1938

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 12, 1992

STATEMENT BY THE PRESIDENT

Today marks the beginning of a new era on the North American continent. This morning, the United States, Mexico, and Canada are announcing the completion of negotiations for a North American Free Trade Agreement -- NAFTA. I want to express deep appreciation to Ambassador Carla Hills, our United States Trade Representative, and to Secretary Serra of Mexico and Minister Wilson of Canada for this outstanding achievement.

This historic trade agreement will further open markets in Mexico, Canada, and the United States. It will create jobs and generate economic growth in all three countries.

The Cold War is over. The principal challenge now facing the United States is to compete in a rapidly changing and expanding global marketplace. This agreement will level the North American playing field, allowing American companies to increase sales from Alaska to the Yucatan. By sweeping aside barriers and expanding trade, NAFTA will make our companies more competitive everywhere in the world. We have seen this happen with the U.S.-Canada Free Trade Agreement; we will see it even more with the NAFTA.

Open markets in Mexico and Canada mean more American jobs. Our nation is the world's leading exporter -- well ahead of Japan and Germany. Today, over seven million Americans are hard at work making products that will be sold around the world. Export-related jobs pay 17 percent more than the average U.S. wage. These jobs are the kind that our nation needs to grow and prosper -- the kind that showcase American talent and technology.

More than 600,000 Americans are now employed making products and selling them to Mexico -- our fastest growing major export market. We sold over $33 billion worth of goods to Mexico last year, and are projected to sell $44 billion this year. In the last five years, as President Salinas has dismantled many longstanding Mexican trade and investment restrictions, our exports to Mexico have nearly tripled -- that's more than one-quarter of a million new American jobs. This agreement helps us lock in these gains and build on them.

Last year the Congress endorsed moving forward with NAFTA by extending the "fast track" procedures for congressional consideration and implementation of trade agreements. The successful completion of the NAFTA talks shows how much can be accomplished when the Executive Branch and the Congress work together to do what is best for our Nation. I will work closely with Congress for rapid implementation.

At the time "fast track" was extended, I outlined steps we would take to address environmental and labor concerns. We have taken every promised step, and we are meeting -- or beating -- every commitment I outlined.

This is the first time a trade agreement has included stringent provisions to benefit the environment. The NAFTA maintains this nation's high environmental, health, and safety standards. In fact, it goes even further and encourages all three countries to seek the highest possible standards.

The Environmental Protection Agency and its Mexican counterpart have already developed a comprehensive integrated border plan to clean up air, water, and hazardous waste along the Rio Grande. These problems are serious, but they will be solved by environmental cooperation, increased trade, and higher levels of economic growth -- not protectionism. Unfortunately, Congress has reduced funding for our border plan in the appropriations process -- I ask Congress to fully fund these important environmental initiatives.

With NAFTA, we are moving forward with our trade strategy. Trade is part of my long-term economic growth plan to create more opportunities for all Americans. In a changing world, we must give our workers the education and skills they need to compete, and assistance and training to find good jobs.

I've said many times: level the playing field and the American worker can out-think, out-produce, and out-work anyone, anytime.

Today's historic agreement links our future with our past. Five centuries ago this very month, a man of courage and vision set sail from the Old World in search of new trade routes and opportunities. Christopher Columbus was an entrepreneur -- and the journey he started 500 years ago continues to pay off abundantly today. By moving forward with the North American Free Trade Agreement, we will replenish that investment, opening up new horizons of opportunity and enterprise in the New World.

# # #

FINANCIAL SERVICES

NAFTA PROVIDES U.S. FINANCIAL FIRMS WITH IMPORTANT RIGHTS IN THE MEXICAN MARKET

- o For the first time in more than 50 years, U.S. financial firms will be able to establish wholly-owned companies in Mexico.
- o Restrictions on the ability of U.S. financial firms in Mexico to compete will be lifted after a short transition period.
- o U.S. firms will be able to operate throughout Mexico and receive the same treatment accorded Mexican-owned firms.
- o A panel of international financial experts will settle any disputes that may arise.

BANKS WILL BENEFIT FROM MAJOR NEW COMPETITIVE OPPORTUNITIES

- o Banks will be permitted to establish wholly-owned subsidiaries when NAFTA goes into effect, do business throughout Mexico, and to engage in the same wide range of activities as Mexican banks.
  - -- U.S. banks will be allowed to obtain up to a 15 percent market share during a short transition period which ends on January 1, 2000.
  - -- After the transition period, individual U.S. banks will be able to acquire small and medium-sized Mexican banks. As a temporary safety net, Mexico will be able to impose a short-term limitation on the ability of U.S. firms to compete if U.S. firms obtain 25 percent of the market before January 1, 2004. No limitations will exist after that date.
- o Negotiations to allow NAFTA-wide direct branching will take place when U.S. financial reform permits interstate branching.

SECURITIES FIRMS ALSO WILL BENEFIT

- o U.S. securities firms will be able to establish subsidiaries when NAFTA goes into effect and gradually expand up to 20 percent of the market by the end of the transition period.
- o By January 1, 2000, all limitations on the size of individual firms will be eliminated. As for banks, a three-year limitation may be imposed if the market share of the U.S. firms reaches 30 percent before January 1, 2004.

- Mexico will undertake a study of securities industry reforms to permit establishment of firms with limited activities and reduced capital requirements.

OTHER TYPES OF FINANCIAL FIRMS WILL BE ABLE TO ENTER THE MEXICAN MARKET

- Leasing and factoring companies can establish operations in Mexico. They will be able to expand and obtain up to 20 percent of the market during a transition period. All limits on their activities will be eliminated by January 1, 2000.

- Mexico will permit a new type of financial company to allow non-bank lenders to establish consumer financing, commercial financing, mortgage lending and credit card companies. These companies will be allowed to fund their activities by borrowing in the local money markets.

INSURANCE COMPANIES TO ENJOY A SPECIAL REGIME

- The current limitations on foreign ownership of Mexican insurance companies will be eliminated after a short transition.

- U.S. insurance companies with existing joint ventures in Mexico will be able to take majority control by 1996.

- U.S. insurance companies not now in Mexico will have the option of entering Mexico by acquiring an interest in an existing firm or starting their own.

  -- In the former case, the U.S. firm can become the majority owner by 1998.

  -- In the latter case, the U.S. insurance company can own 100 percent of the firm in Mexico when NAFTA enters into force, subject to size limitations until January 1, 2000.

FIRMS IN THE U.S. WILL ALSO BE ABLE TO PROVIDE FINANCIAL SERVICES INTO MEXICO

- Mexican consumers will be able to purchase banking, securities and some insurance services from U.S. companies that prefer to do business from their home offices.

- No new restrictions will be placed on the ability of U.S. companies to solicit business in Mexico.

U.S. EXPORTS WILL GROW AS THE MEXICAN ECONOMY BENEFITS FROM ACTIVITIES OF U.S. FINANCIAL FIRMS

- The ability of U.S. banks to diversify and expand their activities will strengthen their financial position.

- The increased ability of U.S. financial firms to service their American clients operating in Mexico will facilitate U.S. exports. In addition, by contributing to the strengthening of the Mexican economy, U.S. banks will help boost demand for U.S. goods.

- The end result is more and better paying jobs for Americans.

August 12, 1992

INVESTMENT

NAFTA PROVIDES GREATER FAIRNESS FOR U.S. INVESTORS IN MEXICO AND CANADA

o American investors will benefit from key rights, including:

- The right to establish new firms, acquire existing firms, and receive the same treatment as domestic businesses, with specified exceptions.
- The right to repatriate profits and capital and to obtain hard currency for all such payments associated with an investment.
- The right to international law protection against expropriation, including the right to compensation equal to the fair market value of their investment.
- The right to go to international arbitration to seek monetary damage or restitution for any violations of these rights.

o NAFTA frees U.S. investors from a number of restrictive performance requirements. Firms will no longer have to:

-- export a given level or percentage of goods or services;
-- use domestic goods or services;
-- buy components from a local supplier;
-- transfer technology to competitors;
-- achieve a certain level of domestic content; or
-- limit imports to a certain percentage of exports.

NAFTA REMOVES MEXICO'S STRINGENT BARRIERS TO U.S. INVESTMENT

o Most requirements for government approval are eliminated, including those for investments in agriculture, auto parts, construction, mining and selected petrochemicals.

SOME EXCEPTIONS WILL REMAIN

o Mexico may review acquisitions above an initial threshold of $25 million, phased-up to $150 million over ten years. Threshold levels will be adjusted for inflation and, after year ten, for economic growth.

o Mexico will continue to reserve certain "Constitutional" activities (e.g., energy, railroads) to the state or nationals.

EXPANDING INVESTMENT IN MEXICO INCREASES U.S. EXPORTS AND SUPPORTS JOBS

- Faster Mexican economic growth will increase demand for importation of U.S. goods and services.
  - For every additional dollar in Mexican income, 15 cents is spent on American goods.
  - For every dollar Mexico spends on imports, it spends 73 cents on U.S. products, while Asian developing countries spend only 15 cents.
- Because exports to U.S. subsidiaries in Mexico account for about a third of total U.S. exports to Mexico, an increase in U.S. investment there should lift U.S. exports even higher.
- And ending Mexico's local manufacturing requirements will mean U.S. companies can ship more American-made products to the Mexican market.
- Finally, most U.S. firms surveyed in a 1988 by the U.S. International Trade Commission (ITC) said the likely investment alternative to Mexico -- where a substantial amount of U.S. components is used -- would be East Asia, where fewer U.S. components are used.
  - For every dollar a U.S. firm in Mexico spends on components, it spends 46 cents on U.S. goods, while U.S. firms in Asia spend only 14 cents.

INCREASED U.S. INVESTMENT IN MEXICO ENHANCES U.S. COMPETITIVENESS

- U.S. firms will now be able to integrate their North American operations, making them more competitive against European and Japanese producers.
- The vast majority of the 900 firms surveyed in the 1988 ITC study felt that assembly in Mexico had improved their overall international competitiveness.

INCREASED INVESTMENT ALSO SUPPORTS LATIN AMERICAN ECONOMIC REFORM

- Mexican growth from increased investment will send a powerful message to other Latin American countries that liberalization is the best way to sustain development.
- In addition, economic development will ease pressures to immigrate into the U.S.

U.S. DOMESTIC OBLIGATIONS MEET U.S. OBJECTIVES

o The Agreement reflects the openness of the U.S. system--reflecting our stature as the most attractive location to invest.

o The Agreement protects maritime, basic telecommunications, technology consortia and R&D programs as well as all existing state and local measures.

o The Agreement also protects any future measures to protect national security.

August 12, 1992

RULES OF ORIGIN

NAFTA'S RULES OF ORIGIN ENSURE THAT MEXICO WILL NOT SERVE AS AN EXPORT PLATFORM TO THE UNITED STATES

- Only North American made products can obtain the benefits of the tariff preferences guaranteed under the NAFTA.
- Non-NAFTA origin goods must be transformed or processed significantly in Mexico before they can receive NAFTA's lower duties when shipped to the United States.
- At the same time, NAFTA eliminates current practices that distort trade and investment flows in Mexico, such as export-conditioned duty remission programs.

ONLY NORTH AMERICAN-MADE AUTOMOBILES RECEIVE NAFTA BENEFITS

- NAFTA rules reward the use of North American parts and components in autos manufacturing. This significantly limits the problem known as "roll-up," which permits goods that qualify as NAFTA originating goods to have their full value counted as NAFTA content even though they may contain some non-NAFTA materials.
- More detailed and precise value-content rules ensure that greater numbers of U.S. producers take advantage of NAFTA benefits than they have under the U.S.-Canada FTA. The value-content formula means simpler accounting and less administrative burden on business.
- The more precise formula ensures predictability and avoids likelihood of international disputes.
- As a result, automobiles must contain 62.5 percent North American content to obtain NAFTA's tariff benefits. This is will be phased in over two four-year stages.

UNCERTAINTY DIMINISHED FOR HIGH TECHNOLOGY PRODUCTS

- NAFTA achieves a major U.S. goal by having origin rules for high-tech goods that are based strictly on a change of tariff classification test.
- NAFTA rules are manufacturing-based and ensure high NAFTA content by requiring the production in a NAFTA country of specific sub-assemblies which are identified in the tariff schedule.

- o A large percentage of trade under the NAFTA will no longer be affected by a value-added percentage test, including computers, telecommunications equipment, televisions and machine tools.

  -- Thus, companies are relieved from burdensome accounting of costs during the production process in order to meet a required value-added percentage test.

FOR TEXTILES AND APPAREL, RULES OF ORIGIN ARE FAIR BUT TOUGH

- o The rules of origin for most textiles and apparel require NAFTA content from the yarn-spinning stage forward.

- o For other products, such as cotton and man-made fiber knit fabrics, NAFTA content from the fiber stage (e.g., cotton or polyester) forward is required.

- o NAFTA also provides flexibility for sourcing from non-NAFTA countries where product is not available in NAFTA countries (e.g., certain men's shirting fabrics). Consultative procedures will enable us to adapt to changing demands and production patterns.

STRICT ENFORCEMENT OF TOUGHER RULES OF ORIGIN/EXPORTER RIGHTS

- o Customs auditors are able to visit production facilities in other NAFTA countries to ensure that tariff benefits only go to qualifying goods in compliance with the rules of origin.

- o U.S. exporters have the same rights as nationals of the other NAFTA countries to appeal unfavorable customs decisions before their agencies and courts.

August 12, 1992

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 12, 1992

The North American Free Trade Agreement

FACT SHEET

The President today announced that the United States, Mexico, and Canada have completed negotiation of a North American Free Trade Agreement (NAFTA). The NAFTA will phase out barriers to trade in goods and services in North America, eliminate barriers to investment, and strengthen the protection of intellectual property rights. As tariffs and other trade barriers are eliminated, the NAFTA will create a massive open market -- over 360 million people and over $6 trillion in annual output.

Background

With sharp increases in global trade and investment flows, U.S. economic growth and job creation have become closely tied to our ability to compete internationally. Since 1986, U.S. exports have increased by almost 90 percent, reflecting our success in opening foreign markets and the competitiveness of American industry. In 1991, the U.S. exported over $422 billion of industrial and agricultural products, and over $164 billion in services, making the United States the world's largest exporter -- ahead of Germany and Japan. More than 7.5 million U.S. jobs are tied to merchandise exports, up from 5.0 million in 1986. Of these jobs, 2.1 million are supported by exports to Canada and Mexico.

For many years, Mexico used high tariffs and licensing restrictions in an effort to encourage industrial development and import substitution.

Under President Salinas and his predecessor, President de la Madrid, the Mexican Government has opened its market and implemented sweeping economic reforms. In 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT) and began reducing its tariffs and trade barriers.

As a result, bilateral trade has increased dramatically. From 1986-91, U.S. exports to Mexico increased from $12.4 billion to $33.3 billion, twice as fast as U.S. exports to the
... U.S. agricultural exports rose 173 percent

exports of capital goods surged to $11.3 billion from $5 billion. U.S. exports to Mexico now support approximately 600,000 American jobs, while exports to Canada support 1.5 million.

Economic reforms have also been good for Mexico. Its inflation rate has dropped from over 100 percent in 1986 to under 20 percent in 1991, and its economy has grown at an average annual rate of 3.1 percent over the last four years, after stagnating during the 1980s.

In June 1990, Presidents Bush and Salinas endorsed the idea of a comprehensive U.S.-Mexico free trade agreement and directed their trade ministers to begin preparatory work. Canada joined the talks in February 1991, leading to the three-way negotiation known as NAFTA. Formal negotiations began in June 1991 after Congress extended through May 1993 the "fast track" procedures originally enacted in the Trade Act of 1974, authorizing the Administration to submit the agreement with implementing legislation for an up-or-down vote.

The President's trade strategy, which is a key part of his overall economic growth plan, is designed to create new markets for American products and provide new opportunities for American companies and workers.

<u>The NAFTA Agreement</u>

The NAFTA will create a free trade area (FTA) comprising the U.S., Canada, and Mexico. Consistent with GATT rules, all tariffs will be eliminated within the FTA over a transition period. The NAFTA involves an ambitious effort to eliminate barriers to agricultural, manufacturing, and services trade, to remove investment restrictions, and to protect effectively intellectual property rights. In addition, the NAFTA marks the first time in the history of U.S. trade policy that environmental concerns have been directly addressed in a comprehensive trade agreement. Highlights of the NAFTA include:

Tariff Elimination. Approximately 65 percent of U.S. industrial and agricultural exports to Mexico will be eligible for duty-free treatment either immediately or within five years. Mexico's tariffs currently average 10 percent, which is two-and-a-half times the average U.S. tariff.

Reduction of Motor Vehicle and Parts Tariffs. U.S. autos and light trucks will enjoy greater access to Mexico, which has the fastest growing major auto market in the [illegible] With NAFTA, Mexican tariffs on vehicles and light

trucks will immediately be cut in half. Within five years, duties on three-quarters of U.S. parts exports to Mexico will be eliminated, and Mexican "trade balancing" and "local content requirements" will be phased out over 10 years.

Auto Rule of Origin. Only vehicles with substantial North American parts and labor content will benefit from tariff cuts under NAFTA's strict rule of origin. NAFTA will require that autos contain 62.5 percent North American content, considerably more than the 50 percent required by the U.S.-Canada Free Trade Agreement. NAFTA contains tracing requirements so that individual parts can be identified to determine the North American content of major components and sub-assemblies, e.g. engines. This strict rule of origin is important in ensuring that the benefits of the NAFTA flow to firms that produce in North America.

Expanded Telecommunications Trade. NAFTA opens Mexico's $6 billion market for telecommunications equipment and services. It gives U.S. providers of voice mail or packet-switched services nondiscriminatory access to the Mexican public telephone network and eliminates all investment restrictions by July 1995.

Reduced Textiles and Apparel Barriers. Barriers to trade on $250 million (over 20 percent) of U.S. exports of textiles and apparel to Mexico will be eliminated immediately, with another 8700 million freed from restrictions within 6 years. All North American trade restrictions will be eliminated within 10 years and tough rules of origin will ensure that benefits of trade liberalization accrue to North American producers.

Increased Trade in Agriculture. Mexico imported $3 billion worth of U.S. agricultural goods last year, making it our third-largest market. NAFTA will immediately eliminate Mexican import licenses, which covered 25 percent of U.S. agricultural exports last year, and will phase out remaining Mexican tariffs within 10 - 15 years.

Expanded Trade in Financial Services. Mexico's closed financial services markets will be opened and U.S. banks and securities firms will be allowed to establish wholly owned subsidiaries. Transitional restrictions will be phased out by January 1, 2000.

New Opportunities in Insurance. U.S. firms will gain

percent ownership by 1996 and new entrants to the market can obtain a majority stake in Mexican firms by 1998. By the year 2000, all equity and market share restrictions will be eliminated, opening up completely what is now a $3.5 billion market.

Increased Investment. Mexican "domestic content" rules will be eliminated, permitting additional sourcing of U.S. inputs and, for the first time, U.S. firms operating in Mexico will receive the same treatment as Mexican-owned firms. Mexico has agreed to drop export performance requirements, which presently force companies to export as a condition of being allowed to invest.

Land Transportation. More than 90 percent of U.S. trade with Mexico is shipped by land, but U.S. truckers currently are denied the right to carry cargo or set up subsidiaries in Mexico, forcing them to "hand off" trailers to Mexican drivers and return home empty. NAFTA will permit U.S. trucking companies to carry international cargo to the Mexican states contiguous to the U.S. by 1995, and gives them cross-border access to all of Mexico by the end of 1999. U.S. railroads will be able to provide their services in Mexico, and U.S. companies can invest in and operate land-side port services. The combination of truck, rail, and port breakthroughs will help create an efficient, intermodal North American transport system.

Protection of Intellectual Property Rights. NAFTA will provide a higher level of protection for intellectual property rights than any other bilateral or multilateral agreement. U.S. high technology, entertainment, and consumer goods producers that rely heavily on protection for their patents, copyrights, and trademarks will realize substantial gains under NAFTA. The agreement will also limit compulsory licensing, resolving an important concern with Canada.

The objective of NAFTA is to open markets. It is not designed to create a closed regional trading bloc, and does not erect new barriers to non-participants. The NAFTA is fully consistent with GATT criteria for free trade agreements, and with U.S. support for strengthening the multilateral trading system in the Uruguay Round.

Economic Studies

At the request of the Office of the U.S. Trade Representative, the U.S. International Trade Commission

surveyed and evaluated the various economic analyses of NAFTA. In May of this year, the USITC reported that:

> [T]here is a surprising degree of unanimity in the results regarding the aggregate effects of NAFTA. All three countries are expected to gain from a NAFTA.

These independent studies found that NAFTA would increase U.S. growth, jobs, and wages. They found that NAFTA would increase U.S. real GDP by up to 0.5 percent per year once it is fully implemented. They projected aggregate U.S. employment increases ranging from under 0.1 percent to 2.5 percent. The studies further project aggregate increases in U.S. real wages of between 0.1 percent to 0.3 percent.

U.S. exports to Mexico currently support over 600,000 American jobs. The Institute for International Economics recently estimated this figure will rise to over 1 million U.S. jobs by 1995 under NAFTA.

Environment, Labor, and Adjustment Issues

In a May 1, 1991, letter to the Congress, the President described actions that the Administration would implement to address concerns regarding the impact of free trade on the environment, labor rights, and worker adjustment programs.

Environment. The Administration has moved forward with a comprehensive bilateral environmental agenda to allay concerns that free trade could undermine U.S. environmental and food safety regulations or lead to environmental degradation on the U.S.-Mexico border. During the last year, substantial progress has been made. Highlights include the following:

-- Standards. The NAFTA allows the U.S. to maintain its stringent environmental, health, and safety standards. It allows states and localities to enact tougher standards based on sound science. It encourages "upward harmonization" of national standards and regulations, and prohibits the lowering of standards to attract investment.

-- Integrated Border Plan. In February 1992, EPA and its Mexican counterpart (SEDUSOL) completed a comprehensive plan for addressing air, soil, water, and hazardous waste problems in the border area. Agreement has been reached on measures to implement [illegible] first stage of the plan covering the period 1992

-- **Border Infrastructure.** The President has proposed a 70 percent increase in the budget for border environmental projects to $241 million for FY 1993, including $75 million for the "colonias" (unincorporated communities on the U.S. side of the border that often lack effective sanitation services and running water) and over $120 million for border wastewater treatment plants.

-- **Border Plan/FY 1993 Appropriations.** To date, in the FY 1993 Appropriations process, the House of Representatives has refused to fund the $50 million EPA request for the colonias and cut the Administration's $65 million request for a Tijuana-San Diego sewage treatment plant to $32 million. For its part, the Senate failed to fund $120 million of the requested funds for border wastewater treatment. The President has called upon Congress to reverse these cuts.

-- **Environmental Conference.** On September 17, 1992, EPA Administrator Reilly will host a trilateral meeting with the Canadian and Mexican environmental ministers in Washington, D.C. to discuss environmental aspects of NAFTA.

Worker Rights. Mexico has a comprehensive labor law that provides workers with extensive legal rights. The economic benefits of the NAFTA will provide Mexico with resources to move forward with vigorous enforcement initiatives launched by the Salinas Administration.

-- **Labor Cooperation.** The U.S. Department of Labor has negotiated a five-year Memorandum of Understanding (MOU) to strengthen bilateral cooperation with respect to occupational health and safety standards, child labor, labor statistics, worker rights, labor-management relations, and workplace training. Several joint MOU initiatives are now underway.

Safeguards. President Bush committed that NAFTA would contain measures to ease the transition for import-sensitive U.S. industries. For our sensitive sectors, tariffs will be phased out in 10 years, with particularly sensitive sectors having a transition of up to 15 years. In addition, NAFTA contains "safeguard" procedures that will allow the U.S. to reimpose tariffs in the event of injurious import surges.

Worker Adjustment. Dislocations in the U.S. are likely to be minimal, since U.S. trade barriers are already quite

low. Nonetheless, during the fast track debate, the President promised that dislocated U.S. workers will receive timely, comprehensive, and effective services and retraining -- whether through improvement or expansion of an existing program or creation of a new program. The Administration has already begun consulting with the relevant Congressional committees regarding adjustment services for displaced workers.

Next Steps

The timing of Congressional consideration is governed by the fast track procedures, which require the President to notify the Congress of his intent to enter into the agreement at least 90 days before it is signed. Although today's announcement reflects the completion of negotiations, the draft text probably will not be finished until September, since further legal drafting and review are required to implement the understandings reached by the negotiators.

After the agreement is signed, legislation must be prepared to implement it, including any necessary changes to U.S. law. Under the fast track, the NAFTA will not go into effect until the Congress has approved the implementing legislation on an up-or-down vote. The approval process must occur within a specified time -- 90 "session" days of Congress.

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TREASURY NEWS

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EMBARGOED FOR RELEASE
11 a.m. August 13, 1992

CONTACT: Desiree Tucker-Sorini
(202) 622-2920

STATEMENT BY NICHOLAS F. BRADY
SECRETARY OF THE TREASURY

Thank you all for coming.

The North American Free Trade agreement is an important initiative in the Bush administration's pro-growth economic strategy. It is truly an historic landmark event that will play an important role in the long-term growth and vitality of our country. It means more prosperity for our citizens, and more and better-paying jobs

Linking the three North American economies will establish a vibrant market of over 360 million people with a total output of $6 trillion -- that's substantially larger than any other industrial world market, including the European Community.

The facts speak for themselves:

o 70% of U.S. growth over the last four years came from exports. The U.S. exported $580 billion in goods and services last year alone.

o Seven million Americans earn a living through jobs related to exports.

o They earn 17% more than the average wage. We expect NAFTA to create jobs across the country bringing the total of American jobs directly resulting from opening trade with Mexico to over a million.

o We exported $33 billion worth of merchandise to Mexico last year and further gains can be expected since 70% of Mexico's total imports come from the United States.

The completion of the NAFTA talks this week is historic in another way. Almost ten years ago to the day, the Latin American debt crisis erupted when Mexico announced it couldn't meet its debt obligations.

NB-1940

NAFTA, in a way, caps that decade-long effort led by the United States to resolve a problem that threatened to destabilize the global financial system. With some 90% of commercial bank debt to the major debtors restructured in just the past three years and the region's economic health restored, the debt crisis is over for the major debtor nations and the international banking community.

The trade accord, like this Administration's international debt strategy, uses open market-based principles to achieve growth and secure more opportunities for the American people. The success of that strategy is reflected in the dramatic turnaround in Mexico, which is one of the fastest growing markets for U.S. exports.

NAFTA will help to lock in the success Mexico has achieved through the debt strategy.

Let me turn to three key areas in which Treasury had a lead role -- financial services, investment and rules of origin.

In financial services we achieved a truly remarkable outcome. For the first time in over 50 years U.S. financial firms will be able to set up wholly-owned companies in Mexico and to compete on the same terms as domestic firms. This will provide American banks, insurance companies, and securities firms with new opportunities in a financial market that is $330 billion in size and growing rapidly.

In investment, the U.S., Mexico, and Canada have agreed on a set of clear and transparent rules that eliminate most barriers to the free flow of investment. U.S. investors will be able to establish new firms and receive virtually the same treatment as Mexican investors. U.S. investors will be able to freely transfer the profits from these investments back to the U.S. and elsewhere. Investors may take disputes to binding international arbitration.

Rules of origin are designed to ensure that only North American producers benefit from the duty free treatment accorded through NAFTA. Goods of non-Mexican origin must be transformed or processed significantly in Mexico before they can receive duty free treatment in the U.S.

And now I will turn the press conference over to Treasury's key negotiators -- Olin Wethington, John Simpson, and Bill Barreda.

oOo

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Thursday, August 13, 1992

CONTACT: RICH MYERS
202-622-2930

U.S., MEXICO INITIAL PROPOSED NEW INCOME TAX TREATY

Officials from the United States and Mexico have initialed a proposed new treaty to avoid double taxation of income, the Treasury Department announced today.

The new treaty, subject to ratification by both the Mexican legislature and the United States Senate, would be the first income tax treaty between the two countries. The new treaty is viewed as an important complement to the North American Free Trade Agreement and is expected to contribute to expanded economic relations between Mexico and the United States.

Both sides agreed to expedite the procedures for authorizing signature of the treaty with the objective of having it signed in September. The treaty text will be made public when it has been signed.

The proposed text was initialed in Washington by James R. Mogle, Acting International Tax Counsel for the U.S. Treasury Department, and Francisco Gil Diaz, Undersecretary for Revenue of the Mexican Ministry of Finance and Public Credit, on August 5, 1992.

oOo

NB-1941

AUCTION RESULTS

PUBLIC DEBT NEWS

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CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 30-YEAR BONDS

Tenders for $10,007 million of 30-year bonds to be issued August 17, 1992 and to mature August 15, 2022 were accepted today (CUSIP: 912810EM6).

The interest rate on the bonds will be 7 1/4%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	7.27%	99.756
High	7.29%	99.514
Average	7.29%	99.514

Tenders at the high yield were allotted 97%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	10,644	10,449
New York	24,083,426	9,768,813
Philadelphia	3,375	3,375
Cleveland	15,764	15,464
Richmond	12,323	12,173
Atlanta	8,044	8,029
Chicago	534,758	61,798
St. Louis	1,939	1,909
Minneapolis	1,530	1,530
Kansas City	12,522	12,522
Dallas	3,515	3,515
San Francisco	305,496	102,796
Treasury	4,869	4,819
TOTALS	$24,998,205	$10,007,192

The $10,007 million of accepted tenders includes $354 million of noncompetitive tenders and $9,653 million of competitive tenders from the public.

In addition, $350 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 $800,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of $0.39402 per $1,000 of par must be paid for the period August 15, 1992 to August 17, 1992.

NB-1942

TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

For Immediate Release   August 14, 1992

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of July 1992.

As indicated in this table, U.S. reserve assets amounted to 77,370 million at the end of July 1992, up from 77,092 million in June 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					
June	77,092	11,059	11,597	45,055	9,381
July	77,370	11,059	11,702	44,984	9,625

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-1943

DESCRIPTION OF THE PROPOSED

NORTH AMERICAN FREE TRADE AGREEMENT

Prepared by

THE GOVERNMENTS OF

CANADA,

THE UNITED MEXICAN STATES

AND

THE UNITED STATES OF AMERICA

August 12, 1992

INTRODUCTION

This document provides a synopsis of the proposed North American Free Trade Agreement.

On August 12, 1992, Canadian Minister of Industry, Science and Technology and Minister for International Trade Michael Wilson, Mexican Secretary of Trade and Industrial Development Jaime Serra and United States Trade Representative Carla Hills completed negotiations on a proposed North American Free Trade Agreement (NAFTA). Officials of the three governments have been directed to complete work on the final text of the Agreement as soon as possible. The final text will be made public when completed. The following description does not itself constitute an agreement between the three countries and is not intended as an interpretation of the final text.

For ease of reference a summary of significant environmental provisions of the NAFTA is included at the end of this document.

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PREAMBLE

The Preamble to the NAFTA sets out the principles and aspirations on which the Agreement is based. It affirms the three countries' commitment to promoting employment and economic growth in each country through the expansion of trade and investment opportunities in the free trade area and by enhancing the competitiveness of Canadian, Mexican and U.S. firms in global markets, in a manner that protects the environment. The Preamble confirms the resolve of the NAFTA partners to promote sustainable development, to protect, enhance and enforce workers' rights and to improve working conditions in each country.

OBJECTIVES AND OTHER OPENING PROVISIONS

The opening provisions of the NAFTA formally establish a free trade area between Canada, Mexico and the United States, consistent with the General Agreement on Tariffs and Trade (GATT). They set out the basic rules and principles that will govern the Agreement and the objectives that will serve as the basis for interpreting its provisions.

The objectives of the Agreement are to eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection for intellectual property rights, establish effective procedures for the implementation and application of the Agreement and for the resolution of disputes and to further trilateral, regional and multilateral cooperation. The NAFTA countries will meet these objectives by observing the principles and rules of the Agreement, such as national treatment, most-favored-nation treatment and procedural "transparency".

Each country affirms its respective rights and obligations under the GATT and other international agreements. For purposes of interpretation, the Agreement establishes that the NAFTA takes priority over other agreements to the extent there is any conflict, but provides for exceptions to this general rule. For example, the trade provisions of certain environmental agreements take precedence over NAFTA, subject to a requirement to minimize inconsistencies with the Agreement.

The opening provisions also set out a general rule regarding the application of the Agreement to sub-federal levels of government in the three countries. In addition, this section defines terms that apply to the whole Agreement, to ensure uniform and consistent usage.

RULES OF ORIGIN

NAFTA eliminates all tariffs on goods originating in Canada, Mexico and the United States over a "transition period". Rules of origin are necessary to define which goods are eligible for this preferential tariff treatment.

This section of the Agreement is designed to:

- ensure that NAFTA benefits are accorded only to goods produced in the North American region -- not goods made wholly or in large part in other countries;
- provide clear rules and predictable results; and
- minimize administrative burdens for exporters, importers and producers trading under NAFTA.

The rules of origin specify that goods originate in North America if they are wholly North American. Goods containing non-regional materials are also considered to be North American if the non-regional materials are sufficiently transformed in the NAFTA region so as to undergo a specified change in tariff classification. In some cases, goods must include a specified percentage of North American content in addition to meeting the tariff classification requirement. The rules of origin section also contains a provision similar to one in the Canada-United States Free Trade Agreement (FTA) that allows goods to be treated as originating when the finished good is specifically named in the same tariff subheading as its parts and it meets the required value content test.

Regional value content may be calculated using either the "transaction-value" or the "net-cost" method. The transaction-value method is based on the price paid or payable for a good; this avoids the need for complex cost accounting systems. The net-cost method is based on the total cost of the good less the costs of royalties, sales promotion, and packing and shipping. Additionally, the net-cost method sets a limitation on allowable interest. Although producers generally have the option to use either method, the net-cost method must be used where the transaction value is not acceptable under the GATT Customs Valuation Code, and must also be used for certain products, such as automotive goods.

In order to qualify for preferential tariff treatment, automotive goods must contain a specified percentage of North American content (rising to 62.5 percent for passenger automobiles and light trucks as well as engines and transmissions for such vehicles, and to 60 percent for other vehicles and automotive parts) based on the net-cost formula. In calculating the content level of automotive goods, the value of imports of automotive parts from outside the NAFTA region will be traced through the production chain to improve the accuracy of the content calculation. Regional content averaging provisions afford administrative flexibility for automotive parts producers and assemblers.

A _de minimis_ rule prevents goods from losing eligibility for preference solely because they contain minimal amounts of "non-originating" material. Under this rule, a good that would otherwise fail to meet a specific rule of origin will nonetheless be considered to be North American if the value of non-NAFTA materials comprises no more than seven percent of the price or total cost of the good.

CUSTOMS ADMINISTRATION

In order to ensure that only goods satisfying the rules of origin are accorded preferential tariff treatment under the Agreement, and to provide certainty to and streamlined procedures for importers, exporters and producers of the three countries, the NAFTA includes a number of provisions on customs administration. Specifically, this section provides for:

- uniform regulations to ensure consistent interpretation, application and administration of the rules of origin;
- a uniform Certificate of Origin as well as certification requirements and procedures for importers and exporters that claim preferential tariff treatment;
- common record-keeping requirements in the three countries for such goods;
- rules for both traders and customs authorities with respect to verifying the origin of such goods;
- importers, exporters and producers to obtain advance rulings on the origin of goods from the customs authority of the country into which the goods are to be imported;
- the importing country to give exporters and producers in other NAFTA countries substantially the same rights of review and appeal of its origin determinations and advance rulings as it provides to importers in its territory;
- a trilateral working group to address future modifications of the rules of origin and the uniform regulations; and
- specific time periods to ensure the expeditious resolution of disputes regarding the rules of origin between NAFTA partners.

TRADE IN GOODS

National Treatment

The NAFTA incorporates the fundamental national treatment obligation of the GATT. Once goods have been imported into one NAFTA country from another NAFTA country, they must not be the object of discrimination. This commitment extends to provincial and state measures.

Market Access

These provisions establish rules governing trade in goods with respect to customs duties and other charges, quantitative restrictions, such as quotas, licenses and permits, and import and export price requirements. They improve and make more secure the access for goods produced and traded within North America.

Elimination of Tariffs: The NAFTA provides for the progressive elimination of all tariffs on goods qualifying as North American under its rules of origin. For most goods, existing customs duties will either be eliminated immediately or phased out in five or 10 equal annual stages. For certain sensitive items, tariffs will be phased out over a period of up to 15 years. Tariffs will be phased out from the applied rates in effect on July 1, 1991, including the U.S. Generalized System of Preferences (GSP) and the Canadian General Preferential Tariff (GPT) rates. Tariff phase-outs under the Canada-U.S. FTA will continue as scheduled under that Agreement. The NAFTA provides that the three countries may consult and agree on a more rapid phase-out of tariffs.

Import and Export Restrictions: All three countries will eliminate prohibitions and quantitative restrictions applied at the border, such as quotas and import licenses. However, each NAFTA country maintains the right to impose border restrictions in limited circumstances, for example, to protect human, animal or plant life or health, or the environment. Special rules apply to trade in agriculture, autos, energy and textiles.

Drawback: NAFTA establishes rules on the use of "drawback" or similar programs that provide for the refund or waiver of customs duties on materials used in the production of goods subsequently exported to another NAFTA country.

Existing drawback programs will terminate by January 1, 2001, for Mexico-U.S. and Canada-Mexico trade; the Agreement will extend for two years the deadline established in the Canada-U.S. FTA for the elimination of drawback programs. At the time these programs are eliminated, each NAFTA country will adopt a procedure for goods still subject to duties in the free trade area to avoid the "double taxation" effects of the payment of duties in two countries.

Under these procedures, the amount of customs duties that a country may waive or refund under such programs will not exceed the lesser of:

- duties owed or paid on imported, non-North American materials used in the production of a good subsequently exported to another NAFTA country; or

- duties paid to that NAFTA country on the importation of such good.

Customs User Fees: The three countries have agreed not to impose new customs user fees similar to the U.S. merchandise processing fee or the Mexican customs processing fee ("derechos de trámite aduanero"). Mexico will eliminate by June 30, 1999, its existing customs processing fee on North American goods. The United States will eliminate its current merchandise processing fee on goods originating in Mexico by the same date. For goods originating in Canada, the United States currently is phasing down and will eliminate this fee by January 1, 1994, as provided in the Canada-U.S. FTA.

Waiver of Customs Duties: The NAFTA prohibits any new performance-based customs duty waiver or duty remission programs. Existing programs in Mexico will be eliminated by January 1, 2001. Consistent with the obligations of the Canada-U.S. FTA, Canada will end its existing duty remission programs by January 1, 1998.

Export Taxes: The NAFTA prohibits all three countries from applying export taxes unless such taxes are also applied on goods to be consumed domestically. Limited exceptions allow Mexico to impose export taxes in order to relieve critical shortages of foodstuffs and basic goods.

Other Export Measures: When a NAFTA country imposes an export restriction on a product, it must not reduce the proportion of total supply of that product made available to the other NAFTA countries below the level of the preceding three years or other agreed period, impose a higher price on exports to another NAFTA country than the domestic price or require the disruption of normal supply channels. Based on a reservation that Mexico has taken, these obligations do not apply as between Mexico and the other NAFTA countries.

Duty-Free Temporary Admission of Goods: The Agreement allows business persons covered by NAFTA's "temporary entry" provisions to bring into a NAFTA country professional equipment and "tools of the trade" on a duty-free, temporary basis. These rules also cover the importation of commercial samples, certain types of advertising films, and goods imported for sports purposes or for display and demonstration. Other rules provide that by 1998 all goods that are returned after repair or alteration in another NAFTA country will re-enter duty-free. The United States undertakes to clarify what ship repairs done in other NAFTA countries on U.S.-flagged vessels qualify for preferential duty treatment.

Country-of-Origin Marking: This section also provides principles and rules governing country-of-origin marking. These provisions are designed to minimize unnecessary costs and facilitate the flow of trade within the region, while ensuring that accurate information about the country of origin remains available to purchasers.

Alcoholic Beverages - Distinctive Products: The three countries have agreed to recognize Canadian Whiskey, Tequila, Mezcal, Bourbon Whiskey and Tennessee Whiskey as "distinctive products" and to prohibit the sale of products under these names unless they meet the requirements of their country of origin.

TEXTILES AND APPAREL

This section provides special rules for trade in fibers, yarns, textiles and clothing in the North American market. The NAFTA textiles and apparel provisions take precedence over those of the Multifiber Arrangement and other agreements between NAFTA countries applicable to textile products.

Elimination of Tariff and Non-Tariff Barriers

The three countries will eliminate immediately or phase out over a maximum period of 10 years their customs duties on textile and apparel goods manufactured in North America that meet the NAFTA rules of origin. In addition, the United States will immediately remove import quotas on such goods produced in Mexico, and will gradually phase out import quotas on Mexican textile and apparel goods that do not meet such rules. No NAFTA country may impose any new quota, except in accordance with specified "safeguards" provisions.

Safeguards

If textile or apparel producers face serious damage as a result of increased imports from another NAFTA country, the importing country may, during the "transition period", either increase tariffs or, with the exception of Canada-U.S. trade, impose quotas on the imports to provide temporary relief to that industry, subject to specific disciplines. In the case of goods that meet NAFTA's rules of origin, the importing country may take safeguard actions only in the form of tariff increases.

Rules of Origin

Specific rules of origin in the NAFTA define when imported textile or apparel goods qualify for preferential treatment. For most products, the rule of origin is "yarn forward", which means that textile and apparel goods must be produced from yarn made in a NAFTA country in order to benefit from such treatment. A "fiber forward" rule is provided for certain products such as cotton and man-made fiber yarns. Fiber forward means that goods must be produced from fiber made in a NAFTA country. In other cases, apparel cut and sewn from certain imported fabrics that the NAFTA countries agree are in short supply, such as silk, linen and certain shirting fabrics, can qualify for preferential treatment.

Additional provisions, responsive to the needs of North American industry, include "tariff rate quotas" (TRQ's), under which yarns, fabrics and apparel that are made in North America, but that do not meet the rules of origin, can still qualify for preferential duty treatment up to specified import levels. The TRQ's for Canada that were included in the Canada-U.S. FTA have been increased and provided an annual growth rate for at least the first five years.

The NAFTA countries will undertake a general review of the textile and apparel rules of origin prior to January 1, 1998. In the interim, they will consult on request on whether specific goods should be made subject to different rules of origin, taking into account availability of supply within the free trade area. In addition, the three countries have established a process to permit annual adjustments to TRQ levels.

Labelling Requirements

A joint government and private sector Committee on Labelling for Textile Products will recommend ways to eliminate unnecessary obstacles to textile trade resulting from different labelling requirements in the three countries through a work program to develop uniform labelling requirements, for example regarding pictograms and symbols, care instructions, fiber content information and methods for attachment of labels.

AUTOMOTIVE GOODS

The NAFTA will eliminate barriers to trade in North American automobiles, trucks, buses and parts ("automotive goods") within the free trade area, and eliminate investment restrictions in this sector, over a 10-year transition period.

Tariff Elimination

Each NAFTA country will phase out all duties on its imports of North American automotive goods during the transition period. Most trade in automotive goods between Canada and the United States is conducted on a duty-free basis under the terms of either the Canada-U.S. FTA or the Canada-U.S. "Autopact".

Vehicles: Canada and the United States eliminated tariffs on their trade in vehicles under the Canada-U.S. FTA. Under the NAFTA, for its imports from Mexico, the United States will:

- eliminate immediately its tariffs on passenger automobiles;
- reduce immediately to 10 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and
- phase out its tariffs on other vehicles over 10 years.

For imports from Canada and the United States, Mexico will:

- reduce immediately by 50 percent its tariffs on passenger automobiles and phase out the remaining tariffs over 10 years;
- reduce immediately by 50 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and
- phase out its tariffs on all other vehicles over 10 years.

Canada will eliminate its tariffs on vehicles imported from Mexico on the same schedule as Mexico will follow for imports from Canada and the United States.

Parts: Each country will eliminate its remaining tariffs on certain automotive parts immediately and phase out duties on other parts over five years and a small portion over 10 years.

Rules of Origin

The NAFTA rules of origin section provides that in order to qualify for preferential tariff treatment, automotive goods must contain a specified percentage of North American content (rising to 62.5 percent for passenger automobiles and light trucks as well as engines and transmissions for such vehicles, and to 60 percent for other vehicles and automotive parts) based on the net-cost formula. In calculating the content level of automotive goods, the value of imports of automotive parts from outside the NAFTA region will be traced through the production chain to improve the accuracy of the content calculation.

Mexican Auto Decree

The Mexican Auto Decree will terminate at the end of the transition period. Over this period, the restrictions under the Auto Decree will be modified by:

- eliminating immediately the limitation on imports of vehicles based on sales in the Mexican market;
- amending its "trade balancing" requirements immediately to permit assemblers to reduce gradually the level of exports of vehicles and parts required to import such goods, and eliminating, at the end of the transition period, the requirement that only assemblers in Mexico may import vehicles;
- changing its "national value-added" rules by reducing gradually the percentage of parts required to be purchased from Mexican parts producers; by counting purchases from certain in-bond production facilities ("maquiladoras") toward this percentage; by ensuring that Canadian, Mexican and U.S. parts manufacturers may participate in the growing Mexican market on a competitive basis, while requiring assemblers in Mexico during the transition period to continue to purchase parts from Mexican parts producers; and by eliminating at the end of the transition period the national value added requirement.

Mexican Auto-Transportation Decree

The Mexican Auto-Transportation Decree covering trucks (other than light trucks) and buses will be eliminated immediately, and replaced with a transitional system of quotas in effect for five years.

Imports of Used Vehicles

Canada's remaining restrictions on the import of used motor vehicles from the United States will be eliminated on January 1, 1994, in accordance with the Canada-U.S. FTA. Beginning 15 years after the NAFTA goes into effect, Canada will phase out over 10 years its prohibition on imports of Mexican used motor vehicles. Mexico will phase out its prohibition on imports of North American used vehicles over the same period.

Investment Restrictions

In accordance with the NAFTA's investment provisions, Mexico will immediately permit "NAFTA investors" to make investments of up to 100 percent in Mexican "national suppliers" of parts, and up to 49 percent in other automotive parts enterprises, increasing to 100 percent after five years. Mexico's thresholds for the screening of takeovers in the automotive sector will be governed by NAFTA's investment provisions.

Corporate Average Fuel Economy Fleet Content

Under the NAFTA, the United States will modify the fleet content definition found in its Corporate Average Fuel Economy ("CAFE") rules, so that vehicle manufacturers may choose to have those Mexican-produced parts and vehicles they export to the United States classified as domestic. After 10 years, Mexican production exported to the United States will receive the same treatment as U.S. or Canadian production for purposes of CAFE. Canadian-produced automobiles currently may be classified as domestic for CAFE purposes. The NAFTA does not change the minimum fuel economy standards for vehicles sold in the United States.

Automotive Standards

The NAFTA creates a special intergovernmental group to review and make recommendations on federal automotive standards in the three countries, including recommendations to achieve greater compatibility in such standards.

ENERGY AND BASIC PETROCHEMICALS

This section sets out the rights and obligations of the three countries regarding crude oil, gas, refined products, basic petrochemicals, coal, electricity and nuclear energy.

In the NAFTA, the three countries confirm their full respect for their constitutions. They also recognize the desirability of strengthening the important role that trade in energy and basic petrochemical goods plays in the North American region and of enhancing this role through sustained and gradual liberalization.

The NAFTA's energy provisions incorporate and build on GATT disciplines regarding quantitative restrictions on imports and exports as they apply to energy and basic petrochemical trade. The NAFTA provides that under these disciplines a country may not impose minimum or maximum import or export price requirements, subject to the same exceptions that apply to quantitative restrictions. The NAFTA also makes clear that each country may administer export and import licensing systems, provided that they are operated in a manner consistent with the provisions of the Agreement. In addition, no country may impose a tax, duty or charge on the export of energy or basic petrochemical goods unless the same tax, duty or charge is applied to such goods when consumed domestically.

This section also provides that import and export restrictions on energy trade will be limited to certain specific circumstances, such as to conserve exhaustible natural resources, deal with a short supply situation or implement a price stabilization plan.

Further, when a NAFTA country imposes any such restriction, it must not reduce the proportion of total supply made available to the other NAFTA countries below the level of the preceding three years or other agreed period, impose a higher price on exports to another NAFTA country than the domestic price or require the disruption of normal supply channels. Based on a reservation that Mexico has taken, these obligations do not apply as between Mexico and the other NAFTA countries.

This section also limits the grounds on which a NAFTA country may restrict exports or imports of energy or basic petrochemical goods for reasons of national security. However, based on a reservation that Mexico has taken, energy trade between Mexico and the other NAFTA countries will not be subject to this discipline, but will instead be governed by the Agreement's general national security provision, described in the "Exceptions" section below.

The NAFTA confirms that energy regulatory measures are subject to the Agreement's general rules regarding national treatment, import and export restrictions and export taxes. The three countries also agree that the implementation of regulatory measures should be undertaken in a manner that recognizes the importance of a stable regulatory environment.

In the NAFTA, Mexico reserves to the Mexican State goods, activities and investments in Mexico in the oil, gas, refining, basic petrochemicals, nuclear and electricity sectors.

The NAFTA energy provisions recognize new private investment opportunities in Mexico in non-basic petrochemical goods and in electricity generating facilities for "own use", co-generation and independent power production by allowing NAFTA investors to acquire, establish and operate facilities in these activities. Investment in non-basic petrochemical goods is governed by the general provisions of the Agreement.

To promote cross-border trade in natural gas and basic petrochemicals, NAFTA provides that state enterprises, end users and suppliers have the right to negotiate supply contracts. In addition, independent power producers, CFE (Mexico's state-owned electricity firm) and electric utilities in other NAFTA countries also have the right to negotiate power purchase and sale contracts.

Each country will also allow its state enterprises to negotiate performance clauses in their service contracts.

Certain specific commitments relating to special aspects of Canada-U.S. energy trade, set out in the Energy Chapter of the Canada-U.S. FTA, will continue to apply between the two countries.

AGRICULTURE

The NAFTA sets out separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. Both include a special transitional safeguard mechanism. As a general matter, the rules of the Canada-U.S. FTA on tariff and non-tariff barriers will continue to apply to agricultural trade between Canada and the United States. Trilateral provisions in the NAFTA address domestic support for agricultural goods and agricultural export subsidies.

Tariffs and Non-Tariff Barriers

Trade between Mexico and the United States: When the Agreement goes into effect, Mexico and the United States will eliminate immediately all non-tariff barriers to their agricultural trade, generally through their conversion to either "tariff-rate quotas" (TRQ's) or ordinary tariffs.

The TRQ's will facilitate the transition for producers of import-sensitive products in each country. No tariffs will be imposed on imports within the quota amount. The quantity eligible to enter duty-free under the TRQ will be based on recent average trade levels and will grow generally at three percent per year. The over-quota duty -- initially established at a level designed to equal the existing tariff value of each non-tariff barrier -- will progressively decline to zero during either a 10- or 15-year transition period, depending on the product.

Under the NAFTA, Mexico and the United States will eliminate immediately tariffs on a broad range of agricultural products. This means that roughly one-half of U.S.-Mexico bilateral agricultural trade will be duty-free when the Agreement goes into effect. All tariff barriers between Mexico and the United States will be eliminated no later than 10 years after the Agreement takes effect, with the exception of duties on certain highly sensitive products -- including corn and dry beans for Mexico, and orange juice and sugar for the United States. Tariff phase-outs on these few remaining products will be completed after five more years.

Mexico and the United States will gradually liberalize bilateral trade in sugar. Both countries will apply TRQ's of equivalent effect on third country sugar by the sixth year after the Agreement goes into effect. All restrictions on trade in sugar between the two countries will be eliminated by the end of the 15-year transition period, except that sugar exported under the U.S. Sugar Re-Export Programs will remain subject to most-favored-nation (MFN) tariff rates.

Trade between Canada and Mexico: Canada and Mexico will eliminate all tariff and non-tariff barriers on their agricultural trade, with the exception of those in the dairy, poultry, egg and sugar sectors.

Canada will immediately exempt Mexico from import restrictions covering wheat, barley and their products, beef and veal, and margarine. Canada and Mexico will eliminate immediately or phase out within five years tariffs on many fruit and vegetable products, while tariffs on remaining fruit and vegetable products will be phased out over 10 years. A small number of these products will be subject to the special transitional safeguard described below.

Other than in the dairy, poultry and egg sectors, Mexico will replace its import licenses with tariffs, for example on wheat, or TRQ's, for example respecting corn and barley. These tariffs will generally be phased out over a 10-year period.

Special Safeguard Provision

During the first 10 years the Agreement is in effect, the NAFTA provides a special safeguard provision that applies to certain products within the scope of the bilateral undertakings described above. A NAFTA country may invoke the mechanism where imports of such products from the other country reach "trigger" levels set out in the Agreement. In such circumstances, the importing country may apply the tariff rate in effect at the time the Agreement went into effect or the then-current MFN rate, whichever is lower. This tariff rate may be applied for the remainder of the season or the calendar year, depending on the product. The trigger levels will increase over this 10-year period.

Domestic Support

Recognizing both the importance of domestic support measures to their respective agricultural sectors and the potential effect of such measures on trade, each of the NAFTA countries will endeavor to move toward domestic support policies that are not trade-distorting. In addition, the three countries recognize that a country may change its domestic support mechanisms so long as such change is in compliance with applicable GATT obligations.

Export Subsidies

Recognizing that the use of export subsidies within the free trade area is inappropriate except to counter subsidized imports from a non-NAFTA country, the Agreement provides that:

- a NAFTA exporting country must give three-days' notice of its intent to introduce a subsidy on agricultural exports to another NAFTA country;

- when an exporting NAFTA country believes that another NAFTA country is importing non-NAFTA agricultural goods that benefit from export subsidies, it may request consultations on measures the importing country could take against such subsidized imports; and

- if the importing country adopts mutually agreed measures to counter that subsidy, the NAFTA exporting country will not introduce its own export subsidy.

Building on the bilateral discipline on export subsidies in the Canada-U.S. FTA, the three countries will work toward the elimination of export subsidies in North American agricultural trade in pursuit of their objective of eliminating such subsidies worldwide.

Agricultural Marketing Standards

The NAFTA provides that when either Mexico or the United States applies a measure regarding the classification, grading or marketing of a domestic agricultural product, it will provide no less favorable treatment to like products imported from the other country for processing.

Resolution of Commercial Disputes

The three countries will work toward development of a mechanism for resolving private cross-border commercial disputes involving agricultural products.

Committee on Agricultural Trade

A trilateral committee on agricultural trade will monitor the implementation and administration of this section. In addition, a Mexico-U.S. working group and a Canada-Mexico working group will be established under the committee to review the operation of grade and quality standards.

SANITARY AND PHYTOSANITARY MEASURES

This section imposes disciplines on the development, adoption and enforcement of sanitary and phytosanitary (SPS) measures, namely those taken for the protection of human, animal or plant life or health from risks arising from animal or plant pests or diseases, food additives or contaminants. These disciplines are designed to prevent use of SPS measures as disguised restrictions on trade, while safeguarding each country's right to take SPS measures to protect human, animal or plant life or health.

Basic Rights and Obligations

The NAFTA confirms the right of each country to establish the level of SPS protection that it considers appropriate and provides that a NAFTA country may achieve that level of protection through SPS measures that:

- are based on scientific principles and a risk assessment;
- are applied only to the extent necessary to provide a country's chosen level of protection; and
- do not result in unfair discrimination or disguised restrictions on trade.

International Standards

To avoid creating unnecessary barriers to trade, the NAFTA encourages the three countries to use relevant international standards in the development of their SPS measures. However, it permits each country to adopt more stringent, science-based measures when necessary to achieve its chosen level of protection.

The NAFTA partners will promote the development and review of international SPS standards in such international and North American standardizing organizations as the Codex Alimentarius Commission, the International Office of Epizootics, the Tripartite Animal Health Commission, the International Plant Protection Convention and the North American Plant Protection Organization.

Harmonization and Equivalence

The three countries have agreed to work toward equivalent SPS measures without reducing any country's chosen level of protection of human, animal or plant life or health. Each NAFTA country will accept SPS measures of another NAFTA country as equivalent to its own, provided that the exporting country demonstrates that its measures achieve the importing country's chosen level of protection.

Risk Assessment

The NAFTA establishes disciplines on risk assessment, including for evaluating the likelihood of entry, establishment or spread of pests and diseases. SPS measures must be based on an assessment of risk to human, animal or plant life or health, taking into account risk assessment techniques developed by international or North American standardizing organizations. A NAFTA country may grant a phase-in period for compliance by goods from another NAFTA country where the phase-in would be consistent with ensuring the importing country's chosen level of SPS protection.

Adaptation to Regional Conditions

This section also establishes rules for the adaptation of SPS measures to regional conditions, in particular regarding pest- or disease-free areas and areas of low pest or disease prevalence. An exporting country must provide objective evidence whenever it claims that goods from its territory originate in a pest- or disease-free area or area of low pest or disease prevalence.

Procedural "Transparency"

The NAFTA requires public notice in most cases prior to the adoption or modification of any SPS measure that may affect trade in North America. The notice must identify the goods to be covered, and the objectives of and reasons for the measure. All SPS measures must be published promptly. Each NAFTA country will ensure that a designated inquiry point provides information regarding such measures.

Control, Inspection and Approval Procedures

The NAFTA also establishes rules governing procedures for ensuring the fulfillment of SPS measures. These rules allow for the continued operation of domestic control, inspection and approval procedures, including national systems for approving the use of additives or for establishing tolerances for contaminants in foods, beverages or feedstuffs, subject to such disciplines as national treatment, timeliness and procedural "transparency".

Technical Assistance

The three countries will facilitate the provision of technical assistance concerning SPS measures either directly or through appropriate international or North American standardizing organizations.

Committee on Sanitary and Phytosanitary Measures

A Committee on Sanitary and Phytosanitary Measures will facilitate the enhancement of food safety and sanitary conditions in the free trade area, promote the harmonization and equivalence of SPS measures and-facilitate technical cooperation and consultations, including consultations regarding disputes involving SPS measures.

TECHNICAL STANDARDS

This section applies to standards-related measures, namely standards, governmental technical regulations and the procedures used to determine that these standards and regulations are met. It recognizes the crucial role of these measures in promoting safety and protecting human, animal and plant life and health, the environment and consumers. The three countries have agreed not to use standards-related measures as unnecessary obstacles to trade, and will cooperate and work towards the enhancement and compatibility of these measures in the free trade area.

Basic Rights and Obligations

The NAFTA affirms that each country maintains the right to adopt, apply and enforce standards-related measures, to choose the level of protection it wishes to achieve through such measures and to conduct assessments of risk to ensure that those levels are achieved. In addition, the NAFTA affirms each country's rights and obligations under the GATT Agreement on Technical Barriers to Trade and other international agreements, including environmental and conservation agreements.

The NAFTA also sets out certain disciplines on the use of standards-related measures, with a view to facilitating trade between the NAFTA partners. For example, each country must ensure that its standards-related measures provide both national treatment and most-favored-nation treatment. That is, they must ensure that goods or specified services from the other two countries are treated no less favorably than like goods or services of national origin, and like goods or services from non-NAFTA countries.

International Standards

Each NAFTA country will use international standards as a basis for its standards-related measures if those standards are an effective and appropriate means to fulfill the country's objectives. However, each country retains the right to adopt, apply and enforce standards-related measures that result in a higher level of protection than would be achieved by measures based on international standards.

Compatibility

The NAFTA countries will work jointly to enhance safety, health and environmental and consumer protection. They will also seek to make their standards-related measures more compatible, taking into account international standard-setting activities, so as to facilitate trade and to reduce the additional costs that arise from having to meet different requirements in each country.

Conformity Assessment

Conformity assessment procedures are used to determine that the requirements set out in technical regulations or standards are fulfilled. The Agreement sets out a detailed list of rules governing these procedures to ensure that they do not create unnecessary obstacles to trade between the NAFTA countries.

Procedural "Transparency"

The NAFTA requires public notice in most cases prior to the adoption or modification of standards-related measures that may affect trade in North America. The notice must identify the goods or services to be covered and the objectives of and the reasons for the measure. Other NAFTA countries and anyone interested in a particular standards-related measure will be allowed to comment on it. Each NAFTA country will ensure that designated inquiry points are able to respond to questions and provide information regarding standards-related measures to other NAFTA countries and any interested person.

Technical Cooperation

Each country will, on request, provide to another NAFTA country technical advice, information and assistance on mutually agreed terms and conditions to enhance their standards-related measures. The Agreement encourages cooperation between the standardizing bodies of the NAFTA countries.

Committee on Standards-Related Measures

A Committee on Standards-Related Measures will monitor the implementation and administration of this section of the Agreement, facilitate the attainment of compatibility, enhance cooperation on developing, applying and enforcing standards-related measures and facilitate consultations regarding disputes in this area. Subcommittees and working groups will be created to deal with specific topics of interest. The Agreement provides that these subcommittees and working groups may invite the participation of scientists and representatives of interested non-governmental organizations from the three countries.

EMERGENCY ACTION

This section of the Agreement establishes rules and procedures under which a NAFTA country may take "safeguard" actions to provide temporary relief to industries adversely affected by surges in imports. A transitional bilateral safeguard mechanism applies to emergency actions taken against import surges that result from tariff reductions under the NAFTA. A global safeguard applies to import surges from all countries.

The Agreement's procedures governing safeguard actions provide that relief may be imposed for only a limited period of time and require that the NAFTA country taking the action must compensate the NAFTA country against whose good the action is taken. If the countries are not able to agree on the appropriate compensation, the exporting country may take trade measures of equivalent effect to compensate for the trade effect of the safeguard.

Bilateral Safeguard

During the transition period, if increases in imports from another NAFTA country cause or threaten to cause serious injury to a domestic industry, a NAFTA country may take a safeguard action that temporarily suspends the agreed duty elimination or re-establishes the pre-NAFTA rate of duty. The injury must result from the elimination of duties under the NAFTA. Such a safeguard action may be taken only once, and for a maximum period of three years. In the case of certain extremely sensitive goods, a country may extend the safeguard action for a fourth year. Bilateral safeguard actions may be taken after the transition period only with the consent of the country whose good would be affected by such action.

Global Safeguard

The Agreement provides that where a NAFTA partner undertakes a safeguard action on a global or multilateral basis (in accordance with Article XIX of the GATT, which permits both tariff and quota-based safeguard measures), each NAFTA partner must be excluded from the action unless its exports:

- account for a substantial share of total imports of the good in question; and
- contribute importantly to the serious injury or the threat of injury.

The Agreement stipulates that a NAFTA country normally will not be considered to account for a substantial share of imports if it does not fall among the top five suppliers of the good. For a NAFTA country's goods to be deemed not to contribute importantly to injury, the rate of growth of imports of the goods entering from that country must be appreciably lower than that of total imports of those goods. Even if a NAFTA country is initially excluded from a

safeguard action, the country taking the action has the right subsequently to include it in the action if a surge in imports from that country undermines the effectiveness of the action.

Procedural Requirements

This section also provides detailed procedures to guide the administration of safeguard measures, including:

- entrusting injury determinations to a specified administrative authority; and
- requirements for the form and content of petitions, the conduct of investigations, including public hearings to allow all interested parties an opportunity to present views, and notification and publication of investigations and decisions.

REVIEW OF ANTIDUMPING AND COUNTERVAILING DUTY MATTERS

The NAFTA establishes a mechanism for independent binational panels to review final antidumping (AD) and countervailing duty (CVD) determinations by administrative authorities in each country. Each country will make those changes to its law necessary to ensure effective panel review. This section also sets out procedures for panel review of future amendments to each country's antidumping and countervailing duty laws. In addition, it establishes an "extraordinary challenge" procedure to deal with allegations that certain actions may have affected a panel's decision and the panel review process. Finally, the NAFTA creates a safeguard mechanism designed to remedy instances in which application of a country's domestic law undermines the functioning of the panel process.

Panel Process

Binational panels will substitute for domestic judicial review in cases in which either the importing or exporting country seeks panel review of a determination based on a request by a person entitled to judicial review of that determination under the domestic law of the importing country.

Each panel will comprise five qualified individuals from the countries involved, drawn from a roster maintained by the three countries. Each country involved will select two panelists, with the fifth selected by agreement of those countries or, in the absence of agreement, by the agreement of the four designated panelists or by lot.

A panel must apply the domestic law of the importing country in reviewing a determination. The three countries will develop rules of procedure for panels. The panel will either uphold

the determination or remand it to the administrative authority for action not inconsistent with the panel's decision. Panel decisions will be binding.

Retention of AD and CVD Laws

The NAFTA explicitly preserves the right of each country to retain its AD and CVD laws. Each country may amend its AD and CVD laws after the NAFTA takes effect. Any such amendment, to the extent it applies to imports from another NAFTA country, may be subject to panel review for inconsistency with the object and purpose of the Agreement, the GATT or the relevant GATT codes. If a panel finds such an inconsistency, and consultations fail to resolve the matter, the country that requested the review may take comparable legislative or administrative action or terminate the Agreement.

Extraordinary Challenge Procedure

The NAFTA also provides for an extraordinary challenge procedure and establishes certain grounds for invoking this procedure. Following a panel decision, either of the countries involved may request the establishment of a three-person extraordinary challenge committee, comprising judges or former judges from those countries. If it determines that one of the grounds for the extraordinary challenge has been met, it will vacate the original panel decision. In such event, a new panel will be established.

Special Committee to Safeguard the Panel Process

This section provides a safeguard mechanism to ensure that the panel process functions as intended. A NAFTA country may request a "special committee" to determine if the application of another country's domestic law has:

- prevented the establishment of a panel;
- prevented a panel from rendering a final decision;
- prevented the implementation of a panel's decision or denied it binding force and effect; or
- failed to provide opportunity for judicial review of the basis for the disputed administrative determination by an independent court applying the standards set out in the country's domestic law.

If a special committee makes an affirmative finding on any of these grounds, the countries involved will attempt to resolve the matter in the light of the special committee's finding. If they are unable to do so, the complaining country may suspend the binational panel system with respect to the other country or may suspend other benefits under the Agreement. If the complaining country suspends the panel system, the country complained against may take

reciprocal action. Unless the countries involved resolve the matter, or unless the country complained against demonstrates to the special committee that it has taken the necessary corrective action, any suspension of benefits may remain in effect.

GOVERNMENT PROCUREMENT

The Agreement opens a significant portion of the government procurement market in each NAFTA country on a non-discriminatory basis to suppliers from the other NAFTA countries for goods, services and construction services.

Coverage

The NAFTA covers procurements by specified federal government departments and agencies and federal government enterprises in each NAFTA country.

The NAFTA applies to procurements by federal government departments and agencies of:

- over US$50,000 for goods and services; and
- over US$6.5 million for construction services.

For federal government enterprises, the NAFTA applies to procurements of:

- over US$250,000 for goods and services; and
- over US$8 million for construction services.

For procurements covered by the Canada-U.S. FTA, the dollar thresholds of that Agreement will continue to apply.

Mexico will phase in its coverage over a transition period.

This section does not apply to the procurement of arms, ammunition, weapons and other national security procurements. Each country reserves the right to favor national suppliers for procurements specified in the Agreement.

Procedural Obligations

In addition to requiring national and most-favored NAFTA country treatment, the Agreement imposes procedural disciplines on covered procurements that:

- promote transparency and predictability by providing rules for technical specifications, qualifications of suppliers, setting of time limits and other aspects of the procurement process;

- prohibit offset practices and other discriminatory buy-national requirements; and

- require each country to establish a bid protest system that allows suppliers to challenge procedures or awards.

Technical Cooperation

The three countries will exchange information regarding their procurement systems to assist suppliers in each country to take advantage of the opportunities created by this section.

A Committee on Small Business will assist NAFTA small businesses to identify procurement opportunities in NAFTA countries.

Future Negotiations

Recognizing that improvements to NAFTA's procurement section are desirable, the three countries will endeavor to extend the coverage of this section to state and provincial governments that, after consultations, voluntarily accept its commitments.

CROSS-BORDER TRADE IN SERVICES

The NAFTA expands on initiatives in the Canada-U.S. FTA and the Uruguay Round of multilateral trade negotiations to create internationally-agreed disciplines on government regulation of trade in services. The cross-border trade in services provisions establish a set of basic rules and obligations to facilitate trade in services between the three countries.

National Treatment

The Agreement extends to services the basic obligation of national treatment, which has long been applied to goods through the GATT and other trade agreements. Under NAFTA's national treatment rule, each NAFTA country must treat service providers of the other

NAFTA countries no less favorably than it treats its own service providers in like circumstances.

With respect to measures of a state or province, national treatment means treatment no less favorable than the most favorable treatment that the state or province accords to the service providers of the country of which it forms a part.

Most-Favored-Nation Treatment

The Agreement also applies another basic GATT obligation to services: that of most-favored-nation treatment. This rule requires each NAFTA country to treat service providers of the other NAFTA countries no less favorably than it treats service providers of any other country in like circumstances.

Local Presence

Under the Agreement, a NAFTA country may not require a service provider of another NAFTA country to establish or maintain a residence, representative office, branch or any other form of enterprise in its territory as a condition for the provision of a service.

Reservations

Each NAFTA country will be able to keep certain current laws and other measures that do not comply with the rules and obligations described above. Such federal, state and provincial measures will be listed in the Agreement. Each NAFTA country will have up to two years to complete the list of state and provincial measures of this kind. All such measures currently in force at the municipal and other local government level may be retained.

Each NAFTA country may renew or amend its non-conforming measures provided that the renewal or amendment does not make a measure more inconsistent with the rules and obligations described above.

Non-Discriminatory Quantitative Restrictions

Each country will also list its existing non-discriminatory measures that limit the number of service providers or the operations of service providers in a particular sector. Any other NAFTA country will be able to request consultations on such measures with a view to negotiating their liberalization or removal.

Licensing and Certification

The NAFTA provisions related to professional licensing and certification are designed to avoid unnecessary barriers to trade. Specifically, each country must seek to ensure that its licensing and certification requirements and procedures are based on objective and

transparent criteria such as professional competence, are no more burdensome than is necessary to ensure the quality of the service and are not in themselves a restriction on the provision of the service. This section also provides a mechanism for the mutual recognition of licenses and certifications, but does not require a NAFTA country automatically to recognize the credentials of service providers of another country. In particular, the three countries will undertake a work program with a view to liberalizing the licensing of foreign legal consultants and the temporary licensing of engineers.

Commencing two years after implementation of the Agreement, a NAFTA country will remove any citizenship or permanent residency requirement for the licensing and certification of professional service providers in its territory. Any failure to comply with this obligation will entitle the other NAFTA countries to maintain or reinstate equivalent requirements in the same service sector.

Denial of Benefits

A NAFTA country may deny the benefits of this section to a specific firm if the services involved are provided through an enterprise of another NAFTA country that is owned or controlled by persons of a non-NAFTA country and the enterprise has no substantive business activities in the free trade area. In addition, for transportation services, a NAFTA country may deny benefits to a firm if these services are provided with equipment that is not registered by any of the NAFTA countries.

Exclusions

The services section does not apply to a number of matters dealt with in other parts of the Agreement, including government procurement, subsidies, financial services and energy-related services. The rules described above also will not affect most air services, basic telecommunications, social services provided by the government of any NAFTA country, the maritime industry except for certain services between Canada and Mexico and sectors currently reserved by the Mexican Constitution to the Mexican State and Mexican nationals. Each NAFTA country maintains the right to take action necessary to enforce measures of general application that are consistent with the Agreement, such as regarding deceptive practices.

LAND TRANSPORTATION

The NAFTA provides a timetable for the removal of barriers to the provision of land transportation services between the NAFTA countries and for the establishment of compatible land transport technical and safety standards. It provides for the phase out of restrictions on cross-border land transportation services among the three countries in order to create equal

opportunities in the North American international land transportation market. The provisions are designed to ensure that the land transportation services industries of the three countries will have a full opportunity to enhance their competitiveness without being placed at a disadvantage during the transition to liberalized trade.

Liberalization of Restrictions

Bus and Trucking Services: When the NAFTA goes into effect, the United States will amend its moratorium on grants of truck and bus operating authority by allowing full access for Mexican charter and tour bus operators to its cross-border market. Mexico will grant equivalent rights to U.S. and Canadian charter and tour bus operators. Canadian truck and bus companies are not subject to the U.S. moratorium. Canada will continue to permit U.S. and Mexican truck and bus operators to obtain operating authority in Canada on a national treatment basis.

Three years after signature of the Agreement, Mexico will allow U.S. and Canadian truck operators to make cross-border deliveries to, and pick up cargo in, Mexican border states, and the United States will allow Mexican truck operators to perform the same services in U.S. border states. At the same time, Mexico will allow 49 percent Canadian and U.S. investment in bus companies and in truck companies providing international cargo services (including point-to-point distribution of such cargo within Mexico). The United States and Canada will permit Mexican truck companies to distribute international cargo as well. The United States will maintain its moratorium on grants of operating authority for truck carriage of domestic cargo and for domestic passenger service, continuing to allow Mexicans to hold a non-controlling interest in U.S. companies.

Three years after the Agreement goes into effect, the United States will allow bus firms from Mexico to begin scheduled cross-border bus service to and from any part of the United States. At the same time, Mexico will provide the same treatment to bus firms from Canada and the United States.

Six years after the Agreement goes into effect, the United States will provide cross-border access to its entire territory to trucking firms from Mexico. Mexico will provide the same treatment to trucking firms from Canada and the United States.

Seven years after the Agreement goes into effect, Mexico will allow 51 percent Canadian and U.S. investment in Mexican bus companies and in Mexican truck companies providing international cargo services. At the same time, the United States will lift its moratorium on domestic operating authority for Mexican bus companies.

Ten years after the Agreement goes into effect, Mexico will permit 100 percent investment in truck and bus companies in Mexico. No NAFTA country will be required to remove restrictions on truck carriage of domestic cargo.

***Rail Services*:** Under the Agreement and consistent with a Mexican reservation taken pursuant to its Constitution, Canadian and U.S. railroads will continue to be free to market their services in Mexico, operate unit trains with their own locomotives, construct and own terminals and finance rail infrastructure. Mexico will continue to enjoy full access to the Canadian and U.S. railroad systems. The Agreement does not affect each NAFTA country's immigration law requirements for crews to change at or near their borders.

***Port Services*:** The Agreement also liberalizes land-side aspects of marine transport. Mexico will immediately allow 100 percent Canadian and U.S. investment in, and operation of, port facilities such as cranes, piers, terminals and stevedoring companies for enterprises that handle their own cargo. For enterprises handling other companies' cargo, 100 percent Canadian and U.S. ownership will be allowed after screening by the Mexican Foreign Investment Commission. Canada and the United States will continue to permit full Mexican participation in these activities.

Technical and Safety Standards

Consistent with their commitment to enhance safety, health and environmental and consumer protection, the NAFTA partners will endeavor to make compatible, over a period of six years, their standards-related measures with respect to motor carrier and rail operations, including:

- vehicles, including equipment such as tires and brakes, weights and dimensions, maintenance and repair and certain aspects of emission levels;
- non-medical testing and licensing of truck drivers;
- medical standards for truck drivers;
- locomotives and other rail equipment and operating personnel standards relevant to cross-border operations;
- standards relating to the transportation of dangerous goods; and
- road signs and supervision of motor carrier safety compliance.

Access to Information

Each NAFTA country will designate contact points to provide information regarding land transportation matters such as those related to operating authorizations and safety requirements.

Review Process

Beginning five years after the Agreement goes into effect, a committee of government officials will consider the effectiveness of liberalization in the land transportation sector, including any specific problems or unanticipated effects liberalization might have on each country's motor carrier industry. No later than seven years after the Agreement goes into effect, consultations will also address possible further liberalization. The results of these consultations will be forwarded to the NAFTA Trade Commission for appropriate action.

TELECOMMUNICATIONS

NAFTA provides that public telecommunications transport networks ("public networks") and services are to be available on reasonable and non-discriminatory terms and conditions for firms or individuals who use those networks for the conduct of their business. These uses include the provision of enhanced or value-added telecommunications services and intracorporate communications. However, the operation and provision of public networks and services have not been made subject to the NAFTA.

Access to and Use of Public Networks

The three countries will ensure that reasonable conditions of access and use include the ability to:

- lease private lines;
- attach terminal or other equipment to public networks;
- interconnect private circuits to public networks;
- perform switching, signalling and processing functions; and
- use operating protocols of the user's choice.

Moreover, conditions on access and use may be imposed only if necessary to safeguard the public service responsibilities of network operators or to protect the technical integrity of public networks. Provided that these criteria are met, such conditions on access and use may include restrictions on resale or shared use of public telecommunications transport services, requirements to use specified technical interfaces with public networks or services and restrictions on the interconnection of private circuits to provide public networks or services.

Rates for public telecommunications transport services must reflect economic costs, and private leased circuits must be available on a flat-rate pricing basis. However, NAFTA does not prohibit cross-subsidization between public telecommunications transport services. In addition, firms or individuals may use public networks and services to move information within a country and across NAFTA borders.

The provisions in this section do not apply to measures affecting the distribution of radio or television programming by broadcast stations or cable systems, which will have continued access to and use of public networks and services.

Exclusions and Limitations

The three countries are not required to authorize a person of another NAFTA country to provide or operate telecommunications transport networks or services and may prohibit operators of private networks from providing public networks and services.

Enhanced Telecommunications

The NAFTA provides that each country will ensure that its licensing or other authorization procedures for the provision of enhanced or value-added telecommunications services are transparent, non-discriminatory and applied expeditiously. Enhanced providers of the three countries will not be subject to obligations that are normally imposed on providers of public networks and services, such as providing services to the public generally or cost-justifying their rates.

Standards-Related Measures

The NAFTA limits the types of standards-related measures that may be imposed on the attachment of telecommunications equipment to public networks. Such measures must be necessary to prevent technical damage to, and interference with, public networks and services, to prevent billing equipment malfunctions and to ensure user safety and access. In addition, any technically qualified entity will be permitted to test equipment to be attached to public networks. This section also establishes procedures in each country to permit the acceptance of equipment test results conducted in the other NAFTA countries.

Monopoly Provision of Services

The NAFTA recognizes that a country may maintain or designate a monopoly provider of public networks or services. Each country will ensure that any such monopoly does not abuse its monopoly position by engaging in anti-competitive conduct outside its monopoly that adversely affects a person of another NAFTA country.

Provision of Information

Information affecting access to and use of public networks and services must be made publicly available, including:

- tariffs and other terms and conditions of service;
- specification of network and service technical interfaces;
- information on standardizing organizations;
- conditions for the attachment of terminal or other equipment; and
- notification, permit, registration or licensing requirements.

Technical Cooperation

The NAFTA countries will cooperate in the exchange of technical information and in the development of government-to-government training programs. Recognizing the importance to global telecommunications of international standards, they will also promote such standards through the work of the International Telecommunications Union, the International Organization for Standardization and other relevant international organizations.

INVESTMENT

The NAFTA removes significant investment barriers, ensures basic protections for NAFTA investors and provides a mechanism for the settlement of disputes between such investors and a NAFTA country.

Coverage

This section covers investments in one country by NAFTA investors from another NAFTA country. NAFTA investors include all enterprises with substantial business activities in a NAFTA country. Investment covers all forms of ownership and interests in a business enterprise, tangible and intangible property and contractual investment interests.

Non-Discriminatory and Minimum Standards of Treatment

Each country will treat NAFTA investors and their investments no less favorably than its own investors -- national treatment -- and investors of other countries -- most-favored-nation treatment. With respect to measures of a state, provincial or local government, national

treatment is defined to mean treatment no less favorable than the most favorable treatment accorded to investors of the country of which it forms a part. In addition, each country must provide investments of NAFTA investors treatment in accordance with international law, including fair and equitable treatment and full protection and security.

Performance Requirements

No NAFTA country may impose specified "performance requirements" in connection with any investments in its territory, namely specified export levels, minimum domestic content, preferences for domestic sourcing, trade balancing, technology transfer or product mandating. However, these disciplines do not apply to any NAFTA country's government procurement, export promotion or foreign aid activities.

Transfers

NAFTA investors will be able to convert local currency into foreign currency at the prevailing market rate of exchange for earnings, proceeds of a sale, loan repayments or other transactions associated with an investment. Each NAFTA country will ensure that such foreign currency may be freely transferred.

Expropriation

No NAFTA country may directly or indirectly expropriate investments of NAFTA investors except for a public purpose, on a non-discriminatory basis and in accordance with principles of due process of law. Compensation to the investor must be paid without delay at the fair market value of the expropriated investment, plus any applicable interest.

Dispute Settlement

This section sets out a detailed mechanism for the resolution of investment disputes involving a breach of the NAFTA investment rules by the host country. A NAFTA investor, at its option, may seek either monetary damages through binding investor-state arbitration or the remedies that are available in the host country's domestic courts.

Country-Specific Commitments and Exceptions

The NAFTA includes explicit country-specific liberalization commitments and exceptions to the national treatment, MFN and performance requirement rules. In the case of Mexico, these exceptions take into account constitutional requirements reserving certain activities to the Mexican State. Each country will specify exceptions for state and provincial measures within two years. Exceptions may not be made more restrictive and, if liberalized, may not subsequently be made more restrictive. However, a few sectors, such as basic telecommunications, social services and maritime services, are not subject to this constraint.

Canada may review acquisitions as provided in the Canada-U.S. FTA. Mexico may review acquisitions with an initial threshold of $25 million phased up to $150 million in the tenth year after the Agreement goes into effect. Threshold levels will be indexed.

Exceptions

The investment provisions do not apply to government procurement and subsidies. Other provisions of the Agreement address exceptions related to national security and to Canada's cultural industries.

Investment and the Environment

The NAFTA provides that no country should lower its environmental standards to attract an investment and that the countries will consult on the observance of this provision. The Agreement also specifies that a country may take action consistent with the NAFTA's investment provisions to protect its environment.

COMPETITION POLICY, MONOPOLIES AND STATE ENTERPRISES

The NAFTA includes provisions on anticompetitive government and private business practices, in recognition that disciplines in this area will help fulfill the objectives of the Agreement.

Competition Policy

Each NAFTA country will adopt or maintain measures against anticompetitive business practices and will cooperate on issues of competition law enforcement and other competition issues.

Monopolies and State Enterprises

State Enterprises: The Agreement requires any enterprise owned or controlled by a federal, provincial or state government to act in a manner consistent with that country's NAFTA obligations when exercising regulatory, administrative or other governmental authority, such as the granting of licenses.

Monopolies: The NAFTA imposes certain additional disciplines on current and future federal government-owned monopolies and on any privately-owned monopoly that a NAFTA country may designate in the future. When buying or selling a monopoly good or service, the monopoly must follow commercial considerations, consistent with the terms of its

government mandate, and must not discriminate against goods or businesses of the other NAFTA countries. NAFTA provides that each country must ensure that such monopolies do not use their monopoly positions to engage in anticompetitive practices in non-monopoly markets in that country's territory.

Trade and Competition Committee

A trilateral committee will consider issues concerning the relationship between competition laws and policies and trade in the free trade area.

FINANCIAL SERVICES

The NAFTA establishes a comprehensive principles-based approach to disciplining government measures regulating financial services. This section covers measures affecting the provision of financial services by financial institutions in the banking, insurance and securities sectors as well as other financial services. The section also sets out certain country-specific liberalization commitments, transition periods for compliance with the agreed principles and certain reservations listed by each country.

Principles

Commercial Presence and Cross-Border Services: Under the Agreement, financial service providers of a NAFTA country may establish in any other NAFTA country banking, insurance and securities operations as well as other types of financial services. Each country must permit its residents to purchase financial services in the territory of another NAFTA country. In addition, a country may not impose new restrictions on the cross-border provision of financial services in a sector, unless the country has exempted that sector from this obligation.

Non-Discriminatory Treatment: Each country will provide both national treatment, including treatment respecting competitive opportunities, and most-favored-nation treatment to other NAFTA financial service providers operating in its territory. Under the Agreement, any measure that does not disadvantage financial service providers of another NAFTA country in their ability to provide financial services, by comparison to domestic providers, is deemed to provide equality of competitive opportunity.

Procedural "Transparency": In processing applications for entry into its financial services markets, each country will:

- inform interested persons of its requirements for completing applications;
- provide information on the status of an application on request;
- make an administrative determination on a completed application within 120 days, where possible;
- publish measures of general application no later than their effective date and, where practicable, allow interested persons the opportunity to comment on proposed measures; and
- establish one or more inquiry points to answer questions about its financial services measures.

Prudential and Balance of Payments Measures: The NAFTA ensures that each country retains the right to take reasonable prudential measures notwithstanding any other provision of the Agreement. It also provides that a country may take measures for balance-of-payment purposes under limited circumstances.

Consultations

The Agreement provides specific procedures for NAFTA countries to consult on financial services matters.

Country-Specific Commitments

Canada: Under the Canada-U.S. FTA, U.S. firms and individuals are exempt from the non-resident provisions of Canada's "10/25" rules. Under the NAFTA, Canada will extend this exemption to Mexican firms and individuals who will thus be exempt from Canada's prohibition against non-residents collectively acquiring more than 25 percent of the shares of a federally-regulated Canadian financial institution. Mexican banks will also not be subject to the combined 12 percent asset ceiling that applies to non-NAFTA banks, nor will they be required to seek the approval of the Minister of Finance as a condition of opening multiple branches in Canada.

Mexico: Mexico will permit financial firms organized under the laws of another NAFTA country to establish financial institutions in Mexico, subject to certain market share limits that will apply during a transition period ending by the year 2000. Thereafter, temporary safeguard provisions may be applicable in the banking and securities sectors.

Banking and Securities: During the transition period, Mexico will gradually increase the aggregate market share limit in banking from eight percent to 15 percent. For securities firms, the limit will increase from 10 percent to 20 percent over the same period. Mexico will apply individual market share caps of 1.5 percent for banks and four percent for securities dealers during the transition period. After the transition period, bank acquisitions will remain subject to reasonable prudential considerations and a four percent market share limit on the resulting institution.

Insurance: Under the NAFTA, Canadian and U.S. insurers may gain access to the Mexican market in two ways. First, firms that form joint ventures with Mexican insurers may increase their foreign equity participation in such ventures in steps from 30 percent in 1994 to 51 percent by 1998, and to 100 percent by the year 2000. These firms will not be subject to aggregate or individual market share limits. Second, foreign insurers may establish subsidiaries, subject to aggregate limits of six percent of market share, gradually increasing to 12 percent in 1999, and subject to individual market share caps of 1.5 percent. These limits will be eliminated on January 1, 2000. Canadian and U.S. firms that currently have an ownership interest in Mexican insurers may increase their equity participation to 100 percent by January 1, 1996. Intermediary and auxiliary insurance services companies will be permitted to establish subsidiaries with no ownership or market share limits when the Agreement goes into effect.

Finance Companies: Mexico will permit Canadian and U.S. finance companies, on terms no less favorable than those accorded to Mexican institutions, to establish separate subsidiaries in Mexico to provide consumer lending, commercial lending, mortgage lending or credit card services. However, during the transition period, the aggregate assets of such subsidiaries may not exceed three percent of the sum of the aggregate assets of all banks in Mexico plus the aggregate assets of all types of limited-scope financial institutions in Mexico. Lending by affiliates of automotive companies with respect to the vehicles such companies produce will not be subject to, or taken into account in, the three percent limit.

Other Firms: NAFTA factoring and leasing companies will be subject to transition limits on aggregate market share in Mexico of the same duration and magnitude as those applying to securities firms, except that they will not be subject to individual market share limits. NAFTA warehousing and bonding companies, foreign exchange houses and mutual fund management companies will be permitted to establish subsidiaries with no ownership or market share limits when the Agreement goes into effect.

United States: The United States will permit any Mexican financial group that has lawfully acquired a Mexican bank with operations in the United States to continue to operate a securities firm in the United States for five years after the acquisition. The acquisition must occur before the NAFTA goes into effect and the bank and securities firm involved must have been operating in the U.S. market on January 1, 1992 and June 30, 1992, respectively. The securities firm may not expand the scope of its activities or acquire other securities firms in the United States, and will be subject to nondiscriminatory restrictions on transactions

between it and its affiliates. Other than these provisions, nothing in this commitment will affect the U.S. banking operations of a Mexican financial group.

Canada-United States: Financial services commitments of Canada and the United States to each other under the Canada-U.S. FTA will be incorporated into the NAFTA.

INTELLECTUAL PROPERTY

Building on the work done in the GATT and various international intellectual property treaties, NAFTA establishes a high level of obligations respecting intellectual property. Each country will provide adequate and effective protection of intellectual property rights on the basis of national treatment and will provide effective enforcement of these rights against infringement, both internally and at the border.

The Agreement sets out specific commitments regarding the protection of:

- copyrights, including sound recordings;
- patents;
- trademarks;
- plant breeders' rights;
- industrial designs;
- trade secrets;
- integrated circuits (semiconductor chips); and
- geographical indications.

Copyright

For copyright, the Agreement's obligations include requirements to:

- protect computer programs as literary works and databases as compilations;
- provide rental rights for computer programs and sound recordings; and
- provide a term of protection of at least 50 years for sound recordings.

Patents

The NAFTA provides protection for inventions by requiring each country to:

- provide product and process patents for virtually all types of inventions, including pharmaceuticals and agricultural chemicals;

- eliminate any special regimes for particular product categories, any special provisions for acquisition of patent rights and any discrimination in the availability and enjoyment of patent rights made available locally and abroad; and

- provide patent owners the opportunity to obtain product patent protection for pharmaceutical and agricultural chemical inventions for which product patents were previously unavailable.

Other Intellectual Property Rights

This section also provides rules for protecting:

- service marks to the same extent as trademarks;

- encrypted satellite signals against illegal use;

- trade secrets generally, as well as for protecting from disclosure by the government test data submitted by firms regarding the safety and efficacy of pharmaceutical and agri-chemical products;

- integrated circuits, both directly and in goods that incorporate them; and

- geographical indications so as to avoid misleading the public, while protecting trademark owners.

Enforcement Procedures

The NAFTA also includes detailed obligations regarding:

- procedures for the enforcement of intellectual property rights, including provisions on damages, injunctive relief and general due process issues; and

- enforcement of intellectual property rights at the border, including safeguards to prevent abuse.

TEMPORARY ENTRY FOR BUSINESS PERSONS

Taking account of the preferential trading relationship between the NAFTA countries, this section sets out commitments by the three countries to facilitate on a reciprocal basis temporary entry into their respective territories of business persons who are citizens of Canada, Mexico or the United States.

The NAFTA does not create a common market for the movement of labor. Each NAFTA country maintains its rights to protect the permanent employment base of its domestic labor force, to implement its own immigration policies and to protect the security of its borders.

This section's rules governing entry of business persons, constructed along the lines of similar provisions of the Canada-U.S. FTA, are tailored to meet the needs of all NAFTA partners.

Each country will grant temporary entry to four categories of business persons:

- business visitors engaged in international business activities for the purpose of conducting activities related to research and design, growth, manufacture and production, marketing, sales, distribution, after-sales service and other general services;

- traders who carry on substantial trade in goods or services between their own country and the country they wish to enter, as well as investors seeking to commit a substantial amount of capital in that country, provided that such persons are employed or operate in a supervisory or executive capacity or one that involves essential skills;

- intra-company transferees employed by a company in a managerial or executive capacity or one that involves specialized knowledge and who are transferred within that company to another NAFTA country; and

- certain categories of professionals who meet minimum educational requirements or who possess alternative credentials and who seek to engage in business activities at a professional level in that country.

Mexico and the United States have agreed to an annual numerical limit of 5,500 Mexican professionals entering the United States. This number is in addition to those admitted under a similar category in U.S. law that is subject to a global limitation of 65,000 professionals, but which remains unaffected by the NAFTA. The numerical limit of 5,500 may be increased by agreement between the United States and Mexico, and will expire 10 years after the Agreement goes into effect unless the two countries decide to remove the limit earlier. Canada has not set a numerical limit with respect to Mexico.

Consultations

The three countries will consult through a specialized working group on temporary entry matters. As part of its work, the group will consider providing temporary entry to spouses of business persons granted entry under NAFTA for periods of one year or more as traders and investors, intra-company transferees and professionals.

Provision of Information

Each country will publish clear explanatory material on procedures that business persons must follow to take advantage of the NAFTA temporary entry provisions.

Non-Compliance

The dispute settlement provisions of the Agreement may be invoked only if a country claims, on the basis of repeated practices, that another country has not complied with the temporary entry provisions.

INSTITUTIONAL ARRANGEMENTS AND DISPUTE SETTLEMENT PROCEDURES

Institutional Arrangements

This section establishes the institutions responsible for implementing the Agreement, ensuring its joint management and for avoiding and settling any disputes between the NAFTA countries regarding its interpretation and application.

Trade Commission: The central institution of the Agreement is the Trade Commission, comprising Ministers or cabinet-level officers designated by each country. Regular meetings are to be held annually, although the day-to-day work of the Commission will be carried out by officials of the three governments participating in the various committees and working groups mandated by the Agreement, operating on the basis of consensus.

Secretariat: The NAFTA establishes a Secretariat to serve the Commission as well as other subsidiary bodies and dispute settlement panels. The administrative and technical support that the Secretariat will provide is designed to assist the Commission to ensure effective and joint management of the free trade area.

Dispute Settlement Procedures

The dispute settlement procedures of the NAFTA provide expeditious and effective means for the resolution of disputes.

Consultations: Whenever any matter arises that could affect a country's rights under the Agreement, it may request consultations and the countries concerned will promptly consult on the matter. The NAFTA places priority on reaching an amicable settlement. The third country may participate, or may seek its own consultations.

The Role of the Commission: Should the consultations fail to resolve the matter within 30 to 45 days, any country may call a meeting of the Trade Commission with all three countries present. The NAFTA directs the Commission to seek to settle the dispute promptly. The Commission may use good offices, mediation, conciliation or other means of alternative dispute resolution to this end.

Initiation of Panel Proceedings: If the countries concerned are unable to reach a mutually satisfactory resolution through the Commission, any consulting country may initiate panel proceedings.

Forum Selection

If a dispute could be brought under both the GATT and the NAFTA, the complaining country may choose either forum. If the third NAFTA country wants to bring the same case in the other forum, the two complaining countries will consult, with a view to agreement on a single forum. If those countries cannot agree, the dispute settlement proceeding normally will be heard by a NAFTA panel. Once selected, the chosen forum must be used to the exclusion of the other.

If a dispute involves factual issues regarding certain standards-related environmental, safety, health or conservation measures or if the dispute arises under specific environmental agreements, the responding country may elect to have the dispute considered by a NAFTA panel. The rules also set out procedures for addressing disputes relating to matters covered by the Canada-U.S. FTA.

Panel Procedures

If the complaining country elects to have the matter heard through NAFTA procedures, it may request the establishment of an arbitral panel. The third country may either join as a complaining country or limit its participation to oral and written submissions. The panel will typically be charged with making findings of fact and determining whether the action taken by the defending country is inconsistent with its obligations under the NAFTA, and may make recommendations for resolution of the dispute.

Panels will be composed of five members, who will normally be chosen from a trilaterally agreed roster of eminent trade, legal and other experts, including from countries outside the NAFTA. The NAFTA provides for a special roster of experts for disputes involving financial services.

The panel will be chosen through a process of "reverse selection" to ensure impartiality: the chair of the panel will be selected first, either by agreement of the disputing countries or, failing agreement, by designation of one disputing side, chosen by lot. The chair may not be a citizen of the side making the selection, and may be a non-NAFTA national. Each side will then select two additional panelists who are citizens of the country or countries on the other side. Whenever an individual not on the roster of panelists is nominated, any other disputing NAFTA country may exercise a peremptory challenge against that individual.

Rules of procedure, to be more fully elaborated by the Commission, provide for written submissions, rebuttals and at least one oral hearing. There are strict time limits to ensure prompt resolution. A special procedure permits scientific boards to provide expert advice to panels on factual questions related to the environment and other scientific matters.

Unless the disputing countries decide otherwise, within 90 days of a panel's selection, it will present to them a confidential initial report. They will then have 14 days in which to provide comments to the panel. Within 30 days of the presentation of its initial report, the panel will present its final report to the countries concerned. The report will then be transmitted to the Commission, which will normally publish it.

Implementation and Non-Compliance

Upon receiving the panel's report, the disputing countries are to agree on the resolution of the dispute, which will normally conform to the recommendations of the panel. If a panel determines that the responding country has acted in a manner inconsistent with its NAFTA obligations, and the disputing countries do not reach agreement within 30 days or other mutually agreed period after receipt of the report, the complaining country may suspend the application of equivalent benefits until the issue is resolved. Any country that considers the retaliation to be excessive may obtain a panel ruling on this question.

Alternate Dispute Resolution of Private Commercial Disputes

Special provisions, described in the investment section, set out procedures for international arbitration of disputes between investors and NAFTA governments. The NAFTA countries will also encourage and facilitate the use of alternative dispute resolution as a means of settling international commercial disputes between private parties in the NAFTA region. The three countries will provide for the enforcement of arbitral agreements and arbitral awards. The Agreement establishes an advisory committee concerning the use of alternative dispute resolution for such disputes.

ADMINISTRATION OF LAWS

Procedural "Transparency"

This section provides rules designed to ensure that laws, regulations and other measures affecting traders and investors will be accessible and will be administered fairly and in accordance with notions of due process by officials in all three countries. Each country will also ensure, under its domestic laws, independent administrative or judicial review of government action relating to matters covered by the NAFTA.

The NAFTA's notification and exchange of information provisions will allow each government the opportunity to consult on any action taken by another country that could affect the operation of the Agreement. These provisions are designed to assist the three countries to avoid or minimize potential disputes.

Contact Points

Each country will designate a contact point to facilitate communications between NAFTA countries.

EXCEPTIONS

The NAFTA includes provisions that ensure that the Agreement does not constrain a country's ability to protect its national interests.

General Exceptions

This provision permits a country to take measures otherwise inconsistent with its obligations affecting trade in goods to protect such interests as public morals, human, animal or plant life or health or national treasures, to conserve exhaustible natural resources or to take enforcement measures regarding such matters as deceptive practices or anticompetitive behavior. However, such measures must not result in arbitrary discrimination or disguised restrictions on trade between NAFTA countries.

National Security

Nothing in the Agreement will affect a NAFTA country's ability to take measures it considers necessary for the protection of its essential security interests.

Taxation

The NAFTA provides that, as a general matter, taxation questions will be governed by applicable double taxation agreements between the NAFTA countries.

Balance of Payments

Under the Agreement, a NAFTA country may take trade-restrictive measures to protect its balance of payments only in limited circumstances and in accordance with the rules of the International Monetary Fund.

Cultural Industries

The rights of Canada and the United States with respect to cultural industries will be governed by the Canada-U.S. FTA. Each country reserves the right to take measures of equivalent commercial effect in response to any action regarding cultural industries that would have been a violation of the Canada-U.S. FTA but for the cultural industries provisions. Such compensatory measures will not be limited by the obligations imposed by the NAFTA.

The rights and obligations between Canada and Mexico regarding cultural industries will be identical to those applying between Canada and the United States.

FINAL PROVISIONS

Entry into Force

This section provides that the Agreement will enter into force on January 1, 1994, upon completion of domestic approval procedures.

Accession

The NAFTA provides that other countries or groups of countries may be admitted into the Agreement if the NAFTA countries agree, and subject to terms and conditions that they require and to the completion of domestic approval procedures in each country.

Amendments and Withdrawal

This section also provides for amendments to the Agreement, subject to domestic approval procedures. Any country may withdraw from the Agreement on six-months' notice.

SUMMARY OF ENVIRONMENTAL PROVISIONS

The three NAFTA countries have committed in the NAFTA to implementing the Agreement in a manner consistent with environmental protection and to promoting sustainable development. Specific provisions throughout the Agreement build upon these commitments. For example:

- The trade obligations of the NAFTA countries under specified international environmental agreements regarding endangered species, ozone-depleting substances and hazardous wastes will take precedence over NAFTA provisions, subject to a requirement to minimize inconsistency with the NAFTA. This ensures that the NAFTA will not diminish a country's right to take action under these environmental agreements.
- The Agreement affirms the right of each country to choose the level of protection of human, animal or plant life or health or of environmental protection that it considers appropriate.
- NAFTA also makes clear that each country may maintain and adopt standards and sanitary and phytosanitary measures, including those more stringent than international standards, to secure its chosen level of protection.
- The NAFTA countries will work jointly to enhance the protection of human, animal and plant life and health and the environment.
- The Agreement provides that no NAFTA country should lower its health, safety or environmental standards for the purpose of attracting investment.
- When a dispute regarding a country's standards raises factual issues concerning the environment, that country may choose to have the dispute submitted to NAFTA dispute settlement procedures rather than under the procedures of other trade agreements. This same option is available for disputes concerning trade measures taken under specified international environmental agreements.
- NAFTA dispute settlement panels may call on scientific experts, including environmental experts, to provide advice on factual questions related to the environment and other scientific matters.
- In dispute settlement, the complaining country bears the burden of proving that another NAFTA country's environmental or health measure is inconsistent with the NAFTA.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
August 14, 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 $14,250 million of 364-day Treasury bills to be dated August 27, 1992 and to mature August 26, 1993 (CUSIP No. 912794 E2 6). This issue will provide about $ 1,650 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $ 12,600 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, August 20, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Daylight Saving 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 August 27, 1992. In addition to the maturing 52-week bills, there are $22,856 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 $ 2,870 million as agents for foreign and international monetary authorities, and $ 9,000 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 $ 220 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 bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
August 17, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,629 million of 13-week bills to be issued August 20, 1992 and to mature November 19, 1992 were accepted today (CUSIP: 912794ZA5).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.07%	3.14%	99.224
High	3.10%	3.17%	99.216
Average	3.10%	3.17%	99.216

Tenders at the high discount rate were allotted 27%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	29,480	29,480
New York	37,130,720	10,359,920
Philadelphia	10,095	10,095
Cleveland	36,090	34,995
Richmond	35,475	35,475
Atlanta	18,185	16,725
Chicago	1,405,600	132,220
St. Louis	34,240	16,940
Minneapolis	6,770	6,770
Kansas City	21,355	21,355
Dallas	12,485	12,485
San Francisco	662,165	85,515
Treasury	867,120	867,120
TOTALS	$40,269,780	$11,629,095
Type		
Competitive	$35,311,445	$6,670,760
Noncompetitive	1,361,610	1,361,610
Subtotal, Public	$36,673,055	$8,032,370
Federal Reserve	2,825,185	2,825,185
Foreign Official Institutions	771,540	771,540
TOTALS	$40,269,780	$11,629,095

An additional $128,360 thousand of bills will be issued to foreign official institutions for new cash.

NB-1945

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
August 17, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,621 million of 26-week bills to be issued August 20, 1992 and to mature February 18, 1993 were accepted today (CUSIP: 912794A87).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.16%	3.26%	98.402
High	3.18%	3.28%	98.392
Average	3.18%	3.28%	98.392

Tenders at the high discount rate were allotted 61%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,385	21,385
New York	32,290,500	10,393,950
Philadelphia	11,335	11,335
Cleveland	27,715	27,715
Richmond	23,670	22,500
Atlanta	24,870	24,480
Chicago	1,228,865	70,325
St. Louis	19,085	9,085
Minneapolis	4,250	4,210
Kansas City	16,130	16,130
Dallas	9,175	9,175
San Francisco	767,935	394,385
Treasury	616,600	616,600
TOTALS	$35,061,515	$11,621,275
Type		
Competitive	$30,779,015	$7,338,775
Noncompetitive	951,240	951,240
Subtotal, Public	$31,730,255	$8,290,015
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	631,260	631,260
TOTALS	$35,061,515	$11,621,275

An additional $108,940 thousand of bills will be issued to foreign official institutions for new cash.

NB-1946

No. 92-1406

IN THE UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

SALOMON FOREX, INC.,

Plaintiff-Appellee,

v.

LASZLO N. TAUBER, M.D.,

Defendant-Appellant,

LASZLO N. TAUBER, M.D.,

Third-Party Plaintiff-Appellant,

v.

SALOMON BROTHERS, INC., *et al.*,

Third-Party Defendants-Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

BRIEF FOR THE UNITED STATES AS *AMICUS CURIAE*

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IN THE UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

No. 92-1406

SALOMON FOREX, INC.,

Plaintiff-Appellee,

v.

LASZLO N. TAUBER, M.D.,

Defendant-Appellant,

LASZLO N. TAUBER, M.D.,

Third-Party Plaintiff-Appellant,

v.

SALOMON BROTHERS, INC., et al.,

Third-Party Defendants-Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

STATEMENT OF INTEREST OF THE UNITED STATES

On October 23, 1974, the Commodity Exchange Act, 7 U.S.C. 1, et seq. ("CEA"), was amended by the Commodity Futures Trading Commission Act of 1974, Pub. L. 93-463, 88 Stat. 1389, et seq. ("CFTCA"). The CFTCA broadened the definition of commodities in the CEA to include, in addition to various previously enumerated

agricultural products,

> all other goods and articles, except onions as provided in Public Law 85-839, and all services, rights, and interests in which contracts for future delivery are presently or in the future dealt in . . . .

Sec. 201(b), Pub. L. 93-463, 88 Stat. 1395. In addition, the CFTCA created the Commodity Futures Trading Commission ("CFTC"), which assumed the regulatory powers previously exercised by the Secretary of Agriculture in regard to trading in commodity futures contracts.

While the 1974 amendments resulting in the CFTCA were being considered, the Treasury Department proposed to Congress that certain transactions in certain financial instruments be exempted from coverage of the CEA, and, therefore, from the regulatory authority of the CFTC. See, e.g., S. Rep. No. 1131, 93rd Cong., 2d Sess., 49 - 51 (1974). With one exception not relevant here, Congress adopted the Treasury Department's proposal, promulgating as part of the CEA what is now known as the "Treasury Amendment." The Treasury Amendment provides, in relevant part:

> Nothing in this Act shall be deemed to govern or in any way be applicable to transactions in foreign currency, security warrants, security rights . . . [or] government securities, . . . unless such transactions involve the sale thereof for future delivery conducted on a board of trade.

Sec. 201(b), Pub. L. 93-463, 88 Stat. 1395.

In this case, the district court has reasoned that "well-established principles of statutory interpretation compellingly point to the conclusion that the [subject] contracts between [defendant and plaintiff] are covered by the Treasury Amendment

and thus excluded from regulation under the CEA," Joint Appendix ("J.A.") 50, finding that

> the phrase "transactions in foreign currency" [in the Treasury Amendment] plainly and unambiguously means any transaction, without limitation as to the participants involved, in which foreign currency is the commodity or subject matter . . . .

Ibid. Accordingly, the district court concluded:

> All transactions in which foreign currency is the actual subject matter of an off-exchange contract for future delivery are exempt from the CEA.

J.A. 56 - 57.

The exclusivity provision and exchange-trading requirement of the CEA confer upon the CFTC exclusive jurisdiction with respect to contracts of sale of a commodity for future delivery and certain other commodity instruments, and makes it illegal to trade futures unless the contract is executed on a designated contract market.[1] Thus, failure to qualify for exemption from the CEA under the Treasury Amendment could preclude the existence of certain off-exchange markets which perform vital financial functions, even where they are subject to oversight by other financial regulatory agencies, such as the Department of the Treasury and the SEC. The United States Department of the Treasury and the Securities and Exchange Commission ("SEC") have important interests in the preservation of the reach of the district court's interpretation of the Treasury Amendment in this case.

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[1] See, 7 U.S.C. 2, 6(a).

A narrowing, or reversal, of the district court's decision would create legal uncertainty which could have an adverse impact upon the market for Treasury securities, and markets for other government securities, as well as on the market for foreign currencies. In addition, narrowing or reversal could produce detrimental limitations on the types of securities the Treasury, and other issuers of government securities, could market in the future.

In particular, the Treasury Department is concerned that a more narrow interpretation of the Treasury Amendment in this case would create legal uncertainty for the "when-issued" market for Treasury securities -- a crucial part of the distribution and pricing mechanism for marketable Treasury securities at original issuance.

"When-issued" trading consists of agreements, entered into between participants in the Treasury securities market, to purchase and sell Treasury securities prior to their issuance, at an agreed upon yield or price. Ordinarily, when-issued trading is conducted between the date of the announcement by the Treasury Department of a scheduled auction of a security, and the settlement -- or issuance -- date for that security.[2] In recent

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[2] Delivery of the securities subject to when-issued trades takes place on the issuance date of the security. In some instances, the need for actual delivery of the securities is eliminated by the parties' entering into offsetting when-issued transactions. In addition, when-issued transactions between netting members of the Government Securities Clearing Corporation ("GSCC") are settled on a net basis. The GSCC membership comprises primarily the interdealer market. As GSCC becomes the (continued...)

years, the Treasury Department has conducted over 150 auctions each year, and, on any given day, several different Treasury issues may be the subject of trades on the when-issued market, with a substantial volume being traded.

When-issued trading fulfills several crucial functions in the primary distribution process for Treasury securities. First, it serves as an important price discovery mechanism for a security to be auctioned, allowing auction participants to bid more confidently. When-issued trading also reduces informational advantages, and inequalities of informational access, among potential bidders in the auctions, and provides auction participants the opportunity to hedge positions acquired in the auction. Finally, the availability of when-issued trading significantly increases flexibility in the timing of Treasury securities purchases for portfolio managers and other large investors, by offering an alternative to their bidding directly in auctions. Available data suggest that a significant portion of an offering of Treasury securities is sold to final investors before the auction. When-issued trading offers these important ultimate purchasers a mechanism for avoiding the potential price and quantity risks of auction bidding.

For these reasons, the smooth functioning of the when-issued market in Treasury securities contributes directly to the success

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[2](...continued) counterparty to all transactions which it nets, it subjects when-issued, and other trades which create market exposure for GSCC, to daily margining requirements.

and to the fairness of the auctions. This increases the overall liquidity and efficiency of the Treasury securities market, and contributes to the financing of the federal debt at the lowest possible cost to the Treasury, and ultimately to the taxpayer. The affirmation by the district court in this case that the Treasury Amendment would exempt from coverage of the CEA "all transactions" in the instruments enumerated in the Treasury Amendment essentially protects these several interests the Treasury Department has in the government securities market.

A narrower interpretation of the Treasury Amendment in this case could have adverse impact on matters of concern to the Treasury Department, beyond the deleterious impact upon the present market for Treasury securities. Such an interpretation could inhibit market innovation in the development of new mechanisms for trading government securities, and could reduce the flexibility in the development of new types of Treasury securities. These restrictions could, in turn, reduce market efficiency for Treasury securities and other government securities in the future, thereby increasing the cost of financing.[3]

In addition to being the issuer of the public debt, and having important interests in the smooth functioning of the

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[3] For example, the Treasury might, in the future, determine that it would be advantageous to issue securities which are indexed to the price of a commodity. A narrow interpretation of the Treasury Amendment could preclude trading such a security in the over-the-counter market, or could even preclude the Treasury from issuing such a security, if the structure of the security meant that it was viewed as an instrument governed by the CEA.

government securities market, which minimizes the government's financing costs, the Treasury Department has an interest in this case stemming from its role as rulemaker for government securities brokers and dealers under the Government Securities Act of 1986 ("GSA").[4] A narrow interpretation of the Treasury Amendment, which would create legal uncertainties with regard to transactions in the government securities market, could engender further, and detrimental, confusion about the Treasury's authority to regulate government securities brokers and dealers with respect to such transactions.

Finally, the Treasury Department has a strong interest in an efficient market for foreign currency. A smoothly functioning foreign currency market, with a wide range of participants, is essential to international trade and investment flows. However, a narrowed interpretation of the Treasury Amendment could put into question outstanding transactions, as well as inhibit risk-reducing improvements, such as clearinghouse operations, in the foreign currency market. The Treasury, as the agency charged with managing the international financial policy of the United States, has an important interest in preventing the legal

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[4] Pub. L. 99-571, 100 Stat. 3208 (1986). The GSA established a federal system for the regulation of the government securities market, including previously unregulated brokers and dealers. <u>See generally</u>, Department of the Treasury, Securities and Exchange Commission, and Board of Governors of the Federal Reserve System, <u>Study of the Effectiveness of the Implementation of the Government Securities Act of 1986</u>, pp. 1-3 (October 1990) (describing regulation of government securities market). Treasury's rulemaking authority lapsed on October 1, 1991; however, legislation is pending to renew it.

uncertainty a narrow interpretation of the Treasury Amendment would introduce into this enormous market, which is an essential component of the international economic system.

Thus, any narrowing of the exclusionary coverage of the Treasury Amendment as pronounced by the district court -- including the imposition of a limitation based upon the identity of a participant -- would have a detrimental impact upon these several markets, and would create significant uncertainty among market participants.

* * * * *

The Securities and Exchange Commission advises us that it supports the positions of the United States in this case. The SEC is the agency responsible under the federal securities laws for regulation of transactions in securities and options "on any security . . . or group or index of securities (including any interest therein or based on the value thereof)," and for the administration and enforcement of those laws.[5] The SEC's regulation of trading in these securities and options involves oversight of securities exchanges and off-exchange (over-the-counter) markets, as well as market professionals and intermediaries such as securities broker-dealers (including

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[5] See, Section 9(g) of the Securities Exchange Act, 15 U.S.C. 78i(g) ("Exchange Act"). Options relating to foreign currency traded on a national securities exchange are defined as "securities" for the purposes of the Exchange Act. See, 15 U.S.C. 78c(a)(10). The Exchange Act confers on the SEC jurisdiction over such trading, 15 U.S.C. 78i(g), and such trading is expressly excluded from the coverage of the CEA. See, 7 U.S.C. 6c(f).

government securities dealers) and securities and option clearing agencies (including clearing agencies which clear and settle trades in government securities, options on U.S. Treasury securities, and options on foreign currency).

The scope of the Treasury Amendment's statutory exclusion from the CEA encompasses transactions in a variety of securities, such as "security warrants," "security rights," and "government securities."[6] The Court's interpretation of the Treasury Amendment in this case will have a direct impact on the Amendment's application to off-exchange trading of all instruments enumerated in the Amendment. Accordingly, the interpretation will have important consequences for the SEC's regulatory jurisdiction as related to securities and securities-derivative products as comprehended within the Amendment, and for market participants subject to SEC oversight.

The SEC's regulatory jurisdiction with respect to certain securities-derivative products was expressly clarified by Congress in 1982 and 1983 through enactment of the SEC-CFTC Accord, which resolved certain jurisdictional disputes between the SEC and the CFTC with respect to options on securities and other securities-derivative products.[7] Taken together, the

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[6] The SEC shares regulatory authority with respect to the trading of government securities with the Treasury Department and federal financial institution regulatory authorities. See generally, Study, supra, n. 4.

[7] See, Act of Oct. 13, 1982, Pub. L. No. 97-303, 96 Stat. 1409 (amending the federal securities laws); Act of Jan. 11, 1983, Pub. L. No. 97-444, 96 Stat. 2294 (amending the CEA).

Accord Amendments and the earlier enacted Treasury Amendment represent a comprehensive jurisdictional scheme adopted by Congress in consultation with the regulatory agencies affected.

The SEC has a strong interest in ensuring proper interpretation of the Treasury Amendment to clarify the CEA's applicability to securities and securities-derivative products regulated by the SEC. Narrowing the exclusionary coverage of the Treasury Amendment, as urged by defendant (and thereby expanding the potential sweep of the CEA exclusivity provision), has a serious potential for disrupting securities markets, and for causing uncertainty and confusion for market participants.

* * * * *

For these reasons, the United States has a strong and important interest in having this Court affirm the district court's interpretation of the Treasury Amendment.

STATEMENT OF THE ISSUE PRESENTED FOR REVIEW

Although appellant presents additional issues for this Court's review, this brief addresses only the following issue:

> Whether the district court properly held that the foreign currency trading contracts entered into between plaintiff and defendant herein are exempt from regulation under the Commodity Exchange Act, as amended, 7 U.S.C. 1, et seq. (1980 & Supp. 1992).

STATUTORY PROVISION INVOLVED

7 U.S.C. 2 provides, in relevant part:

> . . . Nothing in this chapter shall be deemed to govern or in any way be applicable to transactions in foreign currency, security warrants, security rights, resales of installment loan contracts, repurchase options, government securities, or mortgages and mortgage purchase commitments, unless such transactions

involve the sale thereof for future delivery conducted on a board of trade. The term "future delivery," as used in this chapter, shall not include any sale of any cash commodity for deferred shipment or delivery.

STATEMENT OF THE CASE[8]

This case arises out of a protracted series of transactions between plaintiff, Salomon Forex, Inc., a prominent foreign currency trading company, and defendant, Laszlo Tauber. Defendant is a general surgeon with an active practice in Northern Virginia, who is also both a major real estate investor, owning a 75% interest in a company which is one of the federal government's largest private landlords, and a major foreign currency trader. J.A. 40 - 41.[9] Since 1981, defendant has engaged in billions of dollars of foreign currency trading, involving at least 14 well-known companies, including his wholly-owned foreign currency trading company which has a seat on the nation's largest foreign currency exchange. Ibid.

As described by the district court, plaintiff and defendant executed off-exchange futures and options contracts. J.A. 42.[10] These contracts were secured by defendant with various forms of

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[8] This statement is limited to matters which are relevant to the issue which amicus will address.

[9] The district court suggests that defendant's net worth is in excess of half a billion dollars. J.A. 41.

[10] The "futures" contracts -- which may have been "cash forward" contracts, within the meaning of 7 U.S.C. 2, which are exempted from the CEA (ibid.) -- were for purchase or sale on a specific future date of a specified amount of currency at an agreed price; the option contracts consisted of purchasing the right to buy or sell a specific amount of foreign currency in the future at an agreed price.

collateral; however, plaintiff ultimately sought greater collateral from defendant, which defendant agreed to deliver, but did not, causing plaintiff to decline to enter any further contracts, and to permit the existing contracts to mature. J.A. 44. Upon maturation, defendant's collateral was worth over $20 million less than the amount due plaintiff, and plaintiff brought this action to recover the difference. Ibid. Relevant to this matter was the defense that the subject transactions, which were not conducted on or subject to the rules of a board of trade designated by the CFTC as a contract market for trading futures contracts in the commodity involved, were illegal contracts under the CEA, and, therefore, unenforceable.[11] Plaintiff, however, contended that the transactions were governed by the Treasury Amendment, and, therefore, not subject to the CEA.

The district court agreed with plaintiff. Properly starting with "the language of the statute itself," J.A. 49, the court reasoned that "well-established principles of statutory interpretation compellingly point to the conclusion that the [subject] contracts between Tauber and Salomon Forex are covered by the Treasury Amendment and thus excluded from regulation under the CEA." J.A. 50. Accordingly, the district court held that

> the phrase "transactions in foreign currency" [in the Treasury Amendment] plainly and unambiguously means any transaction, without limitation as to the participants involved, in which foreign currency is the commodity or subject matter . . . .

Ibid.

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[11] See, 7 U.S.C. 6.

The district court rejected defendant's argument that legislative history established a limitation upon the participants, observing that the Amendment's "plain language is not qualified in any respect to limit the covered participants," J.A. 51, and that the legislative history, "taken as a whole . . . reveals no clear and unambiguous expression of legislative intent," J.A. 53, to limit the covered participants. Ibid. Accordingly, the district court concluded that

> [a]ll transactions in which foreign currency is the actual subject matter of an off-exchange contract for future delivery are exempt from the CEA.

J.A. 56 - 57.

Amicus will address only the issue of the reach and coverage of the Treasury Amendment, as defined by the district court.

STANDARD OF REVIEW

The proper interpretation of a statute as required by the issue here is purely a question of law, which is reviewed de novo by this Court. See, Basch v. Westinghouse Electric Corporation, 777 F.2d 165, 169 n. 5 (4th Cir. 1985).

ARGUMENT

THE DISTRICT COURT CORRECTLY
INTERPRETED THE TREASURY AMENDMENT

1. The district court correctly followed the applicable canons of statutory construction.

The district court correctly interpreted the Treasury Amendment, pronouncing that

> the phrase "transactions in foreign currency" [in the Treasury Amendment] plainly and unambiguously means any transaction, without limitation as to the participants

> involved, in which foreign currency is the commodity or subject matter . . . .

J.A. 50. Further, the district court concluded that, whether structured as a future contract or an option,

> [a]ll transactions in which foreign currency is the actual subject matter of an off-exchange contract for future delivery are exempt from the CEA.

J.A. 56 - 57. In so interpreting the statute, the district court properly was governed by the "familiar canon of statutory construction,"

> the starting point for interpreting a statute is the language of the statute itself. Absent a clearly expressed legislative intention to the contrary, that language must ordinarily be regarded as conclusive.

Consumer Product Safety Commission v. GTE Sylvania, Inc., 447 U.S. 102, 108 (1980); and see, Russello v. United States, 464 U.S. 16, 20 (1983); Jt. App. 49 - 50.

In this case, "the language of the statute itself" unqualifiedly excludes from coverage of the CEA "transactions in foreign currency, [etc.], unless such transactions involve the sale thereof for future delivery conducted on a board of trade." 7 U.S.C. 2. Therefore, "absent a clearly expressed legislative intention to the contrary," the district court could only conclude, as it did, that transactions in foreign currency are excluded from the CEA "without limitation as to the participants involved." Jt. App. 50.

According to the "time-honored" rule, "when the language of a statute is clear, there is no need to rely on its legislative

history."[12] Nonetheless, the district court went further, and correctly demonstrated that nothing in the legislative history of the Treasury Amendment can be interpreted as a "clearly expressed legislative intention" to create a limitation "as to the participants involved." First,

> in a letter to the [Senate] Committee [on Agriculture and Forestry] dated July 30, 1974, the Department of Treasury recommended that a provision be included in the legislation [to become the CFTCA] exempting, from regulation by the Commission, foreign currency futures trading other than on organized exchanges.

S. Rep. No. 93-1131, 93d Cong., 2d Sess. 49 (1974). Further, the letter to the Committee concluded with Treasury's "strongly urg[ing]" the Committee to

> amend the proposed legislation to make clear that its provisions would not be applicable to futures trading in foreign currencies or other financial transactions of the nature above other than on organized exchanges.

Id. at 51.

What is most important about this "provision," which was enacted as the "Treasury Amendment," with only a minor change, not relevant here,[13] as the district court correctly observed, is that its "plain language is not qualified in any respect to limit the covered participants." Jt. App. 51. Accordingly, the inquiry can properly stop at this point, since "[l]egislative history is irrelevant to the interpretation of an unambiguous

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[12] First United Methodist Church v. U.S. Gypsum Co., 882 F.2d 862, 865 (4th Cir. 1989), cert. denied, 493 U.S. 1070 (1990), citing Ex Parte Collett, 337 U.S. 55, 61 (1949).

[13] Compare, id., at 51 ("Nothing in the Act . . . . board of trade.") and 7 U.S.C. 2 (Treasury Amendment).

statute." In re Moore, 907 F.2d 1476, 1479 (4th Cir. 1990), quoting Davis v. Michigan Department of Treasury, 489 U.S. 803, 808 - 809 n. 3 (1989).

Moreover, further investigation into the legislative history does not reveal "a clearly expressed legislative intention to the contrary," Consumer Product Safety Commission, supra, 447 U.S. at 108, sufficient to permit passing over the unambiguous language of the statute. As the district court pointed out, the legislative history suggests nothing other than a combination of factors and goals comprehended in the enactment of the Treasury Amendment. See, e.g., S.Rep. No. 1131, supra, pp. 6, 23, 31, 49 - 50, 51; and see, Jt. App. 52 n. 14.

Further, the district court properly obeyed still another important rule of statutory construction, implicitly agreeing that "[w]here legislative history is inconclusive, it should not be relied upon to supply a provision not expressly in the statute." Beyer v. C.I.R., 916 F.2d 153, 157 (4th Cir. 1990), citing United States v. American College of Physicians, 475 U.S. 834, 846 (1986).

Finally, the district court faithfully heeded the warning of the Supreme Court that an "attempt at the creation of legislative history through the post hoc statements of interested onlookers is entitled to no weight." Western Air Lines v. Board of Equalization, 480 U.S. 123, 130 - 131 n. * (1987). Thus, the district court was unpersuaded by defendant's efforts to shift the interpretive focus from the language of the statute to

interpretations fashioned after passage of the Act, which were at variance with the language of the Act. See, e.g., Jt. App. 53 - 54 n. 15.[14]

In sum, the district court properly began with the language of the statute itself. Jt. App. 49, 50. Then, finding that the language unambiguously did not limit exclusion from the coverage of the CEA on the basis of the nature of the participant in the transaction, Jt. App. 50, the district court reviewed the legislative history in search of a "clear, unambiguous basis for concluding, as [defendant] insists, that 'transactions in foreign currency' contains a limitation on the transactional participants." Jt. App. 51. Then the court correctly found that "the legislative history reveals no [such] clear unambiguous expression of legislative intent to restrict the Treasury Amendment." Jt. App. 53.

The conclusion is ineluctable, therefore, that the district court was correct, when concluding:

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[14] In any event, the Treasury Department's statutory interpretation has been in precise accord with the district court's interpretation of the reach of the Treasury Amendment. Compare, e.g., Jt. App. 56 - 57 ("All transactions in which foreign currency is the actual subject matter of an off-exchange contract for future delivery are exempt from the CEA.") with Letter of Charles O. Sethness, Assistant Secretary of the Treasury, May 5, 1986, ("By its terms, the Treasury Amendment exemption is a transactional one that places outside the coverage of the Act all off-exchange future transactions in the listed financial instruments."), forwarding Comments of Treasury Department in Response to "Commodity Futures Trading Commission, Trading in Foreign Currencies for Future Delivery, Statutory Interpretation and Request for Comments," 50 Fed. Reg. 42983 (October 23, 1985). (For the convenience of the Court, a copy of the Treasury Response of May 5, 1986, is attached as an Addendum).

> Applied here, these well-established principles of statutory interpretation compellingly point to the conclusion that the foreign currency contract between [defendant] and [plaintiff] are covered by the Treasury Amendment . . . . Simply put, in the CEA context, the phrase "transaction in foreign currency" plainly and unambiguously means any transaction, without limitation as to the participants involved, in the commodity or subject matter . . . .

Jt. App. 50.

This Court should, therefore, affirm the district court's interpretation of the Treasury Amendment.

2. Defendant's attempt to fashion a new statutory interpretation is wholly without merit.

While defendant sought unsuccessfully to persuade the district court that the Treasury Amendment should be interpreted as if it "contains a limitation on the transactional participants," Jt. App. 51, he now requests from this Court a different, and unlikely, interpretation of the Treasury Amendment -- to wit, that the Amendment was not intended to exclude foreign currency futures and options from the coverage of the CEA, and from the regulatory authority of the CFTC. Rather, defendant now argues, the Treasury Amendment, and, therefore the "provision" submitted by the Treasury Department, see, S. Rep. No. 93-1131, supra, at 49, was intended to exclude only "a 'spot' transaction -- which involves an immediate sale and conveyance -- [and] a 'cash forward' transaction, which also involves a present sale, with delivery merely deferred though fully expected." Brief for Appellant, p.14. As defendant now puts it, " only these . . . transactions, in which the parties buy and sell, and plan

conveyance of, the actual commodity, the Treasury Amendment covers." Ibid.; and see, id., pp. 13 - 32.

This new interpretation is insupportable. First, the entire import of the CEA, since its origin in the Future Trading Act, 42 Stat. 187 (1921), and in every subsequent version of the statutory scheme, has been to "oversee the volatile and esoteric futures trading complex." Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran, 456 U.S. 353, 356 (1982) (emphasis supplied). Thus, the various statutes have always excluded from the overall regulatory scheme transactions which defendant now describes as being uniquely excluded by the Treasury Amendment -- that is, transactions "in which the parties buy and sell, and plan conveyance of, the actual commodity." Brief for Appellant, p. 14.

Indeed, the sentence immediately following the Treasury Amendment in the current version of the CEA is the present-day version of that ever-present exclusion:

> The term "future delivery," as used in this chapter, shall not include any sale of any cash commodity for deferred shipment or delivery.

7 U.S.C. 2.[15] Common sense dictates the conclusion that Congress could not have intended the Treasury Amendment to exclude only spot and cash forward transactions, as defendant now argues, when the very next sentence of the present statue -- a sentence which

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[15] This exclusion is ordinarily referred to as the "cash forward" exclusion.

antedated the Treasury Amendment -- does, and has always done, precisely that.

Defendant purports to support this remarkable argument by resorting to a variety of efforts to reduce the Treasury Amendment to ambiguity, and then to create out of whole cloth a legislative "history" dedicated to the notion that Congress meant to exclude only spot and cash forward transactions by both the Treasury Amendment and the immediate next sentence. These arguments need not be addressed in detail here, as they all fall before two simple truths. First, the CEA's design to "oversee . . . futures trading," Curran, supra, dictates that, in the first instance, an exclusion from the Act's coverage would be an exclusion of "futures" transactions.[16] Accordingly, those transactions excluded by the Amendment would plainly include "futures" transactions, unless there were a clear and unambiguous basis in the legislative history for concluding otherwise. As shown above, however, there is no such basis.

Rather, the legislative history clearly and unambiguously establishes the second truth which defendant ignores -- that the Treasury Amendment was proffered and enacted to "exempt[ ], from

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[16] The "cash forward" exclusion itself originated, in the 1921 Future Trading Act, out of concern over assuring the legitimacy of cash grain contracts between farmers and grain elevator operators for the future delivery of grain. See, Hearings on H.R. 5676 Before the Senate Committee on Agriculture and Forestry, 67th Cong., 1st Sess. 8 - 9, 213 - 214, 431, 462 (1921). The present expression, unchanged since the adoption of the CEA in 1936, by referring to "any cash commodity for deferred shipment or delivery," 7 U.S.C. 2, retains, for cash forward transactions, this sense of future delivery, while also excluding spot transactions as "cash commodity" sales.

regulation by the Commission, foreign currency futures trading . . . ." S. Rep. No. 93-1131, supra, p. 49 (emphasis supplied); see also, id., p. 51 ("we strongly urge the Committee to amend the proposed legislation to make clear that its provisions would not be applicable to futures trading in foreign currencies or other financial transactions . . . described above") (emphasis supplied).

Accordingly, the interpretation of the Treasury Amendment defendant has now offered this Court should be rejected, and the district court's adopted.

Defendant also seeks to support his argument that futures and options contracts in foreign currency are not "transactions in foreign currency" within the meaning of the Treasury Amendment through reliance upon language in Board of Trade of the City of Chicago v. Securities and Exchange Commission, 677 F.2d 1137, 1154 n. 33 (7th Cir. 1982), judgment vacated as moot and remanded with directions to dismiss, 459 U.S. 1026 (1982) and Commodity Futures Trading Commission v. American Board of Trade, Inc., 803 F.2d 1242, 1248 (2d Cir. 1986). However, those decisions rest upon a mistaken interpretation of the Treasury Amendment according to which options on foreign currency or government securities, absent exercise, are not deemed "transactions in," but only as involving or relating to, a commodity. The majority's reasoning in Board of Trade of the City of Chicago --

which American Board of Trade simply assumed was valid -- cannot be reconciled with the statutory purpose of the Amendment.[17]

In petitioning the Supreme Court for review of the Seventh Circuit's decision, the Solicitor General asserted that the court incorrectly interpreted the Treasury Amendment, stating that options on government securities were within the Amendment's "transactions in" language.[18] Congress itself overruled the outcome of Board of Trade of the City of Chicago in enacting the Accord Amendments discussed previously (supra, n. 7).[19] Following Congress's rejection of the Seventh Circuit decision, the Supreme Court vacated it as moot, and directed the action dismissed, thereby depriving Board of Trade of the City of Chicago of further precedential authority.

This Court, however, need not address the correctness of Board of Trade of the City of Chicago or American Board of Trade

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[17] Indeed, the dissent in Chicago Board of Trade made precisely that point, noting that "[t]he majority's suggestion that 'transactions in . . . government securities' covers only transactions in which the underlying securities change hands [is] flatly contradicted by the structure of [the Treasury Amendment]." Id., 677 F.2d at 1178 - 1179 (Cudahy, J., dissenting) (ellipsis in original).

[18] See, Petition for a Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit, Securities Exchange Commission v. Board of Trade of the City of Chicago, No. 82-526 (S. Ct.), at 21 & n. 21.

[19] See, H.R. Rep. No. 626, 97th Cong., 2d Sess. 7 (1982) ("The dissenting opinion (Cudahy) noted that the majority's decision reflected a 'bizarre' and 'extreme' conclusion. The Committee believes the court's decision is not consistent with long-standing Congressional intent that the SEC has the sole authority to regulate options on all securities, including exempted [e.g., government] securities.").

because, as the district court found, J.A. 54, even under the "semantical" distinction made in those decisions, the options contracts nonetheless fell within the exclusion of the Treasury Amendment.

The district court correctly pointed out that both Board of Trade of the City of Chicago and American Board of Trade are in agreement on one important point -- a transaction "becomes one 'in' foreign currency," once the subject contract is exercised, as were the contracts in question in this case. J.A. 55. Defendant does not disagree at this time, nor does he argue here that a triable issue of fact exists as to whether the contracts were exercised. Rather, defendant's argument related to the exercise of the contracts is his contention that, without delivery of the currency itself, the subject contracts could not be considered "exercised." Brief for Appellant, p. 21 n. 13.

However, this argument ignored settled law, and has no real impact upon the conclusion reached by the district court. As the district court reasoned, the parties substituted "off-setting transactions [for the] actual receipt or delivery of [the] foreign currency." Jt. App. 55. The court then concluded that this "set-off is, in legal effect, a delivery." Ibid., citing Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236, 248 (1905). Such delivery, the court concluded, is exercise of the subject contracts causing them, at that time, even if, arguendo, not before, to be "transactions in" foreign currency.

Thus, even accepting, for the purpose of argument, the interpretation of the Treasury Amendment fashioned in Board of Trade of the City of Chicago and American Board of Trade, supra, the subject transactions were "transactions in" foreign currency, and, therefore, subject to the exclusionary force of the Treasury Amendment.

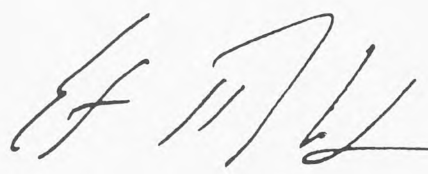
CONCLUSION

For the foregoing reasons, this Court should affirm the district court's interpretation of the Treasury Amendment.

Respectfully submitted,

STUART M. GERSON
Assistant Attorney General

RICHARD CULLEN
United States Attorney



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AUGUST 1992

<u>ADDENDUM</u>

Letter of Charles O. Sethness, Assistant Secretary of the Treasury, May 5, 1986, forwarding Comments of Treasury Department in Response to "Commodity Futures Trading Commission, Trading in Foreign Currencies for Future Delivery, Statutory Interpretation and Request for Comments," 50 Fed. Reg. 42983 (October 23, 1985).

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

May 5, 1986

Dear Chairman Phillips:

As you know, an existing provision of the Commodity Exchange Act known as the Treasury Amendment provides an exemption for off-exchange futures transactions in foreign currency, government securities and certain other financial instruments. The interpretative statement concerning this Amendment that was published for public comment late last year by the Commodity Futures Trading Commission (the "Commission") would limit the overall scope of the exemption in an effort to eliminate the marketing to the general public of off-exchange futures transactions in foreign currency. See 50 Fed. Reg. 42,983 (1985).

While we agree that it may be appropriate to bring some foreign currency futures transactions marketed to the general public off-exchange within the scope of the Commodity Exchange Act (the "Act"), the possibility that the same narrow interpretation of the Treasury Amendment might be applied to transactions in government securities is of concern to Treasury. The issue was mentioned to Ken Raisler, the Commission's General Counsel, earlier this year in an informal discussion of the Commission's interpretative statement. Our concern has increased substantially because we recently learned that the Commission plans to refine its earlier interpretation of the Treasury Amendment and republish it in the near future, in spite of numerous negative comments received from the public.

By its terms, the Treasury Amendment exemption is a transactional one that places outside the coverage of the Act all off-exchange futures transactions in the listed financial instruments. In its interpretative statement, the Commission would limit the exemption to transactions between sophisticated and informed institutions. However, the Treasury Amendment itself contains no language limiting the coverage of the exemption based upon the characteristics of participants in a transaction.

Although the Commission has stated in its recently published release that it "deals only with that portion of the Treasury Amendment which refers to transactions in foreign currency," the analysis of the interpretation logically could extend to transactions in government securities as well as all the other

financial instruments listed in the Treasury Amendment. */ If so extended, it would conflict with a basic goal of Treasury's current legislative proposal that Treasury be the centralized rulemaking authority in regulating the government securities market.

Because we believe that the Commission's interpretation is not consistent with the plain language of the statute, the appropriate way to permit the regulation in the area of foreign currency transactions is to amend the exemptive provision to redefine its scope with respect to transactions in foreign currency. Although Treasury has no basic objection to bringing within the scope of the Act only the foreign currency transactions of concern to the Commission, we do believe that the Commission's jurisdiction should be defined in such a way that it does not prohibit legitimate hedging transactions entered into by businesses and individuals.

We understand that Congress currently has under consideration legislation that would make a number of amendments to the Act, including at least one amendment that would resolve a question as to the scope of the Commission's power to prevent fraudulent off-exchange futures contracts. We believe the current bill also is an appropriate vehicle for resolving the issue described above, and we recommend that a provision be added to the bill to make that change. Given our interest in the continued efficient operation of the markets for both foreign currency and Treasury securities, we would be happy to work with you and your staff in crafting a proposed amendment on this issue to be forwarded to the appropriate Congressional committee.

Sincerely,

Charles O. Sethness
Assistant Secretary
(Domestic Finance)

Ms. Susan M. Phillips
Chairman, Commodity Futures
Trading Commission
2033 K Street N.W.
Washington, D.C. 20581

cc: James Murr
Chief of Economics - Science
- General Government
Office of Management and Budget

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*/ We note that the interpretative release makes clear that forward contracts will continue to fall outside the scope of the Act. However, the line between futures contracts and forward contracts is not a precise one.

CERTIFICATE OF SERVICE

I hereby certify that on this 10th day of August, 1992, I served the foregoing Brief for the United States as Amicus Curiae upon counsel of record by causing two copies to be mailed, by first class mail, postage prepaid, to:

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AUG 1992 000667
DEPT. OF THE TREASURY

FOR RELEASE AT 2:30 P.M.
August 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 $ 23,200 million, to be issued August 27, 1992. This offering will provide about $ 350 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $22,856 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, August 24, 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:

92-day bills (to maturity date) for approximately $11,600 million, representing an additional amount of bills dated May 28, 1992 and to mature November 27, 1992 (CUSIP No. 912794 ZT 4), currently outstanding in the amount of $ 11,655 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,600 million, to be dated August 27, 1992 and to mature February 25, 1993 (CUSIP No. 912794 A9 5).

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

The bills will be issued for cash and in exchange for Treasury bills maturing August 27, 1992. In addition to the maturing 13-week and 26-week bills, there are $ 12,600 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 $ 2,548 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $2,768 million as agents for foreign and international monetary authorities, and $ 9,000 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).

NB-1947

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

TREASURY NEWS

Department of the Treasury · Washington, D.C. · Telephone 202-622-2960

DEPT. OF THE TREASURY

FOR RELEASE AT 2:30 P.M.
August 19, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $25,500 MILLION

The Treasury will auction $15,000 million of 2-year notes and $10,500 million of 5-year notes to refund $12,298 million of securities maturing August 31, 1992, and to raise about $13,200 million new cash. The $12,298 million of maturing securities are those held by the public, including $710 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $25,500 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $1,131 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.

oOo

Attachment

NB-1948

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC

OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED AUGUST 31, 1992

August 19, 1992

Amount Offered to the Public ...	$15,000 million	$10,500 million
Description of Security:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series AD-1994 (CUSIP No. 912827 G6 3)	Series Q-1997 (CUSIP No. 912827 G7 1)
Maturity date	August 31, 1994	August 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	February 28 and August 31	The last calendar day of February and August through August 31, 1997
Minimum denomination available .	$5,000	$1,000
Terms of Sale:		
Method of sale	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $5,000,000	Accepted in full at the average price up to $5,000,000
Accrued interest payable by investor	None	None
Key Dates:		
Receipt of tenders	Tuesday, August 25, 1992	Wednesday, August 26, 1992
a) noncompetitive	prior to 12:00 noon, EDST	prior to 12:00 noon, EDST
b) competitive	prior to 1:00 p.m., EDST	prior to 1:00 p.m., EDST
Settlement (final payment due from institutions):		
a) funds immediately available to the Treasury ...	Monday, August 31, 1992	Monday, August 31, 1992
b) readily-collectible check ...	Thursday, August 27, 1992	Thursday, August 27, 1992

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
August 20, 1992

Contact: Claire Buchan
(202) 622-2910

Statement of Secretary of the Treasury
Nicholas F. Brady
on Bill Taylor

With Bill Taylor's death, the American people have lost a man who stood for the best in public service. Bill represented the highest degree of professionalism. He was a man of integrity and common sense. Like all his friends, I am diminished by his passing. But his life, his strength and his friendship will always remain with us.

-30-

NB-1949

AUCTION RESULTS

PUBLIC DEBT NEWS

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

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FOR IMMEDIATE RELEASE
August 20, 1992

AUG 24 92 0 0 5 9 7 0

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

DEPT. OF THE TREASURY

Tenders for $14,273 million of 52-week bills to be issued August 27, 1992 and to mature August 26, 1993 were accepted today (CUSIP: 912794E26).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.26%	3.39%	96.704
High	3.28%	3.41%	96.684
Average	3.28%	3.41%	96.684

Tenders at the high discount rate were allotted 63%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	10,710	10,710
New York	39,550,530	13,581,465
Philadelphia	7,530	7,530
Cleveland	16,030	16,030
Richmond	8,405	8,405
Atlanta	14,520	13,780
Chicago	1,492,285	174,510
St. Louis	6,570	6,570
Minneapolis	2,375	2,375
Kansas City	12,355	11,985
Dallas	3,315	3,315
San Francisco	735,725	187,675
Treasury	248,725	248,725
TOTALS	$42,109,075	$14,273,075
Type		
Competitive	$37,948,710	$10,112,710
Noncompetitive	440,365	440,365
Subtotal, Public	$38,389,075	$10,553,075
Federal Reserve	3,500,000	3,500,000
Foreign Official Institutions	220,000	220,000
TOTALS	$42,109,075	$14,273,075

An additional $335,000 thousand of bills will be issued to foreign official institutions for new cash.

NB - 1950

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
August 24, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,625 million of 13-week bills to be issued August 27, 1992 and to mature November 27, 1992 were accepted today (CUSIP: 912794ZT4).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.11%	3.18%	99.205
High	3.14%	3.21%	99.198
Average	3.14%	3.21%	99.198

Tenders at the high discount rate were allotted 87%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,725	30,725
New York	27,463,280	9,942,530
Philadelphia	6,510	6,510
Cleveland	36,695	36,695
Richmond	79,055	79,055
Atlanta	27,365	25,415
Chicago	2,608,150	369,150
St. Louis	10,980	10,980
Minneapolis	11,550	10,900
Kansas City	24,740	24,740
Dallas	20,890	20,890
San Francisco	800,305	200,305
Treasury	867,170	867,170
TOTALS	$31,987,415	$11,625,065
Type		
Competitive	$26,774,190	$6,411,840
Noncompetitive	1,366,625	1,366,625
Subtotal, Public	$28,140,815	$7,778,465
Federal Reserve	2,699,600	2,699,600
Foreign Official Institutions	1,147,000	1,147,000
TOTALS	$31,987,415	$11,625,065

NB-1951

AUCTION RESULTS

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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
August 24, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,655 million of 26-week bills to be issued August 27, 1992 and to mature February 25, 1993 were accepted today (CUSIP: 912794A95).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.22%	3.32%	98.372
High	3.25%	3.35%	98.357
Average	3.24%	3.34%	98.362

Tenders at the high discount rate were allotted 39%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,595	30,595
New York	30,699,245	10,557,745
Philadelphia	7,575	7,575
Cleveland	27,285	27,285
Richmond	39,295	39,295
Atlanta	32,465	23,315
Chicago	1,834,145	152,395
St. Louis	14,785	14,785
Minneapolis	6,575	6,575
Kansas City	30,030	30,030
Dallas	12,090	12,090
San Francisco	643,775	164,475
Treasury	588,395	588,395
TOTALS	$33,966,255	$11,654,555
Type		
Competitive	$28,935,400	$6,623,700
Noncompetitive	973,155	973,155
Subtotal, Public	$29,908,555	$7,596,855
Federal Reserve	2,800,000	2,800,000
Foreign Official Institutions	1,257,700	1,257,700
TOTALS	$33,966,255	$11,654,555

NB-1952

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
August 25, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $15,004 million of 2-year notes, Series AD-1994, to be issued August 31, 1992 and to mature August 31, 1994 were accepted today (CUSIP: 912827G63).

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

	Yield	Price
Low	4.28%	99.943
High	4.31%	99.886
Average	4.30%	99.905

Tenders at the high yield were allotted 70%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,925	21,925
New York	33,175,430	13,888,330
Philadelphia	18,540	18,535
Cleveland	80,570	80,370
Richmond	98,550	90,450
Atlanta	37,755	32,755
Chicago	1,579,135	426,135
St. Louis	50,120	48,620
Minneapolis	12,005	12,005
Kansas City	53,000	53,000
Dallas	11,265	11,265
San Francisco	60,230	60,170
Treasury	260,780	260,780
TOTALS	$35,459,305	$15,004,340

The $15,004 million of accepted tenders includes $848 million of noncompetitive tenders and $14,156 million of competitive tenders from the public.

In addition, $738 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $831 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-1953

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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DEPT. OF THE TREASURY

FOR RELEASE AT 2:30 P.M.
August 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 $23,200 million, to be issued September 3, 1992. This offering will result in a paydown for the Treasury of about $150 million, as the maturing bills are outstanding in the amount of $23,356 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, August 31, 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 $11,600 million, representing an additional amount of bills dated June 4, 1992, and to mature December 3, 1992 (CUSIP No. 912794 ZU 1), currently outstanding in the amount of $ 11,672 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,600 million, to be dated September 3, 1992 and to mature March 4, 1993 (CUSIP No. 912794 B2 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 September 3, 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 $ 2,362 million as agents for foreign and international monetary authorities, and $ 5,170 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-1954

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

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.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill 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 bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. 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. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

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. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after 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 in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. 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 and 27-76 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.

4/17/92

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
August 26, 1992

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY HURRICANE ANDREW

The Bureau of the Public Debt took action to assist victims of Hurricane Andrew that hit Southern Florida by expediting the replacement or payment of United States Savings Bonds for owners in the affected area. The emergency procedures are effective immediately for paying agents and owners in Dade, Monroe and Broward counties and will remain in effect through September 30, 1992.

Public Debt's action waives the normal six-month minimum holding period for Series EE savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or the Federal Reserve Bank. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bonds Operations Office located at 200 Third St, Parkersburg, West Virginia 26106-1328. Bond owners should write the words "Hurricane Andrew" on the front of their envelopes to help speed the processing of claims.

Public Debt is the Treasury bureau responsible for handling the processing of savings bonds.

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PA-104

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
August 26, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $10,588 million of 5-year notes, Series Q-1997, to be issued August 31, 1992 and to mature August 31, 1997 were accepted today (CUSIP: 912827G71).

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

	Yield	Price
Low	5.72%	99.592
High	5.74%	99.506
Average	5.74%	99.506

$15,000 was accepted at lower yields.
Tenders at the high yield were allotted 66%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

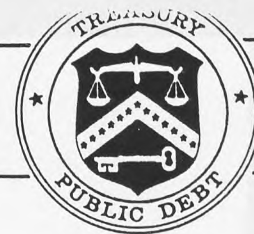
Location	Received	Accepted
Boston	21,813	21,812
New York	27,286,856	10,001,587
Philadelphia	15,970	15,970
Cleveland	60,781	52,281
Richmond	145,825	34,465
Atlanta	21,303	16,303
Chicago	1,425,719	244,439
St. Louis	25,616	21,616
Minneapolis	7,968	7,968
Kansas City	42,535	42,194
Dallas	6,792	6,792
San Francisco	221,301	54,301
Treasury	68,021	68,021
TOTALS	$29,350,500	$10,587,749

The $10,588 million of accepted tenders includes $590 million of noncompetitive tenders and $9,998 million of competitive tenders from the public.

In addition, $203 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.

NB-1955

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
August 27, 1992

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS IN LOUISIANA AFFECTED BY HURRICANE ANDREW

The Bureau of the Public Debt took action to assist victims of Hurricane Andrew that hit Louisiana by expediting the replacement or payment of United States Savings Bonds for owners in the affected area. The emergency procedures are effective immediately for paying agents and owners in the following parishes: Assumption, Iberia, Iberville, Lafourche, St. John the Baptist, St. Mary and Terrebonne. The emergency procedures will remain in effect through September 30, 1992.

Public Debt's action waives the normal six-month minimum holding period for Series EE savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or the Federal Reserve Bank. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bonds Operations Office located at 200 Third St, Parkersburg, West Virginia 26106-1328. Bond owners should write the words "Hurricane Andrew" on the front of their envelopes to help speed the processing of claims.

Public Debt is the Treasury bureau responsible for handling the processing of savings bonds.

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FOR IMMEDIATE RELEASE
August 28, 1992

CONTACT: Scott Dykema
(202) 622-2960

Statement by Treasury Secretary Nicholas F. Brady

Re: Japan's Economic Stimulation Package

I welcome the Japanese government's announcement of a 10.7 trillion yen ($86 billion) package to stimulate economic growth and stabilize financial markets. The early implementation of this comprehensive program can make an important contribution to increasing world growth and strengthening economic recovery. This action supports the U.S./Japan strategy for world growth adopted by President Bush and Prime Minister Miyazawa in Tokyo in January 1992.

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NB-1956

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AUGUST 28, 1992

CONTACT: KEITH CARROLL
202-622-2960

THE UNITED STATES AND THE REPUBLIC OF ECUADOR SIGN AGREEMENT TO COMBAT MONEY LAUNDERING

The Governments of the United States and the Republic of Ecuador continued their fight against illicit drug trafficking and money laundering by signing a bilateral agreement to exchange financial information. The bilateral agreement was signed on August 7, 1992.

This agreement provides a way to crack down on narcotics trafficking and money laundering by exchanging currency transaction information recorded by financial institutions in each country. The agreement calls for both parties to require all financial institutions to report to the appropriate authorities all currency transactions in excess of $10,000 United States dollars or its foreign currency equivalent. The reported information will include the identity of the individuals conducting the transactions and any beneficial owners, account information, dates, and transaction amounts.

In announcing the agreement, Peter K. Nunez, Assistant Secretary of the Treasury for Enforcement said, "This agreement will further enhance the efforts of our two countries to monitor closely large cash transactions in an effort to stem the flow of drug trafficking and money laundering. This is another important tool in our continuing fight against the drug trade around the world."

The agreement was signed by Charge d' Affaires James F. Mack on behalf of the Treasury Department and Ecuadorian Foreign Minister Diego Cordovez, representing the Ecuadorian National Council for the Control of Narcotic and Psychotropic Substances (CONSEP). The agreement must be ratified by the Ecuadorian Congress. This is the fifth currency information agreement concluded by the Treasury, aimed at monitoring large currency transactions for law enforcement and regulatory purposes. The other agreements are with Venezuela, Colombia, Panama, and Peru.

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NB-1957

AUCTION RESULTS

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FOR IMMEDIATE RELEASE
August 31, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,604 million of 13-week bills to be issued September 3, 1992 and to mature December 3, 1992 were accepted today (CUSIP: 912794ZU1).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.15%	3.22%	99.204
High	3.17%	3.24%	99.199
Average	3.17%	3.24%	99.199

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	23,090	23,090
New York	34,941,350	10,149,395
Philadelphia	16,340	16,340
Cleveland	29,930	29,930
Richmond	287,565	107,965
Atlanta	33,360	29,160
Chicago	2,048,055	99,635
St. Louis	8,975	8,975
Minneapolis	9,810	9,810
Kansas City	25,975	25,555
Dallas	20,870	20,870
San Francisco	1,112,530	296,190
Treasury	787,000	787,000
TOTALS	$39,344,850	$11,603,915
Type		
Competitive	$34,985,885	$7,244,950
Noncompetitive	1,298,635	1,298,635
Subtotal, Public	$36,284,520	$8,543,585
Federal Reserve	2,570,230	2,570,230
Foreign Official Institutions	490,100	490,100
TOTALS	$39,344,850	$11,603,915

NB-1958

AUCTION RESULTS

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FOR IMMEDIATE RELEASE
August 31, 1992

CONTACT: Office of Financing
202-219-3350

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DEPT. OF THE TREASURY

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,604 million of 26-week bills to be issued September 3, 1992 and to mature March 4, 1993 were accepted today (CUSIP: 912794B29).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.24%	3.34%	98.362
High	3.26%	3.36%	98.352
Average	3.26%	3.36%	98.352

Tenders at the high discount rate were allotted 76%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,760	21,760
New York	43,129,010	10,498,935
Philadelphia	7,140	7,140
Cleveland	19,130	19,130
Richmond	35,865	30,580
Atlanta	35,060	27,820
Chicago	1,797,455	16,455
St. Louis	8,540	8,540
Minneapolis	8,740	7,780
Kansas City	30,630	30,390
Dallas	11,360	11,360
San Francisco	1,199,430	301,430
Treasury	622,225	622,225
TOTALS	$46,926,345	$11,603,545
Type		
Competitive	$42,447,145	$7,124,345
Noncompetitive	974,600	974,600
Subtotal, Public	$43,421,745	$8,098,945
Federal Reserve	2,600,000	2,600,000
Foreign Official Institutions	904,600	904,600
TOTALS	$46,926,345	$11,603,545

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