U.S. Department of the Treasury

PRESS RELEASES

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
September 1, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 22,000 million, to be issued September 10, 1992. This offering will result in a paydown for the Treasury of about $ 1,400 million, as the maturing bills are outstanding in the amount of $ 23,405 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Tuesday, September 8, 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 $ 11,000 million, representing an additional amount of bills dated June 11, 1992 and to mature December 10, 1992 (CUSIP No. 912794 ZV 9), currently outstanding in the amount of $ 11,876 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $ 11,000 million, representing an additional amount of bills dated March 12, 1992 and to mature March 11, 1993 (CUSIP No. 912794 B3 7), currently outstanding in the amount of $ 13,800 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 September 10, 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 $ 1,047 million as agents for foreign and international monetary authorities, and $ 4,910 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 FOR RELEASE
September 3, 1992
11:00 a.m.

Contact: Anne Kelly Williams
(202) 622-2960

Treasury announces details of auction experiment

The Treasury Department today announced that it will conduct a single-price auction experiment which will include all auctions of two-year and five-year Treasury notes from September 1992 through August 1993. The Treasury had announced previously that it would experiment with the single-price auction format, under which all successful bidders obtain securities at the same price.

"This is another step in our ongoing efforts to improve the government securities market and to minimize the cost to the taxpayer of financing the federal debt," said Treasury Secretary Nicholas F. Brady.

Currently, the Treasury uses a multiple-price auction format, in which successful competitive bidders are awarded securities at whatever yields are specified in their bids. With the single-price method, all successful bidders in the two-year and five-year note auctions will receive the securities at a common price.

Treasury securities of all other maturities will continue to be auctioned using the multiple-price format. All rules applicable to bidding under the current auction method will remain applicable to bidding in the single-price auctions.

The Treasury Department has decided to begin this experiment after careful consideration and extensive consultation with market participants, academic experts, and other knowledgeable parties. The Treasury will consider the single-price auction experiment to have been a success if it reduces the U.S. government's financing costs, whether by encouraging more aggressive bidding by auction participants or by attracting more bidders to the auctions.

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NB-1961

TREASURY NEWS

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

FOR RELEASE AT 12:30 P.M.
September 3, 1992

CONTACT: SCOTT DYKEMA
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JAMES H. FALL, III
Deputy Assistant Secretary
U.S. Department of the Treasury

Remarks before the
Columbia University/Korea Economic Institute
U.S.-Korea Academic Symposium, III

New York City
September 3, 1992

Introduction

It is a pleasure to speak to you this afternoon and to be part of this timely symposium. As most of you know, developments in the Korean financial sector have been of keen interest to the Treasury Department during the past several years. Our interest is driven by the practical reality that U.S. and other foreign financial institutions want to be a part of the growing Korean economy. Korea can benefit from this competition. A fair, open environment for domestic and foreign institutions will further the country's growth potential, and increasingly enable Korea to play a role in the global expansion of financial markets.

The next few years will be crucial as foreign institutions assess the Korean government's policy reaction to demand from abroad and the major liberalization taking place in other markets in Asia.

I will focus my remarks today on Treasury's perspective regarding Korea's role in an increasingly integrated global economy, and on our view of the current status of financial sector liberalization in Korea.

The global context has set the stage for a range of significant changes that are, in our judgment, increasing the urgency and benefits of financial liberalization. These developments are motivating the policy decisions and directions of various economies as they respond to an intensified competitive environment in the financial and securities fields.

Asia, Eastern Europe, and the newly independent states of the former Soviet Union are all embracing fundamental market reforms. At the same time, economic integration in North America, Western Europe, and Southeast Asia is strengthening and expanding economic ties within these regions. These developments are intensifying the competition for investment capital.

Those nations which have moved the quickest to open their trade, investment, and financial regimes seem to have benefitted greatly from increased investment flows and development of their financial markets. We must not underestimate the role played by financial services liberalization in attracting investment. U.S. companies routinely cite unhampered access to their traditional suppliers of banking services and modern financial infrastructures as important incentives to invest.

A number of countries are already acting decisively. In the context of the North American Free Trade Agreement, for example, Mexico has committed to opening its financial services sector to significant foreign investment and to further liberalizing its financial and capital markets. Capital movements to Mexico actually began a couple of years ago in anticipation of these measures, when global financial institutions began to realize the significant policy adjustment to which Mexican leaders were committed.

Important changes are also taking place in several Asian financial markets. For instance, Indonesia has made deregulation and modernization of the financial sector a principal focus of its wide ranging and successful economic reform program. Virtually all restrictions on capital flows have been removed. Interest rates and credit ceilings have been deregulated to mobilize savings, and directed credit schemes have been significantly reduced. By improving efficiency and lowering the costs of intermediation in the banking sector, a series of reforms has increased private and foreign participation, and expanded the range of financial products and activities. These reforms have enhanced Indonesia's ability to attract foreign investment. More than $17 billion in foreign investment has been recorded in the last two years alone to finance the country's current account deficit.

Thailand has made particular progress in deregulating and liberalizing its securities market. The mid-1991 computerization of trading and improvements in share registration have established the Securities Exchange of Thailand as a modern exchange. In early 1992, Thailand enacted legislation setting up an SEC-like regulation system which has helped improve investor confidence. Further important measures were enacted to expand the scope of business activities in which securities firms can engage.

Treasury has welcomed developments in the rapidly liberalizing markets in Southeast Asia, and we are intensifying our regular dialogue to explore common interests and set forth an informal basis for sharing ideas.

Korea's Role

Korea has been successful in reaping the benefits of an open international trade regime, and has become a leading economic player among its neighbors and around the globe. Over the last decade, Korea's real GNP growth averaged an enviable 10 percent annually. Per capita GNP reached $6,500 in 1991, placing Korea among the world's upper middle income countries. Korean companies have achieved international prominence in areas such as ship building, automobile production, iron and steel, electronics, and textiles, and are emerging giants in certain consumer fields.

Korea has also experienced some growing pains. Wages have risen disproportionally to productivity, eroding competitiveness in some areas. Booming economic conditions over a period of several years have led to troubling levels of inflation. While trade and current account deficits have emerged in recent years, we believe, as do many international experts, that the underlying strength of the economy enables Korea to sustain such deficits. I believe I am joined by many credible economic analysts who see no evidence of any significant threat to Korea's economic performance. In addition, while external debt has increased, Korea's cost of servicing that debt has declined substantially over the past few years, registering only 5.8 percent of export earnings in 1991, compared to roughly 31 percent in 1987. Net external debt totalled only 4.6 percent of GNP in 1991, compared to 17.4 percent in 1987, and you may recall that in the early 1980's there was talk of Korea's being among the sovereign borrowers most entangled in the "debt crisis." Improving economic indicators in the first half of 1992 further suggest that the Korean economy is stabilizing and primed for a new stage of growth.

Given the determination with which Korea has pursued export-led development strategies and encouraged its companies to invest abroad, it is clear that Korea has become an integrated member of the international economy. In the Asia Pacific region in particular, Korea is an active and increasingly vocal economic participant. The magnitude of Korea's growing involvement in the region is exemplified by the enormous increase in the total value of Korean investment in Southeast Asia, roughly 920 percent from 1988 to 1991. Trade flows have increased on a similar scale: the level of Korean exports to the ASEAN economies is fast approaching that of its exports to the EC, Korea's third largest export market. Korea has also taken a leadership role in seeking the establishment of a United Nations-backed investment information center to promote investment throughout the Asia Pacific region.

Like many of its global competitors, Korea has recognized and capitalized on the fundamental shift taking place in many parts of Asia where open-market strategies are attracting much-needed investment and technology flows. However, Korea's own investment environment, and the state of its financial sector in particular, stand in stark contrast to its neighbors'. A number of potential investors and others are perplexed about this.

Korea's restrictive financial sector, more than that of any other country in the region, is having a direct and unquestionably disturbing impact on foreign investors' perceptions of the Korean market as a potential investment site. Limited financing capabilities, stringent capital and foreign exchange controls, real interest rates well above those accessible in international capital markets, and excessive government intervention in the market are leading foreign companies to choose more welcoming economies for their investments. Domestic manufacturing firms are likewise suffering from the prohibitive capital costs resulting from the system's inefficiencies.

Significantly, the number of new foreign investment projects in Korea declined by 22 percent between 1987 and 1991. Foreign-invested manufacturing projects declined by 66 percent during the same period. In a cross-country comparison of new foreign investment flows as a percentage of GNP in East Asia, Korea ranks only ninth, behind Singapore, Hong Kong, Malaysia, Thailand, Taiwan, the Philippines, China and Indonesia. Just as alarming are the cases of foreign companies already established in Korea which are pulling their investments out due at least in part to their difficulties in securing local financing. These facts speak for themselves and serve as a clear signal for the political leadership in Korea.

In order to reverse these trends, Korean authorities must modify their policy approach away from government control of capital markets. The Korean government's current emphasis on micromanagement and protection of the financial sector seems to the outside observer as inefficient for an economy of Korea's size, sophistication, and capital needs. Korea's advanced stage of development brings with it a responsibility to be more innovative in market opening and liberalization, rather than be a hesitant observer of progress made elsewhere, including other Asian countries.

Now is the time for Korea to act. Korea's impressive economic progress provides a strong foundation from which to press forward with liberalizing policy measures. What is needed is a clearly directed, publicly stated policy that recognizes defensiveness through protectionism is a thing of the past, and that living up to Korea's accomplishments and successes in the global market place requires strong, self-confident leadership.

Status of Financial Sector Liberalization

The Treasury Department has been closely involved in an effort to enhance market access and encourage broader liberalization of Korea's financial, capital, and exchange markets. To this end, Treasury has held periodic Financial Policy Talks with the Korean Ministry of Finance since early 1990. These are not simply technical matters for the financial experts. Indeed, broader economic considerations are at stake for both economies, as demonstrated by the agreement between President Bush and President Roh at their January summit to resolve differences in the financial field.

From our perspective we can say that, through the Financial Policy Talks, some piecemeal progress has been made on individual difficulties faced by U.S. banks and securities companies operating in Korea. This progress is commendable. However, it has become apparent that only with fundamental liberalization of the financial market will U.S. and other foreign firms be accorded true equality of competitive opportunity in the Korean market.

In the fall of 1991, the dialogue between the Treasury Department and the Ministry of Finance began to focus on the need to think about financial issues in systemic and long-run terms. At our most recent round of talks in March, MOF presented a workplan to develop a three-staged "Blueprint for Financial Deregulation and Market Opening." We welcomed this as a positive and important step in our dialogue, and an indication of Korea's recognition of its responsibilities. I know many of you have been talking about this blueprint during this symposium. Our Korean colleagues are to be commended for carrying out the blueprint formulation process in a transparent fashion, meeting the deadlines they set for themselves, and identifying the crucial problem areas needing attention.

There appears to be general agreement that stringent controls on interest rates, foreign exchange, and capital flows; pervasive directed credit schemes; and the lack of indirect monetary policy tools have led to severe distortions in Korea's financial market and inhibited it from keeping up with the rest of the economy. The environment has also prevented foreign financial firms operating in Korea from being able to compete on a level playing field.

We have some differences of opinion regarding how best to approach these problems. For example, the blueprint sets forth macroeconomic preconditions for implementation of measures addressing some of the key problem areas I have just outlined. These conditions include a balance or surplus in the current account, lower inflation, and a narrowing of domestic and international interest rate differentials. In our view, such an approach puts the cart before the horse. For example, liberalizing interest rates and lifting capital controls in a coordinated fashion would help bring domestic interest rates in line with international rates more quickly and with fewer distortions to the economy.

Liberalization must occur under the strong leadership of the government if Korea is to attain its macroeconomic objectives. We believe strongly that measures to address the core problems should be tackled in the short term, rather than in the long term as currently envisioned by the blueprint.

Stages I and II of the blueprint, which include short and medium term measures in the banking, securities, and money market areas, have been formulated and implementation of some measures has begun. A few of the highlights include: enhancing regulatory transparency; easing restrictions on hedging opportunities for foreign financial institutions; according national treatment to foreign financial institutions for purposes of stock market investment; and expanding the exchange rate fluctuation band.

As the Korean authorities prepare Stage III, they are consulting with the World Bank, International Monetary Fund, and several Korean think tanks. Stage III, which we understand will reflect the outcome of these studies, is expected to be completed by the end of this year or very early next year.

Until the key issues are addressed satisfactorily, the development of the Korean financial system will continue to be hampered, placing a drag on the economy as a whole. Perhaps most important, international capital markets will assess Korea's commitment to liberalization based on the substance and timing of measures in these crucial areas. Without clear commitments and consistent implementation, Korea will find itself losing capital inflows and related technology to more open, inviting markets.

Demands for financial sector deregulation and liberalization are coming not only from outside Korea's borders, but from Korean financial firms as well. Korean banks and securities companies are the primary victims of the government's industrial policies, which have saddled the banks with enormous amounts of non-performing loans, and probably have stunted innovation and modernization of the financial industry. The future competitiveness of Korea's financial industry and the economy as a whole will depend on the ability of its banks and securities companies to access international capital markets, develop and offer more advanced financial products, and have greater control over their lending, deposit taking, and investment practices. Increased competition in the market would provide the best opportunity for Korean firms to develop their skills in product development and risk management. Recent demands by Korean financial firms to ease excessive government regulation of the market confirm that liberalization is in Korea's national interest.

Conclusion

Throughout Asia others are moving fast to open their markets to foreign competition and integrate their financial systems into global capital markets. Their efforts have resulted in increased investment flows and enhanced market efficiency.

The foundation exists for Korea to move forward as well: strong growth, sound corporate management, and a geographic location in a region synonymous with high growth and competitive potential all combine to create a supporting environment for liberalization. Prompt liberalization and financial market strengthening are even more imperative if the Korean financial system hopes to meet the enormous demand for capital that would come with reunification. As the world has learned from the German experience, the circumstances under which reunification occurs are highly unpredictable both in their timing and economic impact. It is very unlikely that micromanagement of the financial sector will be either flexible or efficient enough to respond to the untold demands reunification will place on the South Korean economy.

Formulation of the "Blueprint for Financial Deregulation and Market Opening" indicates that policy changes may be unfolding. The challenge remains for the Korean authorities to follow through with their stated commitment by speedy implementation of measures for fundamental financial sector liberalization. Making these commitments binding in the Uruguay Round would provide the clear signal that markets would need to restore their confidence in Korea.

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PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
September 4, 1992

Contact: Peter Hollenbach
(202) 219-3302

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

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

	Dollar Amounts in Thousands
Principal Outstanding (Eligible Securities)	$635,506,236
Held in Unstripped Form	$484,364,466
Held in Stripped Form	$151,141,770
Reconstituted in August	$12,351,825

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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TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, AUGUST 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	$5,028,154	$1,630,400	$148,800
11-1/4% Note A-1995	2/15/95	6,933,861	5,664,421	1,269,440	33,120
11-1/4% Note B-1995	5/15/95	7,127,086	4,960,206	2,166,880	77,600
10-1/2% Note C-1995	8/15/95	7,955,901	6,015,901	1,940,000	120,000
9-1/2% Note D-1995	11/15/95	7,318,550	5,011,750	2,306,800	60,400
8-7/8% Note A-1996	2/15/96	8,415,019	7,898,219	516,800	182,400
7-3/8% Note C-1996	5/15/96	20,085,643	19,504,843	580,800	100,800
7-1/4% Note D-1996	11/15/96	20,258,810	18,562,010	1,696,800	42,400
8-1/2% Note A-1997	5/15/97	9,921,237	8,847,237	1,074,000	112,000
8-5/8% Note B-1997	8/15/97	9,362,836	8,599,636	763,200	-0-
8-7/8% Note C-1997	11/15/97	9,808,329	8,377,929	1,430,400	65,600
8-1/8% Note A-1998	2/15/98	9,159,068	8,967,388	191,680	-0-
9% Note B-1998	5/15/98	9,165,387	8,744,987	420,400	80,000
9-1/4% Note C-1998	8/15/98	11,342,646	11,009,046	333,600	-0-
8-7/8% Note D-1998	11/15/98	9,902,875	9,347,675	555,200	-0-
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	9,170,303	876,800	1,600
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	-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	12,085,083	313,000	-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	11,642,097	72,320	132,000
6-3/8% Note B-2002	8/15/02	11,749,270	11,718,870	30,400	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	5,002,606	3,299,200	1,462,400
12% Bond 2005	5/15/05	4,260,758	2,939,708	1,321,050	756,850
10-3/4% Bond 2005	8/15/05	9,269,713	8,636,113	633,600	516,000
9-3/8% Bond 2006	2/15/06	4,755,916	4,755,916	-0-	-0-
11-3/4% Bond 2009-14	11/15/14	6,005,584	1,745,584	4,260,000	566,400
11-1/4% Bond 2015	2/15/15	12,667,799	2,790,199	9,877,600	579,200
10-5/8% Bond 2015	8/15/15	7,149,916	1,999,836	5,150,080	319,040
9-7/8% Bond 2015	11/15/15	6,899,859	2,887,059	4,012,800	1,201,600
9-1/4% Bond 2016	2/15/16	7,266,854	6,622,054	644,800	-0-
7-1/4% Bond 2016	5/15/16	18,823,551	18,120,351	703,200	284,000
7-1/2% Bond 2016	11/15/16	18,864,448	17,313,568	1,550,880	-0-
8-3/4% Bond 2017	5/15/17	18,194,169	6,928,089	11,266,080	489,120
8-7/8% Bond 2017	8/15/17	14,016,858	9,362,458	4,654,400	64,000
9-1/8% Bond 2018	5/15/18	8,708,639	2,041,439	6,667,200	40,000
9% Bond 2018	11/15/18	9,032,870	2,228,470	6,804,400	868,000
8-7/8% Bond 2019	2/15/19	19,250,798	7,191,598	12,059,200	465,600
8-1/8% Bond 2019	8/15/19	20,213,832	13,258,632	6,955,200	177,600
8-1/2% Bond 2020	2/15/20	10,228,868	4,598,468	5,630,400	53,200
8-3/4% Bond 2020	5/15/20	10,158,883	2,294,883	7,864,000	162,720
8-3/4% Bond 2020	8/15/20	21,418,606	5,313,166	16,105,440	558,400
7-7/8% Bond 2021	2/15/21	11,113,373	9,750,173	1,363,200	252,800
8-1/8% Bond 2021	5/15/21	11,958,888	6,121,768	5,837,120	426,240
8-1/8% Bond 2021	8/15/21	12,163,482	10,243,482	1,920,000	519,360
8% Bond 2021	11/15/21	32,798,394	19,221,319	13,577,075	1,432,575
7-1/4% Bond 2022	8/15/22	10,352,790	10,351,190	1,600	-0-
Total		635,506,236	484,364,466	151,141,770	12,351,825

[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.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-29
FFB 202-622-2450

For Immediate Release September 8, 1992

FEDERAL FINANCING BANK ACTIVITY

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

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $177.7 billion on July 31, 1992, posting a decrease of $3,148.3 million from the level on June 30, 1992. This net change was the result of decreases in holdings of agency debt of $1,550.7 million, in holdings of agency assets of $1,589.5 million, and in holdings of agency-guaranteed loans of $8.2 million. FFB made 30 disbursements in July.

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

NB-1963

FEDERAL FINANCING BANK
JULY 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. 0006					
Advance #1	7/1	$15,159,954,180.82	10/1/92	3.778%	
RESOLUTION TRUST CORPORATION					
Note No. 0015					
Advance #1	7/1	52,694,000,000.00	10/1/92	3.778%	
GOVERNMENT-GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
Miami Law Enforcement	7/1	8,393.00	1/3/95	5.299%	
Miami Law Enforcement	7/15	1,944,934.00	1/3/95	4.761%	
Foley Square Courthouse	7/17	2,606,399.00	12/11/95	5.194%	
Memphis IRS Service Center	7/21	513,617.15	1/3/95	4.712%	
Foley Square Courthouse	7/24	226,593.00	12/11/95	5.072%	
Foley Square Office Bldg.	7/24	5,769,225.00	12/11/95	5.072%	
Foley Square Courthouse	7/28	73,684.62	12/11/95	5.139%	
Foley Square Courthouse	7/31	162,889.00	12/11/95	5.244%	
ICTC Building					
Advance #35	7/28	4,356,879.99	11/16/92	3.411%	
RURAL ELECTRIFICATION ADMINISTRATION					
Sugar Land Telephone #210A	7/1	4,000,000.00	1/3/17	7.319%	7.253% qtr.
Oglethorpe Electric #335	7/24	23,362,000.00	1/2/24	7.390%	7.323% qtr.
@South Texas Electric #109	7/24	1,758,856.48	12/31/13	6.984%	6.924% qtr.
@South Texas Electric #109	7/24	1,172,527.24	12/31/13	6.984%	6.924% qtr.
@South Texas Electric #109	7/24	1,046,899.46	12/31/13	6.984%	6.924% qtr.
@South Texas Electric #109	7/24	1,427,590.16	12/31/13	6.984%	6.924% qtr.
@Associated Electric #020	7/27	283,717.90	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	12,769,134.29	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	9,930,122.91	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	7,565,807.70	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	16,361,059.43	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	9,930,122.91	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	13,120,804.37	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	6,792,447.03	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	14,195,931.76	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	9,098,466.34	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	13,458,148.17	12/31/13	6.998%	6.938% qtr.
@Associated Electric #132	7/27	11,325,695.11	12/31/13	6.998%	6.938% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-92-12	7/31	331,847,537.04	10/30/92	3.377%	

@interest rate buydown

FEDERAL FINANCING BANK
(in millions)

Program	July 31, 1992	June 30, 1992	Net Change 7/1/92-7/31/92	FY '92 Net Change 10/1/91-7/31/92
Agency Debt:				
Export-Import Bank	$ 8,150.0	$ 8,150.0	$ 0.0	$ -3,111.0
Federal Deposit Insurance Corporation	15,160.0	15,160.0	0.0	6,864.0
NCUA-Central Liquidity Fund	5.0	5.0	0.0	-108.6
Resolution Trust Corporation	52,694.0	53,694.7	-1,000.7	-10,188.4
Tennessee Valley Authority	8,475.0	9,025.0	-550.0	-3,400.0
U.S. Postal Service	9,903.4	9,903.4	0.0	1,702.8
sub-total*	94,387.4	95,938.1	-1,550.7	-8,241.1
Agency Assets:				
Farmers Home Administration	43,209.0	44,784.0	-1,575.0	-7,485.0
DHHS-Health Maintenance Org.	55.2	61.2	-6.0	-6.0
DHHS-Medical Facilities	64.2	72.5	-8.3	-11.6
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	-65.0
Small Business Administration	4.5	4.7	-0.2	-1.7
sub-total*	47,931.8	49,521.2	-1,589.5	-7,569.3
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,398.1	4,416.0	-17.9	-201.8
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	0.0	-30.0
DEPCO-Rhode Island	125.0	125.0	0.0	125.0
DHUD-Community Dev. Block Grant	184.7	186.6	-1.9	-19.9
DHUD-Public Housing Notes +	1,853.2	1,853.2	0.0	-50.2
General Services Administration +	750.8	735.2	15.7	90.2
DOI-Guam Power Authority	27.7	27.7	0.0	-0.7
DOI-Virgin Islands	23.7	23.9	-0.2	-0.8
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	18,226.5	18,199.2	27.4	-370.4
SBA-Small Business Investment Cos.	155.6	161.4	-5.9	-89.5
SBA-State/Local Development Cos.	641.4	644.5	-3.1	-46.9
TVA-Seven States Energy Corp.	2,401.0	2,423.2	-22.3	-46.1
DOT-Section 511	19.6	19.6	-0.0	-1.7
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	35,380.5	35,388.7	-8.2	-723.6
grand-total*	$ 177,699.7	$ 180,848.0	$ -3,148.3	$ -16,534.1

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

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
September 8, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 21,200 million, to be issued September 17, 1992. This offering will result in a paydown for the Treasury of about $2,175 million, as the maturing bills are outstanding in the amount of $ 23,363 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, September 14, 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 $ 10,600 million, representing an additional amount of bills dated December 19, 1991 and to mature December 17, 1992 (CUSIP No. 912794 ZB 3), currently outstanding in the amount of $ 25,027 million, the additional and original bills to be freely interchangeable.

182 -day bills for approximately $10,600 million, to be dated September 17, 1992 and to mature March 18, 1993 (CUSIP No. 912794 B5 2).

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

The bills will be issued for cash and in exchange for Treasury bills maturing September 17, 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 $ 1,121 million as agents for foreign and international monetary authorities, and $ 5,243 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 8, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,049 million of 13-week bills to be issued September 10, 1992 and to mature December 10, 1992 were accepted today (CUSIP: 912794ZV9).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.90%	2.96%	99.267
High	2.92%	2.98%	99.262
Average	2.91%	2.97%	99.264

Tenders at the high discount rate were allotted 2%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	25,245	25,245
New York	35,827,110	9,793,015
Philadelphia	11,095	11,095
Cleveland	40,670	40,670
Richmond	141,130	67,130
Atlanta	23,030	23,030
Chicago	2,309,950	89,530
St. Louis	13,745	13,745
Minneapolis	9,795	9,795
Kansas City	35,605	35,605
Dallas	16,230	16,230
San Francisco	746,490	63,190
Treasury	861,190	861,190
TOTALS	$40,061,285	$11,049,470
Type		
Competitive	$35,713,820	$6,702,005
Noncompetitive	1,388,920	1,388,920
Subtotal, Public	$37,102,740	$8,090,925
Federal Reserve	2,610,155	2,610,155
Foreign Official Institutions	348,390	348,390
TOTALS	$40,061,285	$11,049,470

An additional $177,610 thousand of bills will be issued to foreign official institutions for new cash.

NB-1965

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 8, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,002 million of 26-week bills to be issued September 10, 1992 and to mature March 11, 1993 were accepted today (CUSIP: 912794B37).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.94%	3.03%	98.514
High	2.95%	3.04%	98.509
Average	2.95%	3.04%	98.509

Tenders at the high discount rate were allotted 99%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	23,085	23,085
New York	36,773,915	9,939,600
Philadelphia	12,380	12,380
Cleveland	131,590	79,590
Richmond	21,195	21,195
Atlanta	29,470	26,460
Chicago	1,551,130	74,630
St. Louis	14,660	14,660
Minneapolis	8,585	8,585
Kansas City	28,085	28,085
Dallas	11,800	11,800
San Francisco	763,390	143,340
Treasury	618,190	618,190
TOTALS	$39,987,475	$11,001,600
Type		
Competitive	$35,986,775	$7,000,900
Noncompetitive	993,360	993,360
Subtotal, Public	$36,980,135	$7,994,260
Federal Reserve	2,300,000	2,300,000
Foreign Official Institutions	707,340	707,340
TOTALS	$39,987,475	$11,001,600

An additional $381,860 thousand of bills will be issued to foreign official institutions for new cash.

NB-1966

TREASURY NEWS

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

TEXT AS PREPARED FOR DELIVERY

CONTACT: Claire Buchan
202-622-2910

REMARKS BY
DEPUTY SECRETARY OF THE TREASURY JOHN E. ROBSON
AMERICAN ELECTRONICS ASSOCIATION
WASHINGTON INSIDERS' BREAKFAST
WASHINGTON, D.C.
SEPTEMBER 9, 1992

Good morning. Thank you for inviting me to speak here today, and for providing me with the opportunity to recognize the proud tradition of the American electronics industry, and the vital role it has played in the country's economic growth and the international competitiveness of American enterprise.

AEA estimates that the U.S. electronics industry employs approximately 2.4 million American workers, making it the nation's largest manufacturing sector. And despite fierce competition from abroad, your industry reported almost $19 billion in exports for the first quarter of 1992 alone. As a former pharmaceutical company CEO, I feel a kindred appreciation for the enormous contributions that dynamic, high-tech fields like yours are making to fuel economic growth, to create jobs, and to maintain American commercial leadership. I salute you for those accomplishments.

But it is not enough to rest on past laurels. Today we stand on the threshold of a new century, a time when American businesses face the unprecedented challenges of a global economy. Yes, it is a time of challenge. But it is also a time rich with opportunities for continued success and growth.

Today I will talk about some things which government can and should do to help us seize those opportunities, and spur economic growth, entrepreneurial initiative and international competitiveness. Equally important, I will also talk about some things government should not do.

This Administration has been most attentive to the importance of keeping America's high-tech industries strong and competitive. President Bush has specifically recognized the importance of the electronics industry through several actions, including a proposal now before Congress to invest almost $18 million to support seven Manufacturing Technology Centers. By providing technology demonstration, training programs, advice on manufacturing operations, and information on government resources, these facilities will help keep your companies on the frontier of innovation. That is one thing government can do.

But there are others. For example, the President has also called for a permanent R&D tax credit, a permanent resolution of R&D allocation expenses, an investment tax allowance, a moratorium on unnecessary regulations, and a capital gains tax cut.

All of us in this room recognize that America can meet the challenges of tomorrow only by investing today. And that is why the President has proposed an Investment Tax Allowance and a permanent R&D tax credit. I don't have to tell you that, as a percentage of GNP, U.S. business invests less than its competitors in Germany or Japan -- or that this hurts America's economic growth, job creation and competitiveness. But I will tell you that it is time for us to arrest this trend.

The Investment Tax Allowance would help do that by giving firms additional first year depreciation on the purchase price of newly acquired productive equipment.

And equally vital to our economic future is to make the Research and Development tax credit permanent. I don't need to explain to this gathering that this proposal of the President's, which Congress has failed to adopt three years in a row, will stimulate private sector investment in R&D and the technological advancement upon which America's long-term prosperity depends.

The initials "R&D" stand for "Research and Development". But they stand for much more:

R&D stands for jobs. It's a simple formula -- private investment in R&D leads to technological innovations. New technology creates new products and new companies. And that creates jobs. And we don't have to look far for proof of the R&D-equals-jobs formula. For, from personal computers to pocket faxes, from high fidelity to fiber optics, the new technologies discovered and developed by the American electronics industry have generated tens of thousands of jobs.

R&D also stands for enhanced international competitiveness for American enterprises. And R&D stands for higher productivity, higher incomes, and a better quality of life for all Americans. Again the formula is simple. For, as the private sector invests in R&D and creates new products and new technology, productivity rises, and as productivity rises, workers earn more.

But providing additional incentives for research and investment isn't enough. People must be free to pursue entrepreneurial opportunity without unreasonable burdens, and government can give them some entrepreneurial elbow room by loosening the chokehold of regulation which is throttling business. The President has tackled this problem head on. He imposed a moratorium on new regulations, and has moved to roll back needless regulation through the work of the Council on Competitiveness.

Through the promotion of these and other measures -- legal system reform, payroll tax simplification, a capital gains tax reduction, inducements for savings, reform and modernization of the banking system, and the North American Free Trade Agreement -- the Bush Administration is fighting to create an environment which will assure that American businesses can continue to outwork, outproduce, and outsmart the rest of the world.

These are some of the steps the government of this Administration is trying to take to spur growth and innovation and to prepare America for the economic challenges of the 21st century. What about things government should not do?

One thing government should not do is stick its nose into decisions on executive compensation. These are decisions that must be made by the marketplace and the vehicles of corporate governance. Yet we have all seen the media stories of executives whose compensation was way out of line with their companies' performance. Naturally, these cases have angered shareholders. And, not surprisingly, the issue has become politicized and spawned a variety of frequently bad, populist-flavored proposals.

It won't come as a surprise that many of the bad proposals come from Congress, ever anxious to get its mitts on other people's money. Some members advocate an outright ceiling on executive pay. Others want to bar the business expense tax deduction for compensation over a certain amount.

But Congress shouldn't be anywhere near this stuff. These proposals amount to the kind of government wage-setting so ruinously employed in the former communist economies of Eastern Europe and the Soviet Union. We have urged that they abandon these practices in favor of free market economics, and it would be a supreme irony if we ourselves were now to adopt them. These intrusive legislative proposals should be resolutely opposed.

The SEC has also entered the executive compensation fray. To its credit, the agency has resisted efforts to set ceilings on pay, and has used its regulatory authority to see that shareholders are better informed on executive compensation.

One SEC proposal would require a company's board of directors to publicly explain and defend its compensation decisions in the proxy statement. This proposal hits exactly the right targets: accountability of directors and a better-informed shareholder-marketplace.

Another SEC proposal would clarify the presentation of executive compensation data in proxy statements, and a third would require a five-year history of a firm's "shareholder returns" in stock price performance and dividends compared to S&P 500 average stocks and a group of "peer" companies.

The biggest risk in these efforts to address executive compensation is that the approaches will tend to oversimplify the subject. Executive compensation is extremely complicated and quite situation-specific. These decisions do not lend themselves to any sort of uniform "cookie-cutter" formulas. That is why you must leave those decisions squarely in the hands of the board of directors, and then insure that the directors are held squarely accountable for their executive compensation decisions by well-informed shareholders who are reasonably empowered to remove and change directors in the corporate electoral process.

Another place government shouldn't mess around is employee stock options. This is an especially important employee incentive for industries, like yours, which deals with innovative new technologies.

I know something about stock options. I have held and exercised them, granted them broadly to my company's employees, and watched them work as a powerful incentive for motivating, attracting and retaining talented people. You and I know the importance of stock options. But there are others who are about to take actions that will put stock options on the endangered species list.

I refer specifically to the accounting idea, now being considered by the Financial Accounting Standards Board, at least one U.S. Senator, and possibly the SEC, to require companies to record the "expense" of stock options as a charge against income.

Who would be hurt most by this idea? The start-up firms and smaller companies which are the typical model for electronics and other high-tech businesses, that's who. And the companies which frequently lack the resources to pay significant cash compensation, that's who. Companies like these use stock options to provide reward potential to scientific and technical entrepreneurs, and to attract and retain the necessary technical and management talent. For these companies, employee stock options are not a luxury. They are a necessity.

But this isn't only a small company issue -- big companies need employee stock options, too. Firms of all sizes use them, and all would be hurt if stock options are eviscerated by an accounting rule.

Certainly there is no issue of adequate disclosure to shareholders, since the SEC has long required all the pertinent data on stock options to be laid out in proxy statements in great detail. But there are technical issues like how to value something whose worth is totally dependent on the unknown future performance of a business. And how do you avoid the perverse result that the more successful a venture becomes, and the more its stock price rises, the greater the hit to its earnings will be when its employees exercise the options.

Given all this, you might ask yourself why FASB and members of Congress are considering this accounting change for stock options which will deter their use.

The accounting experts will tell you that stock options have value, and, therefore, they must be reflected as a compensation expense in the company's profit and loss statements. This, they maintain, is required by the rules of sound financial scorekeeping -- textbook accounting, if you will.

But even if the accounting experts are technically correct, and I don't concede that they are, why in the name of little green eyeshades would you want to sacrifice a proven and important employee incentive -- one that stimulates innovation and economic growth -- on the altar of accounting theology?

That is obviously a very bad trade. And it is unimaginable that FASB, members of Congress, or anyone else would want to damage this valuable tool for economic growth when there is so little to gain by doing so.

Yet it seems to me that the stock option problem is only one example of a lot of questionable trades Big Government is making in the regulatory arena. Government is giving away too much in economic growth and entrepreneurial elbow room for too little, and often only imagined, improvements in quality of life.

But in fact it's much worse. Because economic opportunity, entrepreneurial initiative and the spirit of commerce that has been the hallmark of American society since the beginning of the Republic is suffocating, suffocating in an avalanche of regulations, forms, accountants, lawyers, lawsuits, technical experts, and paper shuffling that, as far as I can see, do very little except distract us from what really matters, burden us with immense, unnecessary costs, and advance the quality of life in America not a jot.

This is not just missing the forest for the trees. This is looking at the leaves and pine needles! And it must stop!

But I do not believe this tidal wave of regulation will stop, and most importantly, start getting rolled back -- even with the considerable effort we have made in the Bush Administration -- even with the resistance of energetic industrial associations like yours -- until the working men and women in America realize that it is their jobs, and their pocketbooks, and their standard of living, that are at stake. Then, maybe then, we will see a national rebellion against excessive regulation, excessive lawsuits, and the excesses of other enemies of economic growth, competitiveness, productivity and entrepreneurism.

That is what it is going to take. I hope that all of you in this room will be active participants in such a movement. And I can assure you that the Bush Administration will continue to devote its full energies to stop those unnecessary and non-productive burdens.

Over the last 50 years, you, the members of the American Electronics Association, have been at the forefront of entrepreneurism. From silicon to software, from the field of digital technology to the battlefield of Desert Storm, the American electronics industry has produced new technologies and industries which have helped build the world's largest economy and made the U.S. the world's number one producer of goods and services.

I know that the electronics industry shares the vision held by the Bush Administration of a future in which American enterprise will continue to lead the world in the development of new technologies and new markets. And it is appropriate here and now that we dedicate our mutual efforts to these ends.

Thank you.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
SEPTEMBER 9, 1992

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TREASURY SECRETARY NICHOLAS F. BRADY
U.S. CUSTOMS COMMISSIONER CAROL HALLETT:
COMMITTED TO REBUILDING CUSTOMS AIR
FACILITIES DESTROYED BY HURRICANE ANDREW

Miami, Fla.-- Treasury Secretary Nicholas F. Brady and U.S. Customs Commissioner Carol Hallett today said the Bush Administration is committed to fully restoring and rebuilding the Customs Service's air facilities in south Florida hit by Hurricane Andrew.

Customs Miami Air Branch stationed at Homestead Air Force Base was completely destroyed and the C3I facility at Richmond Heights also suffered considerable damage. The equipment and facilities destroyed are used extensively to combat illegal drug smuggling into the country along the Florida coast.

While in Florida, Secretary Brady said, "We are committed to rebuilding the Customs Service's air facilities which were destroyed by Hurricane Andrew. These facilities are vital to the enforcement efforts in the Miami area and are crucial in stemming the flow of illegal drugs into the country."

Customs Commissioner Carol Hallett added, "Despite the extensive damage and devastation, drug smugglers should not view this as an opportunity. With all of the heartbreak our employees have endured, through their dedication and hard work our complete response and monitoring capabilities have been restored. I can assure you that we will deal with any and all attempts to violate the law."

The Administration submitted to Congress on September 8 its request of $34.5 million in emergency funding to rebuild the Customs facilities. This funding is part of the President's emergency request to aid the victims in Florida and Louisiana affected by Hurricane Andrew.

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TREASURY RESPONDS TO THE PEOPLE AND COMMUNITIES OF SOUTH FLORIDA AND LOUISIANA HIT BY HURRICANE ANDREW

The U.S. Treasury Department reacted swiftly to ease the burdens of the people and businesses which were affected by the destruction of Hurricane Andrew. Following are Treasury bureaus' hurricane relief highlights.

U.S. CUSTOMS SERVICE

Customs used their air fleet to support federal, state, and local relief efforts. Customs is working with contractors who handle seized assets to coordinate the distribution of some seized goods to hurricane victims.

INTERNAL REVENUE SERVICE

The IRS has extended until December 15 upcoming tax deadlines for all individuals and businesses in stricken areas. IRS personnel are providing advice and needed materials at FEMA relief sites in Florida. Penalties will be abated for overdue deposits of payroll and excise taxes that are made up by October 15.

BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS

The ATF will rebate the excise tax value of tobacco and alcohol products lost in the storm, unless otherwise insured. ATF advisors are at FEMA sites for business owners who seek relief. Also, 45 ATF agents are working with Dade County Metro police to help provide general public safety assistance.

FINANCIAL MANAGEMENT SERVICE

Social Security and other government checks are arriving on time. FMS is implementing an emergency check release plan for those hurricane victims who receive federal benefits. Social Security, civil service retirement, veterans benefits and other payments have been released early to ensure a timely arrival. FMS has established an emergency disbursing site to provide on-site check issue for the SBA and electronic payment links with FMS's Regional Financial Centers in Birmingham and Kansas City. FMS is also working with the U.S. Post Office to make sure notices are posted, letting people know where they can pick up their checks.

BUREAU OF PUBLIC DEBT

The bureau announced it will expedite replacement or payment of U.S. Savings Bonds for bond owners in stricken areas in south Florida and Louisiana. The bureau is waiving the normal six-month holding period for residents of the affected area who hold Series EE bonds so that hurricane victims have faster access to funds.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

OCC has granted authority for banks to set up emergency bank branches. Because an increase in payment delinquencies is expected, OCC issued a bulletin to bankers and examiners recognizing that "prudent efforts to adjust or alter terms on existing loans in areas affected by the hurricane should not be subject to examiner criticism."

OFFICE OF THRIFT SUPERVISION

OTS granted authority for thrifts to set up emergency branches, and will consider temporary waivers of the Qualified Thrift Lender requirements for thrifts that continue to meet capital requirements. Wherever possible, OTS staff will act as a liaison with other federal agencies in the effort to cut red tape and ease the rebuilding process.

RESOLUTION TRUST CORPORATION

RTC is using special relief guidelines designed to prevent mortgage delinquencies. In addition, the RTC is providing housing to Dade County for use as temporary shelters under a three month leasing arrangement for $1. 65 housing units have already been provided to Dade County for this purpose.

U.S. SECRET SERVICE

Soon after the hurricane, special agents assisted Miami police in maintaining civil order and controlling traffic.

TREASURY NEWS

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Agenda for American Renewal

I. Introduction: The Challenge

America stands at the edge of a new era, a new century. Here is my bridge to the other shore: An Agenda for American Renewal — diagnosing the economic problems we face, setting forth the principles to guide our actions, and explaining the approach I am pursuing.

Over past weeks I have been discussing some of the elements of my economic agenda. In coming weeks I will be expanding on my ideas. This document shows how the pieces fit together.

It is important to step back for a moment, to take stock of where we are as a great nation in the broader sweep of history.

The American people have just completed the greatest mission of all, the triumph of democratic capitalism over imperialistic communism. Mission accomplished.

Throughout history, when long wars end, people have been confronted with the problems of converting to peacetime and establishing a new basis for securing peace and prosperity.

In wartime, the costs of Government are always high. Domestic needs are not fully met. In times of conflict, a good nation tries to look after its poor, its sick, its elderly, its less privileged members, but not as completely as it should or would like to.

Today, this year, for the first time since December 1941, the United States is not engaged in a war, hot or cold.

We are a nation at peace. But being at peace with others and being at peace with ourselves are different things. The one we have achieved. The other, we can and will.

The American people recognize this historical watershed. They want and deserve a peacetime system of taxation, a peacetime freedom from unnecessary intrusion into our lives, a peacetime commitment to sound money, a peacetime dedication to unfinished work and unsolved problems close to home.

At the same time, Americans are aware of epic changes in the world and the economy. They sense the disquiet in many of the industrialized democracies that have been our partners in the long struggle. Our own economy has been going through some profound changes. And I un-

"We are a nation at peace. But being at peace with others and being at peace with ourselves are different things. The one we have achieved. The other, we can and will."

derstand how difficult change can be, particularly for those who feel its effects most directly. Americans sense we face an era of great opportunity, but that there are also great risks if we fail to choose wisely.

We must now demonstrate our unique ability to transform anxiety into regeneration. Only in America do we have the people, the resources, the economic strength — and especially the principles and ideals — to pick up the challenge.

For America to be safe and strong we must meet the defining challenge of the '90s: to win the economic competition — to win the peace.

The United States must be a military superpower, an export superpower, *and* an economic superpower.

My approach is to look forward — to open new markets, prepare our people to compete, to strengthen the American family, to save and invest — so we can win.

This future depends on economic growth, but not for the few at the expense of the many, not for the present at the expense of the future.

In this country, we have always preferred an entrepreneurial capitalism that grows from the bottom up, not the top down, a capitalism that begins on Main Street and extends to Wall Street, not the other way around.

Nor have we been taken in by the view my opponent prefers, that Government should accumulate capital — by taxing it and borrowing it from the people, and investing it according to some industrial policy design.

My agenda is for an inclusive America, not an exclusive America — and certainly not a reclusive one. We will challenge the world with an international economic and trade strategy that will promote free trade arrangements east and west, north and south, to strengthen our global economic reach and complement our worldwide security presence. At the same time, we need to foster the capabilities at home that will keep us in the lead.

Developed economies need developing minds. To help prepare all our children for a constantly changing workplace, I want to make radical changes in our education system. Each child should graduate with skills, self-discipline, and self-confidence.

I will sharpen the competitive edge of our businesses by encouraging entrepreneurial capitalism and small business, deploying advances in R&D and technology, and reforming our legal system so it no longer puts us at a global disadvantage.

My agenda promotes economic security for working men and women through job training that will ease adjustments and provide people with new capabilities for work in the face of competition and change. And I will enable families to concentrate on building for the future by giving them the means to protect themselves against today's cost of health care, and by making it easier to build tomorrow's retirement security. I want our efforts to reach out to all our citizens, leaving no one behind, because we will need the work, aspiration, and energy of each and every American.

Finally, since our competitive strength and entrepreneurial spirit must flow from the private sector, I will streamline Government to meet changing needs.

We can empower America to reach a grand goal: a $10 trillion economy by the first years of the 21st Century.

When President Reagan and I assumed office in 1981, the U.S. economy was about $3 trillion. We've almost doubled that over the past 12 years. So I know we can nearly double it again through sustainable real growth over the coming decade.

With a $10 trillion economy, we could provide the resources, private and public, to satisfy our most ambitious social and financial requirements. We could simultaneously renew America and pay down our national debt.

So now let me turn to how we can meet the challenge and reach our goal.

II. The Context: Five Changes Underway in the Economy

The U.S. economy has been working its way through five profound changes. They establish the context for my agenda.

The first great change in our economy is ironically due to our very success in ending the Cold War. Since our superpower rival of the last half century has dropped out of the race, we are now able to do something we have all hoped for since the close of World War II — lighten the load of the defense burden.

In the short run, this adjustment has meant cutbacks and lay-offs in many industries that have depended on defense spending. We must ease this transition. But in the medium and long run, reductions in defense spending will free up many new resources for our people and economy.

Second, it seems that almost every time you open the business pages you can find a story about a major U.S. corporation that is restructuring itself. Our industries are in the process of transforming themselves from old-style hierarchical organizations to so-called "flattened pyramids." This new industrial organization emphasizes a skills-based workplace, "lean production," a "just in time" inventory, and short product cycles rather than mass production. Our companies are integrating R&D, manufacturing, and marketing into a seamless web of innovation. This is a revolution as dramatic as the one when Henry Ford led the country from craft-based production to mass manufacturing early in this century.

"The first great change in our economy is ironically due to our very success in ending the Cold War. ...we are now able to do something we have all hoped for since the close of World War II — lighten the load of the defense burden."

We have to make these adaptations succeed if America's industries are to keep ahead of their international competitors. Strong sales and productivity increases are the prerequisites for creating more jobs, boosting wages, and upgrading benefits. In fact, it is partly because of these changes that our annual growth in manufacturing productivity over the past 10 years was over 50% higher than in the Carter years. It's why American firms lead the world in exports.

Nevertheless, these changes also have produced layoffs and relocations among both blue and white collar workers. Middle-aged breadwinners are wondering whether their company will be the next to make announcements, and they worry about their jobs, health care, and pension rights. Some are also troubled by the prospect that after sacrificing to send their kids to college — often the first generation to attend — that these children's diplomas may not be golden tickets to security.

Third, the 1980s wiped away the dismal economic performance of the late '70s. We enjoyed the longest peacetime expansion in U.S. history, lasting seven and a half years. We created over 21 million jobs, more than all the new jobs in the other major industrial countries and the rest of Western Europe combined. Yet great booms produce excesses, and this time too many companies, too many financial institutions, and too many households took on too much debt.

We have been paying down that debt — and lower interest rates have helped us do it. Millions of people have refinanced homes at lower rates, reducing mortgage payments by as much as $1,200 to $1,500 a year. When companies restructured, they paid down debt, strengthened balance sheets, and positioned themselves to enjoy greater profits when stronger growth resumes. This process will leave our economy leaner and more powerful. Many firms already are. But while that debt was being paid down, people bought fewer goods, and companies put less money into new investments and jobs. The process is largely over, but it has left consumers and companies a little cautious.

Fourth, we entered the '80s with a banking system designed 50 years earlier — an incongruous relic in an era when billions of dollars can be sent around the world in a microsecond. The United States entered the 1980s with some 14,000 commercial banks and 4,600 savings and loans. In comparison, Canada had about 160, and Japan had under 100. The vast majority of those small U.S. banks and S&Ls operated in a heavily controlled environment where their costs of funds were limited by ceilings on your passbook accounts. Other regulations restricted competition by imposing costs and inefficiencies on savers and borrowers.

In the late '70s, this out-of-date system was buffeted by record interest and inflation rates; it was challenged by competition from new financial services. As in any other line of business, the less efficient institutions could not survive. But because our banks and S&Ls held insured deposit accounts for most hardworking Americans, the streamlining process had to be managed in a way that enabled the Government to protect your savings. In effect, the Government picked up these costs so your savings would be safe.

This process, too, is nearing its end. A strong economy must have a good banking and financial system so entrepreneurs can get capital, businesses and farms can get loans, and families can buy homes and cars. We will have a more competitive and efficient financial system that will serve companies and families better. Over the next few years, the Government will actually gain revenues from the sales of billions of dollars of assets that it acquired from banks and S&Ls as it protected savers. But this process has left lenders cautious. Business borrowing rates and mortgage rates are way down, but it's still too hard for small businesses to gain access to capital and credit. We are still taxing capital too much.

The final economic change is perhaps the most far-reaching of all: No nation is an island today. We are part of a global economy. To grow is to trade; to expand is to compete. One manufacturing job out of every six depends directly on our exports. One acre out of every three is sowed for sale abroad.

This international economic interdependence has three implications.

One, when growth slumps abroad, it drags our economy down with it. Both Western Europe (especially Germany) and Japan are going through major readjustments — and that has contributed to our sluggishness.

Two, it means that if America is going to be strong and growing in the 21st Century, we must be ready, able, and willing to compete around the globe. We need to encourage entrepreneurial capitalism and investment at home, and at the same time ensure that our labor force remains the best in the world.

Three, we need to seize opportunities to develop new markets, particularly in areas that have potential for significant growth in the future. One of the other benefits of the end of the Cold War is the extraordinary potential to expand trade and sales to hundreds of millions of potential customers who not long ago were the captives of our enemies.

III. Start with Strengths

In developing an agenda for the future, we should take a clear-eyed look at our strengths as well as weaknesses. Not surprisingly, the other side has conveniently skipped over our country's many strengths. Frankly, they want you to believe America is over the hill and past its prime. But they have no more right to

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convince you the economy is worse than it is for political advantage than I have to understate the problems. So let me just note several key facts.

- The Misery Index — the sum of inflation and unemployment — is down to 10.8% today, from 19.6% in 1980.

- Inflation has fallen to roughly 3%, the lowest in a quarter of a century (except for 1986).

- Interest rates are at a 20 year low. Mortgage rates are now in the 8% range, half the rate President Reagan encountered in his first year. Thanks to these low rates, more people can afford to own a home today than at any time since 1973.

- While unemployment is still far too high, the share of the working age population with jobs during my administration has averaged 62.2%, the highest in U.S. history.

- The United States has the highest home ownership rate of all major industrialized countries: 66% of U.S. households own their own homes, as compared with 59% in Japan and 40% in Germany.

- The U.S. sends more of its students on to higher education — 68% — than any other country, well above the 32% rate in Germany and 30% in Japan. And 52% of these U.S. students are women, as compared with 26% in Japan and 38% in Germany.

- With exports of $622 billion, the U.S. is the world's largest exporting nation. Exports increased by 40% during my Administration.

- We produce 25% of the world's total output with 5% of the world's population.

- The productivity of American workers is approximately 26% above those in Germany and 30% above those in Japan.

I do not mean to suggest either that everything is well or that we do not need to lead and manage the changes taking place in the world and at home more actively. We do.

But you can't chart the stars if you think the sky is falling. We must know our strengths before we build on them. Over the past 12 years, we increased the U.S. economy by about $2.8 trillion — that's like creating the total size of the German economy twice over. So I know our goal of a $10 trillion economy is attainable.

We're also in a strong position internationally. But we're going to need the national adaptability and capability to keep leading our competitors. And we must have the courage of our convictions to say "no" to the wrong sort of changes for the future — false promises based on false premises — changes we cannot afford at this key moment in the world economic competition.

IV. Guiding Principles

Before outlining the specifics of my agenda, I want to set out four guiding principles. An effective strategy must be dynamic. As new problems or opportunities present themselves, we will need to make adjustments. Guiding principles will ensure we follow a consistent path and help shape our policies into the future.

First, start with the basics: We are a nation of special individuals, not special interests. Individuals gain primary strength, protection, and inspiration from their families and communities, not the legal system or Government social services. People find their friends and their enjoyment in voluntary association with one another, not in some bureaucrat's paint-by-numbers dream.

Individuals, families, communities. That's where we start.

Second, we have to keep to the fundamentals of sound economic growth: lower tax rates, limits on Government spending, greater competition, less economic regulation, sound money, and more open trade that can free tremendous private initiative and growth.

Experience has shown that these are the steps we need to take to create jobs, raise wages, spur entrepreneurs, expand capital and investment, and build businesses.

Third, in the '90s Government can build on these fundamentals by offering opportunity and hope for individuals, families, and communities. There is a conservative agenda for helping people, for responding to their needs. And we've seen that these are approaches that work.

We prefer a hand up to a handout. We want to empower people to make their own choices, to break away from dependency. We want to give individuals and families economic security by giving them the capital, the capabilities, and the confidence to decide for themselves. We want everyone to have a stake in society, to own property, so everyone will build something with it for themselves and our country. Whereas my opponent's approach may place a premium on redistribution and "leveling," our programs will unleash initiative, reward success, and encourage excellence. Our approach is to give people the power to work, save, and be their best.

Finally, all our policies must be brought together effectively if we are to prosper as a people and succeed as a nation. America must have appropriate new approaches for the changes at home — just as we've launched new policies to lead and manage change abroad. We must recognize the interrelationship between domestic and foreign policy — between economic and security policy. At the same time, we

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must execute our agenda more effectively with a new Congress, state and local governments, and the private sector. Our aim must be to press our policies together, as a package, to make America secure and strong.

Therefore, my Agenda for American Renewal mandates action on six interconnected fronts. Because we face complex problems, no one solution will suffice. The whole of these elements will be a solution greater than the sum of its parts:

- Challenging the World: A Strategic Global Economic and Trade Policy
- Preparing Our Children for the 21st Century Economy
- Sharpening Business' Competitive Edge: Encouraging Entrepreneurial Capitalism
- Promoting Economic Security for Working People
- Leaving No One Behind: Economic Opportunity for Every American
- "Rightsizing" Government

This is how America will create a $10 trillion economy.

V. Challenging the World: A Strategic Global Economic and Trade Policy

During the Cold War, we built a global security structure to contain and counter the Soviet Union and communist aggression. We forged military alliances across the Atlantic and Pacific that underpinned that structure. In the post-Cold War era, we need a strategic global economic and trade policy that will ensure our position as an economic and export superpower as well.

We are well positioned to achieve this goal. We enjoy the largest fully integrated market in the world; this gives us leverage with other countries that want access to our market. Once the Congress enacts the North American Free Trade Agreement (NAFTA), our position will be further strengthened. NAFTA will open an important market, a Mexican economy whose growth prospects will quickly transform its expanding industries and consumers into excellent American customers. Equally important, the integration of United States, Mexican, and Canadian capabilities will improve our global competitiveness by enabling American firms to purchase inputs at lower costs. This will help U.S. firms to stay in the forefront of high wage, high value-added production.

Our geopolitical position is also advantageous. The United States is both a Pacific and a European power; our political and security ties link us with the largest and most rapidly growing economies across both oceans. Our trans-Pacific trade already exceeds our Atlantic trade; that's one reason why we helped launch an organization for Asia-Pacific Economic Cooperation that will further strengthen our economic ties with that region. Our own neighbors — from Central America to Chile — want to build bridges of trade with us so they can build better economies for their people.

"The ball of liberty," Jefferson once wrote, "is now so well in motion that it will roll around the globe." He was right.

Freedom has rolled through Eastern Europe, the former Soviet Union, and Latin America — and the ball is now in our court. Free people and free markets develop hand in hand. People value American values. People want to buy what we have to sell. English is the language of freedom *and* business.

Our political and economic ties are complemented by the appeal of American culture all around the world. This is a new "soft power" we can employ. Today, our movies, music, and videos are among our top-selling exports.

Finally, as the primary founder and the most significant proponent of the GATT global trading system, we continue to have a strong hand as long as we use it to truly open markets, including our own. The key to America's growth, expansion, and innovation has always been our openness to trade, investment, ideas, and people.

Therefore, the next steps in my strategic trade policy are to secure Congressional agreement to NAFTA and to complete the global trade negotiations — the so called Uruguay Round negotiations in GATT. Our NAFTA agreement will open doors for American businesses, workers, and consumers. It will create good jobs. Nevertheless, I expect a tough fight in the Congress in early 1993 because of those special interests who herd together with a protectionist purpose. The global trade negotiations, in turn, could be very close to a breakthrough if the United States continues to act as a strong world leader. There is a proposed draft text that establishes the outlines of a significant new GATT agreement. Once we assure cuts in the subsidized agricultural trade along the lines of that text — to enable our farmers to secure their competitive advantage — I believe we will be able to complete the Uruguay Round agreement.

An improved global trading system is, however, only a base for freer trade, for stronger investment ties, for increased global growth. We need to start to develop a strategic network of free trade agreements [FTAs] across the Atlantic and the Pacific and in our own hemisphere. This network will stand in sharp contrast to the backward blocs of economic isolation. If we are to be a true export superpower, we cannot be tied down to one region. Instead, my intent is to use our attractive domestic market as the basis of a muscular free trade policy that will strengthen America's global economic reach and complement our worldwide security presence.

"Free people and free markets develop hand in hand. People value American values. People want to buy what we have to sell."

By focusing on opening markets, I also believe we can reduce structural barriers to competition in North America, Western Europe, Japan, and elsewhere. Competition will encourage entrepreneurial capitalism — at the expense of entrenched interests — spurring even greater global growth.

More specifically, I will need to secure from the Congress additional trade negotiating authority within the first half of 1993. To overcome the special interests and the protectionists, I will need a mandate from the American people. If America is going to be an export and economic superpower, the U.S. President must take a strong stand on the negotiation of trade and economic agreements. The Congress will read vacillation and equivocation as weakness, and the national interest will lose out to the logrolling trade-offs of Congressional business as usual. That's one very big issue at stake in this election.

With new negotiating authority, I will pursue new trading and economic opportunities in Latin America under my Enterprise for the Americas Initiative, starting with Chile. I would also like to work towards FTAs with Poland, Hungary, and Czechoslovakia by the end of my second term. And I would explore the possibility of a connection between NAFTA and the ASEAN FTA, or AFTA. It will not take long for other countries to begin to express their interest in new trade and business ties with us. For example, leaders in Australia and Korea have already spoken of their interest in forging closer economic ties.

Some see new threats, others see old enemies. I see new markets, new opportunities, new jobs.

As we develop this economic and trading network for the 21st Century, I will fight hard to promote American trading interests. For example, I am committed to a sizable Export Enhancement Program [EEP] to ensure that our farmers can go head-to-head with the European Community's subsidized agricultural exports. We know from our experience with military security that the key to economic security must be based on "Peace Through Strength" — not unilateral disarmament. That's why I recently announced the largest quantity of wheat ever available under our EEP program — almost 30 million metric tons to 28 customers.

I will ensure that our ExIm Bank and the Overseas Private Investment Corporation (OPIC) work with teams of our ambassadors to develop trade and investment opportunities for U.S. firms. We've already begun this with the six ASEAN countries — and it's working. I will particularly stress helping America's small businesspeople to develop trading opportunities. These companies look small — but they trade big. I know. I started my own. And I have visited small factories all across the United States that first survived and then prospered by taking on the foreign competition. I know Americans can do it.

VI. Preparing Our Children for the 21st Century Economy

In the 21st Century our greatest national resource will be our people. Materials, machines, and methods will come and go, but the American worker will remain the key to our economic security. Since the workplace of the 21st Century will be constantly changing, we need to prepare the American people to adapt to and direct the process of change. Therefore, our kids must arrive at school ready to grow, and they need schools where they will learn how to keep learning all their lives.

Our New American Schools will help prepare our children to become the contributing citizens of tomorrow. Equally important, we want to enhance children's sense of self-worth, their confidence, their sense of participation in a larger community and society. This is the conservative philosophy of empowerment, helping people to help themselves.

I want to do my best to help all children come into the world as truly "created equal." That's why I am more than doubling funding for a *Healthy Start* initiative that targets communities with high infant mortality rates. We are also increasing prenatal care, nutrition services, and substance abuse treatment for pregnant women. And I want everyone to spread the word that every parent must share the gift of good health with their children.

We need to focus especially on the preschool years, so that children coming to school are healthy and curious. Funding for the Women, Infants and Children Nutrition Assistance program (WIC) has grown 258% between 1980 and 1992; my request for an additional $240 million for 1993 brings the annual cost to $2.8 billion.

I have also increased funding for the *Head Start* program by 127% — for a total of $2.8 billion in 1993. That includes an additional $600 million increase for next year — an unprecedented 27% annual jump — so that a year of *Head Start* will be available for every eligible four-year old whose parents want to participate. (Under my budget, almost 800,000 children will receive a year of *Head Start* before entering elementary school.)

Child immunizations are also vital to safeguard our kids' health. Every year since 1981-82, 95% or more of the children entering elementary school have been immunized against the vaccine-preventable diseases. Now we are focusing greater attention on preschool children. My 1993 budget calls for an 18% increase in child immunization grants.

I want the United States to offer opportunity and encourage excellence; we must be fully capable of competing in a global economy. Therefore, it

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is imperative that our educational system prepare and point the way for our children. As in the past, education should be the ladder that the child of modest means can climb to better him or her self.

Our current school system is falling short of these needs — and the poor are hurt most. Only 19 out of 66 public high schools in Chicago graduate more than half their students, and many of these graduates can barely read or write.

Our educational establishment is caught in a sort of time warp, a system created for another age when the needs were not the same, children grew up differently, and adults rarely changed jobs.

Money alone is not the answer — the United States already spends more per pupil than any other country but Switzerland. And funding for the Education Department has increased 41% over my term.

The answer is a radical overhaul of our educational system. If we want to change our country, we've got to change our schools. That's what my America 2000 program is all about.

Our kids can't beat world class competition if they can't meet world-class standards. We are moving ahead with the development of these standards in math, science, English, history, geography, arts, and civics.

Second, we need voluntary national achievement tests to measure the progress of our students. That way we can compare the performance of different schools in helping our children achieve the national standards.

Third, we need to give schools the flexibility to become educational entrepreneurs — to figure out the best ways to motivate our children, use technology, include parents, and involve new types of teachers. We will create "Education Enterprise Zones." There is no particular reason why schools have to end at 3 p.m. so that students can sit in front of the TV for five hours a day. We need to free school administrators and teachers from rules, regulations, and reports that have become a poor substitute for student achievement; we can do away with red tape once we institute a new testing system that evaluates schools not on the basis of how many forms they complete, but of how many minds they prepare.

Finally, we must take school choice off the administrator's desk and put it back on the kitchen table. Choice is critical to the success of the whole, integrated overhaul of our educational system. Competition, the underlying principle for this radical reform, will not work unless we give consumers the ability to choose.

Wealthy families already have this choice for their children. Many of the people that you saw at the Democratic National Convention have this choice for their children. Why shouldn't you have this choice for your children?

Chicago's public school teachers — 46% of them — send their kids to private schools. But my opponent and his special interest supporters don't think you should have the same choice unless you are privileged enough to afford it.

One of the greatest educational innovations in this country was the passage of the GI Bill after World War II. No one told my generation that a vet couldn't go to Notre Dame or Brigham Young or Baylor or Howard or Yeshiva.

So I want a "GI Bill for Children" to help give lower and middle income families the means to select any school:

public, private, or religious. I also want scholarships available to be spent on after-school, Saturday and summer academic programs.

For those who argue that my approach will weaken the public school system, I would remind them that the first GI Bill was a tremendous boon for public universities. Or listen to Starr Parker, a small business owner actively promoting choice in the Black community, who put it this way: "The rich have choice now. When I was on welfare, there was no way I could put my child in school. It's time we stop condemning the poor to a monopoly education system."

We've already made significant progress in starting this radical reform agenda. Some 44 states, and over 1700 communities, have already adopted my new national education strategy — America 2000. Indeed, this progress offers a good example of my commitment to pursue my agenda whether or not Congress dawdles. If Congress balks, I will work with governors, state legislators, community officials, and the private sector.

I hope the new Congress will not remain an apple polisher for the educational establishment and special interests that want to resist this revolution. A new system of education in this country is probably the most important ingredient over time in making America the winning economic and export superpower in the post-Cold War era.

This must not only be my agenda, but yours, too. I will fight to give parents in America the right to choose the school their children will attend, but you need to help, too. After you check out of work, check into your child's homework. Talk to your child's teacher. Join your local PTA. My approach — America 2000 — relies on parental, business, and community involvement in creating new schools that break the mold.

I put the family at the center of our society. Government must try to help families — not replace them. When it comes to choices for our children, parents really do know best. We should increase the range of choices available to parents, and Government assistance should be targeted to those families most in need.

The other side may talk about similar problems, but they are approaching them with a fundamentally different ideology. You can see the con-

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trast not only in education, but in health care, or in the debate that took place over my child care proposal, which we fought for and managed to enact into law. The opposition prefers uniformity to variety and choice. Because they place a higher value on "leveling" society, they will tend to rely on Government bureaucracies to offer "standard service." My approach to education, child care, health care, and other topics is to rely on a diverse private sector to supply the service and to empower families to make their own choices. I don't want to pull everyone down to make them equal. I want to give everyone the tools to climb as high as they can dream.

VII. Sharpening Business' Competitive Edge: Encouraging Entrepreneurial Capitalism

Our ultimate success as an economic superpower is dependent on encouraging the entrepreneurial spirit of our private businesses. I call it entrepreneurial capitalism, and I saw it work when I started a small business in Texas. I also call it common sense.

You allow people to keep most of what they produce, and they will produce more than they can use, the rest being capital. You invite people to risk failure by allowing them to keep the rewards of success, and they will keep trying until they succeed.

When capital is taxed lightly, it becomes abundant. When it is taxed heavily, as it is now, it becomes scarce, available only to those at the top, who need it least of all. That's not what I want. Even Jesse Jackson put it this way: "Subtract capital from capitalism and all that's left is the 'ism'." If capital were abundant, labor would become scarcer. And the unemployment lines would shrink. That's what I want.

So I want to cut the capital gains tax and index it for inflation. I want to create enterprise zones in inner city and rural areas. I want to make the R&D tax credit permanent. I want to provide an additional first-year depreciation allowance for purchases of property.

Those are fundamentals. In addition, there are three other ways we need to sharpen the competitive edge of American business:

- strengthen small business;
- support civilian R&D linked to a research extension network; and
- reform our costly legal system.

A. Strengthen Small Business

Small business is the backbone of a growing economy. Small businesses create two thirds of our new jobs; they account for 39% of our GNP.

I am seeking to aid small businesses by reducing costly tax and regulatory burdens, increasing access to credit, and removing barriers to competition.

I have taken steps designed specifically to ease the tax burden on small businesses. For example, the IRS has proposed regulations to allow small businesses to deposit payroll taxes on a monthly basis. And it has released a ruling allowing over 16 million sole proprietors to deduct tax preparation fees as a business expense rather than as a limited itemized deduction.

I want to build on these actions. For example, we are working on a Single Wage Reporting System that would permit businesses to report state and federal wage information through a single entity, thereby consolidating tax reporting requirements and reducing the burden.

In coming weeks I will talk more about ways we can encourage small businesspeople and the jobs they create.

On the regulatory front, I have extended for one year the freeze on paperwork and unnecessary federal regulation that I imposed last winter; the federal regulatory weight hits small businesses particularly hard. I have also instructed federal agencies to look for ways to modify existing regulations that impose a special economic burden on small business. For example, to increase access to capital for small businesses, the SEC has announced proposals to reduce and in some cases eliminate the public disclosure requirement for small companies issuing stock.

Since small businesses are particularly vulnerable when credit is tight, we have to help them as our financial system is restructuring. That's why we have authorized over $6 billion in general business loan guarantees through SBA in 1992 — an increase of more than 50% above 1991.

SBA's New England Lending and Recovery Project is a pilot effort that extends credit to viable small firms when access is limited because banks are having difficulty. If it works well and is needed, I'll expand the project to other regions. We also have worked with bank regulators to base real estate values on income earning potential rather than liquidation value. We have taken steps to restructure the small business investment program, the only venture capital program in the Government. And we are developing ways to offer special financing to exporting entrepreneurs.

Through its procurement assistance program, SBA helped small businesses secure federal contracts worth over $35 billion in FY 90 — almost 20% of all prime contracts let during that year.

To ensure that small businesses can help their communities overcome disasters, we will be pressing forward with approximately $1.7 billion in low-interest loans to small businesses in Florida, Louisiana, California, and elsewhere.

"I am seeking to aid small businesses by reducing costly tax and regulatory burdens, increasing access to credit, and removing barriers to competition."

Finally, we need to help small business by removing burdens to competition. My health care reforms would reduce costs for small businesses without costly Government mandates or higher taxes. Enactment of my legislation to establish uniform federal law on product liability would relieve a major competitive handicap that is keeping new products from the market, boosting insurance costs sky high, and killing jobs.

B. Support Civilian R&D

To be the world's economic leader tomorrow, we clearly have to invest in R&D and new technologies today. Given the pace of change, we have to both come up with new inventions and organize ourselves to deploy new technology without delay.

The changes in industrial organization that I described earlier have three major implications for technology development. First, the more rapid product development cycle places a premium on bringing an idea quickly from the lab to the marketplace. Second, we need to put new technologies to work in all applications in order to reap the full competitive and economic benefits from our R&D. While Americans invented VCR technology and the FAX machine, we did not capitalize on their explosive popularity. Third, we need to rely increasingly on flexible, agile manufacturing, rather than old style mass production. We should have the capability to make a variety of products quickly and economically — a process characterized by short product cycles, but also high quality output.

Taken together, these developments emphasize decentralization — an approach exactly opposite to my opponent's "national industrial policies" led by Government bureaucrats. We need to get technology development, production, and marketing closer to the consumer, not further away. Moreover, my opponent's call for a cut in support for university-based research will hurt the development of cutting edge technology.

My agenda will increase funding for basic research and complement that work with a focus on applied research and development. Despite cuts by Congress, we have managed to increase funding for basic research by 26% since 1989 -- to a record level. We are supporting applied R&D through a series of new, high pay-off investments in critical technologies:

- a High Performance Computing and Communications Initiative that will enable the development of a thousand-fold increase in computing capability by 1996 and a one hundred-fold increase in communications speed.

- an initiative to improve the manufacturing and performance of materials — improvements that will enable advances in a wide range of other technologies.

- an expanded program in biotechnology research with applications in health, agriculture, and environmental protection.

- the establishment of the U.S. Advanced Battery consortium, a jointly-funded four-year effort to develop an advanced battery for an emissions-free electric car.

- a significant increase in our aeronautics research budget, underscoring the importance we place on the U.S. aeronautics industry in an increasingly competitive global market place.

- the establishment of seven regional manufacturing technology centers for the distribution of modern manufacturing tools, such as computer-aided design, numerically-controlled machines, and robotics.

These efforts to develop and apply new technologies need to be complemented by the identification and removal of barriers to the private sector's ability to bring new products and services to the market. That's why my regulatory reform efforts — including a process that subjects regulations to a competitiveness analysis while still protecting health and safety, and a proposal to "sunset" regulations — are critical to supporting our enhanced technology development.

Just take one example: my opponent has proposed a major new Federal Government investment in the field of national telecommunications networks at the exact time that our private sector is seeking to develop such a network on its own, but has been stopped from doing so by federal regulations.

C. Reform Our Legal System

Our competitive edge will be dulled if businesses are continually handicapped by a legal system that serves lawyers but frightens people. Therefore, another component of my agenda is a reform of the American civil justice system.

America has suffered a civil litigation explosion. Over the past 30 years, federal lawsuits have almost tripled. Instead of being fast, fair, and affordable, our civil justice system is slow, expensive, and putting us at a global disadvantage.

Long delays in dispute resolution waste valuable judicial resources, force early settlement by those who cannot afford to wait, discourage those who have meritorious suits, and encourage frivolous suits by those who hope to leverage unjust settlements. High punitive damage awards are passed on to consumers through higher prices, job cuts, higher insurance, and fewer new products.

According to a soon-to-be released study by the National Association of Manufacturers, Americans spend up to $200 billion a year just on direct

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costs to lawyers. That does not even count lawyers on payrolls or the money spent on court settlements.

Our legal system is killing our international competitiveness. Other nations do not face high domestic litigation costs. Foreign companies only need 6% of the product liability insurance our firms must carry because we do not have uniform state standards for product liability and punitive damages.

The litigation explosion affects everyone. High liability costs have closed playgrounds and pools, forcing kids on to the street with nothing to do. Some companies are afraid to offer products at home that are available overseas because they fear the liability.

My product liability reform legislation confronts the trial lawyers head on. I want to stop wide variation among states' product liability rules; stop important products from being kept off the market; stop excessive litigation costs with more money going to lawyers than to injured consumers; cut excessive insurance rates; and end excessive consumer costs.

My "Access to Justice Act of 1992" is intended to restore fairness and efficiency to the nation's civil justice system through: alternatives to federal civil trials such as alternative dispute resolution; incentives for pre-litigation settlement, including pre-complaint notification; and a "loser pays" rule requiring the loser to pay the winner's legal fees in suits involving federal diversity jurisdiction.

We also need to continue our work with the states to encourage fundamental change at the state and local level.

Lawyers, especially trial lawyers, are a powerful vested interest in our society. They are well represented in Congress and high on the lists of political contributors. My opponent knows them very well. But this is a problem too important to leave to the lawyers and their friends in high places. We must sue each other less and care for each other more.

VIII. Promoting Economic Security for Working People

The American businesses of the 21st Century will need workers who will bring them to life and keep them ahead of our competition. To be able to contribute and concentrate, working men and women will want to know that they can enjoy economic opportunity and security. We can only achieve true security by developing people's capability, not dependency. And we can best supply security through the private sector, not Government bureaucracies.

It will be Government's role to expedite workers' adjustments in a fast-changing marketplace, provide people the means to work and take care of their families, and arm people to face the future by empowering them to make their own choices. In particular, we can enable families to focus on building a future by alleviating their fears about one of the single biggest costs and problems that can knock them back: health care. And we can help foster retirement security through encouraging portable pension savings.

A. Job Training

Given the rapidity of change in the international and domestic marketplace, we have to prepare people for the prospect of changing jobs and learning new skills many times throughout the course of a productive life. Therefore, we need a range of job training and placement services — for young people, factory workers, white collar employees, and particularly during this period, defense industry workers.

That's why one important portion of my recently-announced workforce adjustment initiative is designed to shift the Government away from the old narrowly defined, expensive, and less effective trade adjustment assistance that paid people off without giving them real help to get back the work.

Work means more than income to Americans. It is also fundamental to people's self-esteem, their self-confidence, and the respect of others. These are attitudes, values, that I want to encourage. I want all Americans to be builders — for their families, their communities, their country. To encourage the work ethic, we need to make every effort to match people with the jobs created by our entrepreneurial capitalism.

The three key features of my job training proposal are: (1) universal coverage, so all dislocated workers will have access to basic transition assistance and training support; (2) skill grant vouchers of up to $3000 to help meet the costs of adding new skills and training; and (3) a tripling of the resources currently devoted to training and worker adjustment, an allocation of $10 billion over five years.

This proposal builds on my January plan to streamline the federal job training system through "one-stop shopping" in every community. Experience has demonstrated that the most effective training and placement services are those closely developed with local employers through private industry councils. That way the training is designed to develop skills that employers know they will need.

My expanded job training efforts will also be specially designed to help those who may need to change jobs or careers as a result of NAFTA or other trade agreements and the downsizing of our defense-related industries. But we will ensure that we offer training and placement to all workers.

These dislocated workers would be eligible to receive three types of assistance: (1) transition-assistance that includes skills assessment, counseling, job-search assistance, and job referral; (2) training assistance in the form of skill grants; and (3) transition

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income support where necessary for workers completing retraining.

I've also proposed a specially-targeted Youth Skills Initiative.

A new Youth Training Corps will provide economically and socially disadvantaged young people with intensive vocational training through 55 residential YTC centers nationwide; these centers will be located primarily in rural areas and will seek to utilize converted defense facilities, putting them to good use. The YTC will draw from the military's high level of leadership and training expertise by giving a hiring preference to individuals leaving our armed forces. The discipline that triumphed in Desert Storm can win at home, too.

I will also complement the YTC with a "Treat and Train" program to strengthen existing youth drug training programs.

To help meet the needs of young people not planning to go on to college, I will expand the National Youth Apprenticeship Program that I began in January. This program offers high school juniors and seniors a combination of classroom instruction and a structured, paid, work-experience program. I want student apprentices to receive both a high school diploma and a widely recognized certificate of skill competency. Students will also have the opportunity to continue training at the post-secondary level.

I started my Apprenticeship Program as a demonstration program in 6 states; in my second term, I will expand it to all 50.

Finally, I will more than double the size of the present JROTC program, a very successful and popular partnership between the military and schools. JROTC emphasizes self-discipline, values, citizenship, personal responsibility, and staying in school — it's a first class alternative to drugs and gangs. My goal is to establish 2,900 JROTC units by 1994. Initially, we will expand this program in inner-city high schools, but I want to make JROTC available to every high school across the country that requests it. This program is another way in which we can relate the successful experience of America's veterans to the next generation.

B. Affordable Health Care for All Americans

The economic security of men and women requires a major reform of the U.S. health care system. The present system provides high quality, high-tech medicine, but at an unacceptable price: spending has increased at a rate two to three times the rest of the economy; thirty-four million Americans have no health insurance; and millions more are afraid to change jobs for fear of losing their health insurance.

My program will build on the strengths of the system — consumer choice, innovation, and state of the art medicine — while controlling costs and expanding access.

I want to guarantee access to health insurance for all poor families through tax credits (or vouchers for those who don't pay taxes) sufficient to pay for a basic health insurance plan ($3,750 for a family). Other low and middle income families would get tax relief to partially offset the cost of their health insurance. In total, some 95 million Americans will benefit.

My program also includes:

- provisions that encourage small businesses to develop less costly health care insurance networks for their employees by combining resources to achieve broader risk sharing, economies of scale, and purchasing power;
- "job lock" protection for employees and their families so that they will not lose coverage if and when a person changes jobs;
- guaranteed insurability so that people with "preexisting" illnesses cannot be denied a job or health coverage on the job;
- 100% tax deductibility of health care premiums paid by the self-employed, as compared to the present 25% deductibility;
- malpractice reforms that will reduce the number of unnecessary procedures performed on patients and thereby reduce the cost of medical care; and
- reforms to encourage widespread use of electronic billing to save an estimated $11 billion a year in paper costs.

Taken together, my program would cut health care costs by $394 billion over five years through preventive care, malpractice reform, reducing defensive medicine, encouraging enrollment in cost-effective health plans, arming consumers with information about cost and quality, and eliminating administrative waste and unnecessary paperwork.

I believe we can provide access to affordable health care for all Americans, while preserving choice for patients and their families in selecting doctors, hospitals, health care programs, and employment. My approach, in contrast with my opposition, relies on the private sector to deliver health care services. But I would make the market work for us by enhancing competition, which will cut costs. My malpractice reforms would cut costs further by removing the fear of lawsuits that leads to wasteful procedures.

I firmly believe that a move to national health insurance, as some of my opponents want, would be a major, irretrievable mistake. That course would turn over the health care sector — a full 13% of our economy — to the Government. The result would be more bureaucracy, rationed

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care, inefficiency, and, in the end, even higher costs.

My opponent's "play or pay" approach winds up in the same place as nationalized, bureaucratic health insurance — but through a different route. And it is likely to kill a lot of jobs along the way, especially in small businesses. Increasing the costs of labor — the "play" in his approach — will lead businesses to hire fewer workers. Offering the alternative of Government-sponsored health care paid for with new taxes on payrolls — the "pay" — will dump the problem in the lap of a Government b reaucracy with the costs paid for by businesses and workers.

C. Pension Portability

I have also been concerned about the ability of workers to preserve their retirement pensions as they change jobs. This is a growing need because of the increased likelihood that most workers will have more than one employer over the course of their working years.

I proposed an initiative last year to increase pension portability, expand pension coverage, and simplify the law governing pension plans. And I am pleased that I was able to sign a law this summer that incorporated my portability proposal. The new law enhances retirement security by permitting workers to transfer accrued pension benefits directly to an IRA or to their new employer's pension plan.

Despite this improvement, I believe we must continue to look for ways to make it easier for workers who change jobs to take pensions with them. We need to eliminate incentives to "cash out" benefits and increase incentives to save for the future.

Job training, affordable health care, retirement security — when combined with a new system of education and entrepreneurial, competitive business, we can offer working men and women real economic security in the 21st Century.

IX. Leaving No One Behind: Economic Opportunity for Every American

For over 200 years, the most exceptional aspect of American society has been the belief, the hope, that this is a land where people can make a better life for themselves and their children. It's this spirit, the commitment to the American Dream, that has made our country and our society the most dynamic in the world.

If we are going to use that energy to drive us forward into the 21st Century, we will need to tap the aspirations of each and every one of our citizens. No one should be left behind for want of opportunity.

Many of the programs that I have discussed above — health care for all Americans, child care, job training, pension portability, a new competitive school system based on community involvement and choice for all American families — support my plan to empower all Americans to make their own choices and better their lives. But I believe we need to do more for certain citizens who have fallen too far behind.

My philosophy for enabling all Americans to share the American Dream is simple: it's based on property and work. Our urban and welfare programs must be designed to enable people to break the cycle of poverty, get back on their feet, get back to work, and take responsibility for their own choices and their own lives.

I disagree with the failed logic of "welfare rights" and its emphasis on entitlement. I disagree with "income maintenance" strategies — strategies that merely maintain poverty and contain potential.

Our goal should not be more dependence — but rather a new Declaration of Independence — to help people develop the human and financial capital to share the American Dream. We have taken the first step with our implementation of the welfare-to-work logic of the Family Support Act of 1988. We have been encouraging flexible and innovative implementation through waivers that enable states to develop new programs to enhance parental and family responsibility and to insist on education and job training for those on welfare. Welfare policies won't work unless people do.

In our inner cities, we need to restore hope by clearing away the handicap of crime, building a core of property owners, creating business incentives, restoring infrastructure, and focusing our programs on work and discipline.

Enterprise zones can create solid economic foundations in distressed communities. Our "Weed and Seed" effort can help reclaim and revitalize impoverished and embattled communities by eliminating the fear of drugs and violence, targeting coordinated human services programs, and improving the housing stock and infrastructure.

We also need to extend opportunity by enabling lower income families to build assets — for example, by allowing aid recipients to accumulate higher savings without losing their eligibility.

And we need to expand homeowner opportunities for lower and middle income families. For example, HOPE grants enable more inner-city people to own their own homes. Our $5,000 tax credit for first-time home buyers would help; so would permitting voucher recipients to apply their rental subsidies toward the purchase of a home.

We can enhance the choice, quality, and availability of housing through affordable rent subsidies in the form of housing vouchers, and through our "Perestroika in Public Housing" program that widens opportunities for public housing tenants to change the management of troubled projects.

"My philosophy for enabling all Americans to share the American Dream is simple: it's based on property and work. Our urban and welfare programs must be designed to enable people to break the cycle of poverty, get back on their feet, get back to work, and take responsibility for their own choices and their own lives."

This property and work-based approach need not be more expensive than the traditional welfare bureaucracy. For example, over the past 12 years, federal spending for low income assistance doubled even after inflation — from $9.1 billion in 1980 to $18.3 billion this year (both in 1992 dollars). This year, HUD is providing housing assistance to 4.6 million low-income families, up from 3.1 million in 1980. I have tried to rechannel some of this funding to vouchers because they are more cost effective than constructing new public housing units. Furthermore, families wouldn't have to wait five years for the units to be built, and the vouchers give families more choice.

For too long, Congress has stubbornly refused to discard failed programs that perpetuate welfare dependency. No doubt, many of these programs were well intentioned. But now we know better. Give us a chance to try a different approach that will empower people to help themselves, to build some capital for their families, to make choices that develop self-respect and discipline. That's the real way to offer economic opportunity for every American, to leave no one behind.

X. "Rightsizing" Government

My blueprint envisages an important Government role to make a secure and strong America. But it is also important that Government not siphon off more private resources than are absolutely necessary to perform the functions that will help us win the economic competition. Because an overweight Government — serving itself seconds rather than serving the people first — will weigh us down in the race of a new era.

Much of my agenda can be accomplished simply by redirecting current funding away from bureaucracies and towards people. My agenda empowers people with the means to work, own property, build capital, raise families, and be effective contributors within our private market economy. Some of my ideas — legal and health care reforms, for example — should even help us save money.

Contrary to the assertions of some politicians and special interest groups, spending as a percentage of the nation's GDP has been going up, not down. In 1991, the Federal Government spent 23.5% of what our nation produced. That compares with 17.6% in 1965, 19.9% in 1970, 22.0% in 1975, and 22.3% in 1980. So not only has Government grown as the economy has grown, but Government is taking a bigger share. The American people are not taxed too little. The American Government spends too much.

In my acceptance speech I noted some of the efforts I will make to hold down spending. I have proposed capping the growth of mandatory spending, other than social security. That would still permit spending at present levels plus an adjustment for inflation and population growth. Yet this cap would save $294 billion over five years.

To start to implement this cap, I have proposed over $72 billion in specific spending cuts for "mandatory" programs (FY93-97). If you add these proposed cuts to others I have previously called for but which Congress has not yet enacted, my specific cuts would total about $132 billion over five years. I have also proposed the outright elimination of 246 specific discretionary programs.

By way of comparison, my opponent has specifically proposed less than $5 billion in cuts in mandatory programs. And he has singled out only one program for elimination — the honeybee subsidy program, which his running mate voted four times to retain.

Furthermore, I proposed freezing all other spending, and I will enforce this freeze by vetoing any bill Congress sends me that spends more than I asked for in my budget.

I've asked Congress for the line item veto, a disciplinary tool used effectively by the governors of 43 states. This veto authority is important not only to help cut, but to increase a President's leverage with a Congress that seeks to tax more and spend more.

Government should be subject to the discipline of a balanced budget amendment. State governments operate that way. Businesses operate that way. Families operate that way. And given the breakdown of Congressional discipline, we need an amendment to ensure that the Federal Government operates that way, too. If we had had such an amendment years ago, we wouldn't be paying almost $200 billion dollars a year now on interest for the debt left us by earlier Congresses.

I also believe taxpayers should have the right to direct 10% of their tax payments to reduce debt and spending through a "check-off" on their tax forms. If all taxpayers took the full 10%, the cut would be about $50 billion. That's only 3% of the Federal budget of about $1.5 trillion. Since federal spending has been growing at a rate of about 8% per year, even this proposed cut would still enable spending to grow; it would just grow more slowly.

Some editorialists dismiss my checkoff proposal, but the American people seem to like it, and I think I know why. My proposal traces its roots to an American tradition. At the turn of this century, many people were concerned that the Government establishment was slipping away from the people it was supposed to serve. This movement led to such venerable "gimmicks" as referenda, the right of recall, and the direct election of U.S. Senators. The idea of term limits for Senators and Congressmen, which I fully support, is another reform of this type. At the time each was proposed, the conventional thinkers chuckled at the changes. The same is true today. Given the complete breakdown in spending discipline in Congress, it's time

"Government should be subject to the discipline of a balanced budget amendment. State governments operate that way. Businesses operate that way. Families operate that way. And given the breakdown of Congressional discipline, we need an amendment to ensure that the Federal Government operates that way, too."

that we insist on compensating reforms that give the people a bigger say in the direction of Federal Government spending. I say it's time to give the people the power to cut the deficit.

The size and structure of the Government also needs to be slimmed down and changed. The organization of the Federal Government reflects ways of doing business that are now 30 to 50 years old. Companies all across America have been restructuring, cutting costs, becoming more efficient — preparing to be more competitive in a fast-changing marketplace. I believe the Federal Government can and should do the same thing. I believe a streamlining of the Federal Government should include three elements:

First, I will cut the operating budget of the Executive Office of the President by 33% if Congress agrees to subject its operations to a cut of the same size. With fewer Congressional staffers badgering the Executive Branch, I know we can cut costs by that amount. Second, I believe all federal employees earning above $75,000 a year should be subject to a 5% pay cut; other Americans have tightened their belts, and so should the better-paid federal workers. Finally, I believe we can restructure and reduce the size of the Executive Branch through a consolidation of agencies and bureaus that will enable us to do our job better. Why should the Federal Government be the only large organization in America that continually adds size and offices, and never gets rid of anything? Therefore, I will submit a streamlined reorganization plan for the Executive Branch to the new Congress — and I hope they take the hint, too.

Let me give you an example. In many respects, the Arms Control and Disarmament Agency, or ACDA, is a creature of the Cold War. It needs to adapt to the times. Its highly trained scientists and engineers are a valuable resource. Some of them can support our efforts to stem and reverse the proliferation of weapons of mass destruction. But others may be well suited to work at weapons destruction and defense conversion — transforming the genius of modern day swords into 21st Century plowshares.

Multiply this idea by a hundred, or even a thousand, others. We can get rid of some tasks, conduct others more efficiently, and add new ones where appropriate to support my agenda.

I also am committed to reducing the tax burden on the American people. I have said that I will propose to further reduce taxes across-the-board, provided we pay for those cuts with specific spending reductions that I consider appropriate, so that we do not increase the deficit.

To illustrate the kinds of tax cuts we could achieve if we discipline spending: just consider what we could do if Congress acted on the $132 billion in specific spending reductions that I have already proposed. These savings alone could finance an across-the-board rate cut of 1 percent, a reduction of the small business tax rate from 15% to 10%, an increase in small business expensing of investment in equipment, and a reduction of the capital gains tax.

In sum, my direction is clear — I want to spend less and tax less. My opponent wants to spend more and tax more.

I believe the Federal Government can reallocate its almost $1.5 trillion in spending more effectively if we implement my agenda. The reductions in defense spending that we have already begun will provide some of these funds, and I don't want them wasted in a torrent of new spending programs designed by a horde of special interests.

I honestly believe that this is the only way to get the size and spending of Government under control. I know that serious-minded people believe we need to increase revenues to close the deficit. But it won't work. I have seen too many times that efforts to close the deficit by increasing taxes have only turned out to give Congress a license to spend more money. There's a reason for this. Spending is power for Congressmen. That's how they show influence, and placate their friends, the interest groups. If you give Congressmen more tax money, they will spend it.

XI. A Strategy for Implementation

This year is an important turning point for the United States. We are entering a new era, and for the first time in many years, it appears that Congress will have 150 new faces for the President to work with. That's why I'm asking for a mandate for my program. That's why I have promised that I will meet with all new members — all 150 or more — before they are besieged by the special interests and permanent staffs.

I also believe we need to take another step to ensure that the new Congress does not become like the old one. The root of the present problem is political contributions from organized special interests through political action committees, or PACS. In the run up to the 1980 elections, PACs raised and contributed $55 million to political candidates. In the same time period before the '90 elections, PACs spent about $160 million. The other party doesn't want to do anything about it, because they are the biggest recipients. I want to put them to the test. I want a new Congress to stay clean. So an important part of my new legislative agenda will be a simple bill to abolish PACs subsidized by corporations, unions, and trade associations.

I am committed to making my program work with Congress. Between the election and the convening of a new Congress, I will lay out an implementation plan for my agenda. I intend to be ready to present the new Congress a first-year plan to carry out the legislative proposals described in this agenda:

"Between the election and the convening of a new Congress, I will lay out an implementation plan for my agenda. I intend to be ready to present the new Congress a first-year plan to carry out the legislative proposals described in this agenda."

- A radical overhaul of American education to emphasize excellence, standards, competition, entrepreneurial schools, and a "G.I. Bill for Kids" that will give parents a choice of schools

- My job training programs

- My health care reforms

- A package to cut spending, including a cap on the growth of mandatory spending, a taxpayers' "checkoff" to reduce the debt, a line-item veto, and a balanced budget amendment

- Tax cuts paid for through spending reductions and growth, including reductions to spur entrepreneurial capitalism and small business

- NAFTA

- New trade negotiating authority so we can conclude new Free Trade Agreements across the Atlantic, the Pacific, and in our own hemisphere

- A Government reorganization plan to streamline the structure, ensure functions fit new needs, and cut salaries at higher levels

- Reform of our legal system

- A package to clear away crime, build business, and put people to work in our inner cities

- An expansion of Civilian R&D linked to new applications

- Ban on PAC contributions

- Limits on Congressional terms

Now I know I may not be able to get everything I want in the exact way I want it. But your support for a mandate to get it done would give me momentum. I intend to fight for this agenda, fight as hard as I can to get as much as I can, and then come back again to get more.

If Congress hesitates on some fronts, I intend to keep moving forward. You have seen that we can implement back-to-work welfare reform by granting waivers that enable the states to do the job more effectively. Similarly, 44 states and more than 1700 communities have started to implement my educational reforms while Congress has stalled. We can get a great deal done at the state and local levels.

I will work with governors, state legislatures, local governments, and the private sector to pursue my agenda. While I want a Congress that can help me do the job, I'm committed to getting the job done one way or the other.

This is my Agenda for American Renewal. With the end of the long Cold War, we can target peace, prosperity, and promise at home. The American people want that. The American people deserve that.

At the same time, Americans recognize that the great events of recent years have shaken the world, and it will never be the same. If we are to succeed as a nation and as a people, if we are to hold true to all that has made America "the last, best hope of earth," then our renewal at home must at the same time enable us to make the 21st Century another American Century.

My Agenda draws together our people and our Government to take on this challenge. We will create a $10 trillion economy. We will renew America. We will win the peace.

My approach to this challenge is fundamentally different from my opponent's. I want to stimulate entrepreneurial capitalism. I want to help people by enabling them to make their own decisions about health, education, job training, and child care from a variety of competing alternatives. I want to supply services through the private sector. I believe people should sue each other less and care for each other more. I want Government to spend less and tax less. I will fight without hesitation for a free and fair flow of trade, capital, and ideas around the world. I believe America should compete, not retreat.

I know times have been difficult for too many Americans. I have sought to explain the causes of these problems and what I will do about them. Of course you will have change. The question is what kind of change. You face a serious choice. And I ask, when you step into that voting booth, please consider carefully which candidate's agenda for change fits best with your beliefs, America's experience, and our hopes for lasting peace and prosperity.

"With the end of the long Cold War, we can target peace, prosperity, and promise at home. The American people want that. The American people deserve that."

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
September 11, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $ 13,750 million of 364-day Treasury bills to be dated September 24, 1992 and to mature September 23, 1993 (CUSIP No. 912794 E3 4). This issue will provide about $1,175 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $12,563 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, September 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 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 September 24, 1992. In addition to the maturing 52-week bills, there are $ 23,216 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 $ 3,243 million as agents for foreign and international monetary authorities, and $ 6,954 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 $ 130 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-1969

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 IMMEDIATE RELEASE
September 13, 1992

CONTACT: Scott Dykema
202-622-2960

Statement by Secretary Nicholas F. Brady

Re: European Monetary System and German interest rates

We welcome the action taken this weekend to realign the EMS (European Monetary System) and we are especially pleased that the Bundesbank intends to reduce interest rates Monday morning. This is a positive development for world markets and will help fulfill President Bush's long-standing efforts to ensure the strengthening of world growth.

NB-1970

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 14, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,642 million of 13-week bills to be issued September 17, 1992 and to mature December 17, 1992 were accepted today (CUSIP: 912794ZB3).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.87%	2.93%	99.275
High	2.89%	2.95%	99.269
Average	2.89%	2.95%	99.269

Tenders at the high discount rate were allotted 36%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	32,770	32,770
New York	32,835,195	9,338,800
Philadelphia	10,185	10,185
Cleveland	28,600	28,600
Richmond	244,165	57,685
Atlanta	26,835	20,435
Chicago	1,974,045	187,205
St. Louis	21,960	15,560
Minneapolis	11,760	11,760
Kansas City	21,145	21,145
Dallas	24,425	24,425
San Francisco	949,695	267,495
Treasury	626,315	626,315
TOTALS	$36,807,095	$10,642,380
Type		
Competitive	$32,638,555	$6,473,840
Noncompetitive	1,118,350	1,118,350
Subtotal, Public	$33,756,905	$7,592,190
Federal Reserve	2,793,080	2,793,080
Foreign Official Institutions	257,110	257,110
TOTALS	$36,807,095	$10,642,380

An additional $139,490 thousand of bills will be issued to foreign official institutions for new cash.

NB-1971

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 14, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,618 million of 26-week bills to be issued September 17, 1992 and to mature March 18, 1993 were accepted today (CUSIP: 912794B52).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.89%	2.97%	98.539
High	2.91%	2.99%	98.529
Average	2.90%	2.98%	98.534

Tenders at the high discount rate were allotted 4%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	19,080	19,080
New York	35,536,965	9,852,980
Philadelphia	9,060	9,060
Cleveland	18,600	18,600
Richmond	31,215	21,615
Atlanta	17,335	11,575
Chicago	1,889,805	43,245
St. Louis	13,415	8,615
Minneapolis	3,350	3,350
Kansas City	24,565	24,565
Dallas	8,545	8,545
San Francisco	722,160	154,240
Treasury	442,940	442,940
TOTALS	$38,737,035	$10,618,410
Type		
Competitive	$34,734,675	$6,616,050
Noncompetitive	738,170	738,170
Subtotal, Public	$35,472,845	$7,354,220
Federal Reserve	2,450,000	2,450,000
Foreign Official Institutions	814,190	814,190
TOTALS	$38,737,035	$10,618,410

An additional $460,210 thousand of bills will be issued to foreign official institutions for new cash.

NB-1972

This is background by Senior Treas. official. Embargoed til 4:30 p.m. EDT. Sense of what he said plus special quotes

1) Did Germany go far enough? A) That is not a question I'm willing to speculate on. We certainly welcome the action that was taken. We have said for some time that tensions were building and that there were only two options for relieving them (realignment of currencies-- reduction of interest rates by the Bundesbank).

It was a highly significant event. And as you can see from world markets the effect has been very beneficial.

Q)How much was U.S. involved:
A) We did have consultations with the G-7 deputies on Wednesday night and Thursday.

With the G-7 ministerial coming up this weekend and the vote in France coming up this weekend... and the continuing pressures.. it became clear the situation couldn't be sustained without some extraordinary action.

We think interest rate reductions in Gerany are very important. The officials took the view that they didn't want to face another week of the type (that they faced last week).

Q) Asked if the German rate cuts and EMS realignment will do much ? the official said
These are quite significant actions (Germany rate moves, EMS realignment) They set a new direction, send an extremely important message to the market. The markets recognize that an important turning point has taken place.
The markets take the view that the turning point has come and they are looking at a situtionat where German rates will not go back up again.

Q) Is there any understanding of what the Fed response will be? "We haven't had that discussion."

q) Does it create more room for easing by

Fed?

A) Have to see how the market develops and how the economy develops. That's a decision the Fed has to make.

The important thing is that the long effort by the Secretary and the President to emphasize world growth has turned out to be successful"

We have taken the view that German rates had been too high for too long and that point has been clearly accepted by everybody now.

This is a pretty good example of successful policy coordiation.

Q) Satisfied with actions to date by Japan and Germany?

A) The appropriate policy decisions have been made. They have established the appropriate direction of change. Now we have to see if they are as effective as we hoped.

We're ver: pleased...

Q) Impact on G-7 meeting?

A) The impact on the atmostphere should be very positive. A lot of the tension in the G-7 has effectively been defused by these actions. It will allow for a much more constructive discussion.

* alluding to claims by analysts that the dollar's drop recently was indicative of a weak U.S. economy, the officallo said the movement (in recent weeks) of the dollar was "quite small."

This was politicized unnecessarily. The dollar's fall was a residual effect of the tensions in Europe and not a judgemnt about the the U.S. economy.

The dollar has more than recovered that ground in a single trading hour.

Q) What is U.S. dollar policy?

A) We're not seeking a depreciaion of the dollar. We are not following a policy of benign neglect.

The intervention was unsuccesful (in summer)

because of the enormous attractiveness of the D=mark.
Q) Are you looking for stability in the dollar?
A) We've had stability. We have not had unstable or disorderly markets. We are still relatively in the range where we have been over the past several yearas.

Except when there was the brief breakout when the dollar went to new historical lows--(penetrated 1.40 D-mark, we're back near 1.50 now).

q) Why intervene if not disorderly markets?
A) The point of the intervention was to send a signal to the markets that we thought currencies were appropriately priced and we were not seeking a depreciation of the dollar.

"We then let the market find its level. Now we've had action that goes some ways to relieve the tensions (in currency markets)

Q) Need for more German interest rate cuts?
A) We have to appraise what the effect of these policy actions are.

Notations: Paris Club met today on Russia debt. (informal). First such meeting. The official said "The hope is that we can do a formal Paris Club rescheduling sooner rather than later.

We are negotiating how to give Mr. Yeltsin the breathing space that was promisted at the time of the G-7 summit

Q) change the cut off date?
A) Said basically, that old cut off date applied to former Soviet Union. "Now we have a different situation. The Soviet Union no longer exists and Russia is addressing the quesiton of its debt burden"

He made point that Paris Club must tackle question of debt arrears, but noted Russia current on U.S. payments.

Q) Is the timing of Paris Club reschedule tied to IMF full standby?
A) We are committed to negotiating a rescheduling on the

basis of the first credit tranche.

"But there will be a link between the Paris Club rescheduing and the standby" such as a clause that would allow the creditors to pull back the rescheduling if the standby doesn't go ahead.

Offical said: "Russia's balance payments needs will be very substanital in 1993--We know the situation will be similar to 1992." (no precise number)

(Although Russia's crop prospects have improved, there will be "shortfalls" in 1992-93 winter).

(Other topics at G-7 will be Uruguay Round, estpecially liberations of financiaol servicesk and report by U.S. on quota increease (Congress back in session).

Q) Contingency plan on "no" vote on Maastricht?
A) Not aware they (French) have any contingency plans."

"They expect a yes vote."

(Russians will be invited at some point to join the G-7 meeting).

Q) Stabilization fund for ruble?
A) It will take some time. It will not happen until after there is a standby program and we see what the performance is. Within a matter of weeks (after a standby agreement is inked) we'll take a look at how to proceed (with stabilization fund)

Q) Does Bundesbank hurt its credibility by its rate cut--knuckling under to outside pressure to ease?
a) The official said he didn't agree with that assessment. he said Germany had made progress on inflation, and economic growth was slowing sharply. So these factors justified the easing of monetary policy.

Q) Didn't it take a crisis for everybody to move-- isn't that a indictment on the coordiination process?
A)We have never made the case that the coordination process is perfect." ....."But the important thing is that these things get resolved for the good of the overall

objective of world growth. In this case they were resolved. It's worked once again, very, very well."

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 15, 1992

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS IN HAWAII AFFECTED BY HURRICANE INIKI

The Bureau of the Public Debt took action to assist victims of Hurricane Iniki that hit Hawaii by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners on the following islands: Kahoolawe, Kauai, Lanai, Maui, Niihau and Oahu. The emergency procedures will remain in effect through October 31, 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 areas. 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. They 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 Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the words "Hurricane Iniki" 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.

oOo

PA-107

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
September 15, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 20,400 million, to be issued September 24, 1992. This offering will result in a paydown for the Treasury of about $ 2,825 million, as the maturing bills are outstanding in the amount of $ 23,216 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, September 21, 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 $ 10,200 million, representing an additional amount of bills dated June 25, 1992 and to mature December 24, 1992 (CUSIP No. 912794 ZW 7), currently outstanding in the amount of $ 11,650 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 10,200 million, to be dated September 24, 1992 and to mature March 25, 1993 (CUSIP No. 912794 B6 0).

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

The bills will be issued for cash and in exchange for Treasury bills maturing September 24, 1992. In addition to the maturing 13-week and 26-week bills, there are $ 12,563 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 $ 2,959 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $ 3,089 million as agents for foreign and international monetary authorities, and $ 6,954 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-1973

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.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
September 16, 1992

CONTACT: Keith Carroll
202-622-2930

Statement of Secretary of the Treasury
Nicholas F. Brady
on Millicent Fenwick

Millicent Fenwick was a family friend of 50 years and I will miss her. She served Bernardsville, Somerset County, the state of New Jersey and the United States with selfless dedication. She was a champion of the people and carried out her duties with strong conviction and courage.

You always knew where Mrs. Fenwick stood and whether you agreed with her or not, you knew her position was grounded in principle and carried out with the public trust in mind.

All of us in New Jersey have lost a leader and a friend.

oOo

NB-1974

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
SEPTEMBER 16, 1992

CONTACT: ANNE KELLY WILLIAMS
(202) 622-2960

TREASURY TRANSMITS LEGISLATION TO PROVIDE EMERGENCY REGULATORY RELIEF AUTHORITY TO BANKING AND THRIFT REGULATORS

The Treasury Department today transmitted legislation to Congress to provide emergency waiver authority to banking and thrift regulators (including credit unions). This legislation is a result of Secretary Nicholas F. Brady's meeting with regulators and representatives of the banking community in Florida last Wednesday. The legislation grants regulators the discretion to modify or waive regulatory constraints that obstruct the flow of banking and credit services to major disaster areas -- after taking into consideration any effects these actions may have on the safety and soundness of the banking institutions. This legislation has the support of all federal banking agencies.

"The recent disasters of Hurricanes Andrew and Iniki have destroyed homes and businesses and shattered the local economies in Florida, Louisiana, and Hawaii," said Secretary Brady. "Current law does not provide regulators with sufficient flexibility to deal with the impact of national disasters. Our legislation provides the regulators with this critical flexibility to promote the rebuilding efforts while maintaining the safety and soundness of the banking system."

In addition to weighing safety and soundness considerations, the legislation requires that:

- o regulatory agencies modify or waive regulatory requirements only to the extent that they restrict activities or operations that would benefit major disaster or emergency areas;

- o any such action must be taken within one year from the date on which the President declares an emergency or major disaster;

- o all such actions must be published in the <u>Federal Register</u> to ensure openness and accountability.

NB-1975

Today's legislation was the first formal action taken by the Hurricane Andrew Task Force formed by Treasury last week (see attached list of members.) This follows up a series of actions already taken by the regulators including:

- o Issuance of the Joint Interagency Statement (OCC, OTS, Federal Reserve and FDIC) on Supervisory Practices Regarding Depository Institutions and Borrowers Affected by Hurricane Andrew which encourages bankers to work with borrowers in communities affected by the recent hurricane. The statement notes that prudent efforts to adjust or alter terms on existing loans in these areas should not be subject to examiner criticism.

- o The Office of the Comptroller of the Currency (OCC) has waived procedures by banks to establish temporary branch facilities at new locations within communities damaged by Hurricane Andrew and has delayed or postponed examinations of South Miami banks.

- o The Office of Thrift Supervision (OTS) has written to CEOs of thrifts in the affected areas to urge them specifically to work with borrowers to restructure or increase loans, consider temporarily waiving charges for late payments, take advantage of the Community Investment and the Affordable Housing Programs in their areas and in general reach out to communities and assess credit needs.

- o The National Credit Union Association (NCUA) postponed regulatory examinations of credit unions in the affected areas; urged affected credit unions to adopt liberal emergency lending policies and keep their loan windows open, instructed affected credit unions they could waive scheduled payments for up to 90 days for their members and could waive or reduce interest charges on emergency loans.

# # #

HURRICANE ANDREW TASK FORCE

John Dugan
Assistant Secretary for Domestic Finance
Treasury Department

Robert Miailovich
Director of Supervision
The Federal Deposit Insurance Corporation (FDIC)

Richard Spillenkothen
Director of Bank Supervision and Regulation
The Federal Reserve

Kevin Bailey
Executive Assistant to the Senior Deputy Comptroller
for Bank Supervision and Operations
Office of Comptroller of the Currency (OCC)

Caryn Gorman
Assistant Director, Major Cases
Office of Thrift Supervision (OTS)

Michael Riley
Director of Examinations and Insurance
National Credit Union Association (NCUA)

DEPARTMENT OF THE TREASURY
WASHINGTON

GENERAL COUNSEL

September 16, 1992

Honorable Dan Quayle
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

There is transmitted herewith a legislative proposal to relieve the regulatory burden on depository institutions and credit unions that are doing business or that seek to do business in an emergency or major disaster area, and a section-by-section analysis of the proposal.

Hurricane Andrew devastated large areas of south Florida and south-central Louisiana, destroying homes and businesses. Local economies were shattered. Now Hurricane Iniki has wreaked similar havoc on the Island of Kauai.

On September 9, Secretary Brady travelled to south Florida to meet with local banks and their regulators and discuss measures that would facilitate the fullest possible participation by banks in the rebuilding effort. In the course of that meeting it became clear that in this period of severe economic distress, rules and regulations written for normal times are inhibiting banks from providing critical services -- particularly credit services -- to these ravaged communities.

For example, the banking laws generally require that an appraisal be conducted in connection with most loan transactions that are secured by real estate. Compliance with this rule by traditional appraisal methods is virtually impossible -- and unnecessary -- when entire neighborhoods have been destroyed.

Ample credit and other banking services are never needed more than in times of emergency or major disaster. To ensure that credit is available where it is most essential, we are proposing legislation that would grant the federal banking agencies discretion to modify or waive regulatory constraints -- after full consideration of safety and soundness demands -- that interfere with the flow of banking services to emergency or major disaster areas.

This legislation is strictly intended to solve problems like those that have arisen in areas stricken by Hurricanes Andrew and Iniki. The regulators could modify or waive regulatory requirements only to the extent that they impede activities or operations in an emergency or major disaster area, and such an action could be taken only within one year from the date on which the emergency or major disaster is declared by the President. Any such regulatory action must be published in the Federal Register to ensure proper accountability.

We believe that this is a sound approach to problems that have surfaced in the wake of Hurricanes Andrew and Iniki, and that are likely to arise in connection with future emergencies or major disasters. It would permit the regulators to respond promptly and flexibly as regulatory obstacles are identified, speeding economic recovery in major disaster areas.

It would be appreciated if you would lay the draft legislation before the Senate. Identical draft legislation has been transmitted to the Speaker of the House.

The Office of Management and Budget has advised that there is no objection from the standpoint of the Administration's program to the submission of this proposed legislation to the Congress and that its enactment would be in accord with the program of the President.

Sincerely,

Jeanne S. Archibald

Jeanne S. Archibald
General Counsel

Enclosures

A BILL

To relieve the regulatory burden on depository institutions and credit unions that are doing business or that seek to do business in an emergency or major disaster area and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. EMERGENCY EXEMPTIONS FROM REGULATIONS FOR DEPOSITORY INSTITUTIONS.

The Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) is amended by adding at the end thereof the following new section:

"SEC. 42. EMERGENCY EXEMPTIONS FROM REGULATORY REQUIREMENTS.

"(a) IN GENERAL.-- Notwithstanding any other provision of law and subject to subsection (b), each appropriate Federal banking agency is authorized, as necessary or appropriate, to waive, modify or otherwise change any of its regulatory requirements applicable to insured depository institutions under its supervision that are doing business or that seek to do business in an emergency or major disaster area.

"(b) DETERMINATION REQUIRED.-- An appropriate Federal banking agency may waive, modify or otherwise change any of its regulatory requirements pursuant to subsection (a) only if:

"(1) it has considered, after consultation with the other Federal banking agencies, whether such action is likely to threaten the safety and soundness of the insured depository institutions;

"(2) such action is limited to the activities or operations that insured depository institutions are doing or seek to do in the emergency or major disaster area; and

"(3) such action is taken with respect to a particular emergency or major disaster area within one year from the date on which the President determines, pursuant to section 301 of the Disaster Relief and Emergency Assistance Act (42 U.S.C. § 5141), that an emergency or major disaster exists in such area. The appropriate Federal banking agency may determine the period for which any waiver, modification or change in its regulatory requirements made pursuant to this section may remain in effect.

"(c) DEFINITION.-- For purposes of this section, the term 'emergency or major disaster area' means an area in which the President, pursuant to sections 102 and 301 of the Disaster Relief and Emergency Assistance Act (42 U.S.C. §§ 5122, 5141), has determined that an emergency or major disaster exists.

"(d) PUBLICATION REQUIRED.-- Any action taken by an appropriate Federal banking agency under subsection (a) shall be published in the Federal Register and shall not be subject to the requirements of the Administrative Procedure

Act.

"(e) EXCEPTION.-- This section shall not apply to sections 102 and 202 of the Flood Disaster Protection Act of 1973, as amended, 42 U.S.C. §§ 4012a and 4106.".

SEC. 2. EMERGENCY EXEMPTIONS FROM REGULATIONS FOR CREDIT UNIONS.

The Federal Credit Union Act (12 U.S.C. 1751 et seq.) is amended by adding at the end of Title II the following new section:

"SEC. 215. EMERGENCY EXEMPTIONS FROM REGULATORY REQUIREMENTS.

"(a) IN GENERAL.-- Notwithstanding any other provision of law and subject to subsection (b), the National Credit Union Administration is authorized, as necessary or appropriate, to waive, modify or otherwise change any of its regulatory requirements applicable to insured credit unions under its supervision that are doing business or that seek to do business in an emergency or major disaster area.

"(b) DETERMINATION REQUIRED.-- The National Credit Union Administration may waive, modify or otherwise change any of its regulatory requirements pursuant to subsection (a) only if--

"(1) it has considered whether such action is likely to threaten the safety and soundness of the insured credit unions;

"(2) such action is limited to the activities or operations that insured credit unions are doing or seek to do in the emergency or major disaster area; and

"(3) such action is taken with respect to a particular emergency or major disaster area within one year from the date on which the President determines, pursuant to section 301 of the Disaster Relief and Emergency Assistance Act (42 U.S.C. § 5141), that an emergency or major disaster exists in such area. The National Credit Union Administration may determine the period for which any waiver, modification or change in its regulatory requirements made pursuant to this section may remain in effect.

"(c) DEFINITION.-- For purposes of this section, the term 'emergency or major disaster area' means an area in which the President, pursuant to sections 102 and 301 of the Disaster Relief and Emergency Assistance Act (42 U.S.C. §§ 5122, 5141), has determined that an emergency or major disaster exists.

"(d) PUBLICATION REQUIRED.-- Any action taken by the National Credit Union Administration under subsection (a) shall be published in the Federal Register and shall not be subject to the requirements of the Administrative Procedure Act.

"(e) EXCEPTION.-- This section shall not apply to sections 102 and 202 of the Flood Disaster Protection Act of 1973, as amended, 42 U.S.C. §§ 4012a and 4106."

SECTION-BY-SECTION ANALYSIS

SEC. 1. EMERGENCY EXEMPTIONS FROM REGULATIONS FOR DEPOSITORY INSTITUTIONS. This section generally allows each appropriate Federal banking agency, under certain criteria, to waive, modify or otherwise change any of its regulatory requirements applicable to insured depository institutions under its supervision that are doing business or that seek to do business in an emergency or major disaster area. An appropriate Federal banking agency may take such an action only after it has considered, in consultation with the other Federal banking agencies, whether such action is likely to threaten the safety and soundness of the insured depository institutions. Moreover, any waiver or modification must be limited to the activities or operations that insured depository institutions are doing or seek to do in the emergency or major disaster area, and must be taken with respect to a particular emergency or major disaster area within one year from the date on which the President determines that an emergency or major disaster exists in such area.

SEC. 2. EMERGENCY EXEMPTIONS FROM REGULATIONS FOR CREDIT UNIONS. This section generally allows the National Credit Union Administration, under certain criteria, to waive, modify or otherwise change any of its regulatory requirements applicable to insured credit unions under its supervision that are doing business or that seek to do business in an emergency or major disaster area. The NCUA must consider whether such action is likely to threaten the safety and soundness of the insured credit unions. Moreover, any waiver or modification must be limited to the activities or operations that insured credit unions are doing or seek to do in the emergency or major disaster area, and must be taken with respect to a particular emergency or major disaster area within one year from the date on which the President determines that an emergency or major disaster exists in such area.

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
September 16, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $25,000 MILLION

The Treasury will auction $14,500 million of 2-year notes and $10,500 million of 5-year notes to refund $19,000 million of securities maturing September 30, 1992, and to raise about $6,000 million new cash. The $19,000 million of maturing securities are those held by the public, including $1,400 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

As the Treasury announced on September 3, 1992, the 2- and 5-year note auctions in September will be the first ones in the year-long Treasury experiment with the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders.

The $25,000 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $1,905 million of the maturing securities that may be refunded by issuing additional amounts of the new securities.

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

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Attachment

NB-1976

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC

OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED SEPTEMBER 30, 1992

September 16, 1992

<u>Amount Offered to the Public</u> ...	$14,500 million	$10,500 million
<u>Description of Security</u>:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series AE-1994 (CUSIP No. 912827 G8 9)	Series R-1997 (CUSIP No. 912827 G9 7)
Maturity date	September 30, 1994	September 30, 1997
Interest rate	To be determined based on the highest accepted bid	To be determined based on the highest accepted bid
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	March 31 and September 30	March 31 and September 30
Minimum denomination available .	$5,000	$1,000
<u>Terms of Sale</u>:		
Method of sale	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full up to $5,000,000	Accepted in full up to $5,000,000
Accrued interest payable by investor	None	None
<u>Key Dates</u>:		
Receipt of tenders	Tuesday, September 22, 1992	Wednesday, September 23, 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 ...	Wednesday, September 30, 1992	Wednesday, September 30, 1992
b) readily-collectible check ...	Monday, September 28, 1992	Monday, September 28, 1992

TREASURY NEWS

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

TEXT AS PREPARED FOR DELIVERY

Contact: Scott Dykema
(202) 622-2960

THE PROSPECT OF HEMISPHERIC INTEGRATION:
GROWTH AND OPPORTUNITY FOR AMERICANS -- NORTH AND SOUTH

Remarks prepared for delivery by
The Honorable Olin L. Wethington*
Assistant Secretary of the Treasury for International Affairs
at the
Florida International Bankers Association
Miami, Florida
September 17, 1992

I'm pleased to speak to you today about the Bush Administration's Enterprise for the Americas Initiative and the North American Free Trade Agreement.

By responding to and shaping the course of change, these two initiatives are benefitting people abroad and here at home. They hold great promise for future prosperity. They demonstrate the linkage between foreign and domestic policy in the new global economy. And they are consistent with values that helped make this country the world's leading economic power -- open trade and investment.

Reflect for a minute on the dramatic change that has taken place in Latin America. A decade ago, this region was the front line of the Third World debt crisis: exports plummeted; interest charges on the region's huge debt soared; new loans and investment dried up; capital fled in massive volumes. The international banking and financial system was threatened as the difficulties of debt service spread from country to country. The Latin American people suffered deeply as their incomes declined, social services were trimmed, and inflation skyrocketed.

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* - These remarks were delivered by Treasury Deputy Assistant Secretary James Fall because of a last-minute scheduling conflict of Mr. Wethington's.

NB-1977

Now, however, the US and Latin America are working together in a partnership based on mutual respect rather than on dependency. In the 1990s, a new Latin America has emerged from the crisis of the 1980s. The revolution has been quiet but dramatic. Evidence of change is now everywhere, including in the formerly war-torn countries of Central America:

- o Real growth -- negative in the 1980s -- now averages approximately three percent for the region. For Mexico, Chile, Argentina, and Venezuela, GDP is increasing in the range of four to nine percent.

- o Inflation has been reduced by two-thirds since 1989.

- o Latin America's reserves have doubled.

- o Some $40 billion in private capital flowed into the region last year, eight times the flow in 1989. (Bear in mind that flows were negative for years in the mid-1980s.) More than half of the new flow is in the form of equity, which will now contribute to the region's permanent capital base and support productive investment.

- o Latin stock markets are booming, with spectacular returns to investors of over 100 percent in 1991 alone. U.S. companies are increasing their investments in response to more open investment climates, more positive growth prospects, and reduced trade barriers. Latin firms are also increasingly raising equity in the U.S. through public offerings or private placements.

But the advantages to the people of the region are not only economic. In Latin America, free societies are following free markets. Democratically elected governments are now in place from Santiago to Managua to Buenos Aires. And many are predicting that the last bastion of Communism in this hemisphere, about 90 miles south of here, isn't long for this world.

Today I'd like to briefly review the Administration's policy toward Latin America and the benefit it holds for America, including the just-announced North American Free Trade Agreement, or "NAFTA." The NAFTA stands as a model for future trade liberalization in this hemisphere and throughout the world.

Our Economic Policy in Latin America

This Administration's economic policy in Latin America has achieved four fundamental goals. We have reduced debt, changed the tenor of hemispheric relations, supported free market reforms, and layed the groundwork for a hemispheric free trade zone. I'll address each of these areas in turn.

First, this Administration has addressed the debt crisis in Latin America under what has been labelled the "Brady Plan." This strategy, unveiled in March of 1989, has been a success. Its key premise was straightforward: recognition by banks and governments that outstanding debt was not worth its face value. This was essential to a financial workout and was the basis for realistic negotiations between the debtor nations and creditor banks on debt and debt service reduction. Debt and debt service reduction has made sense, and has helped spur new investment and growth in the region. And it gave the debtor nations incentive to continue their reform efforts by offering hope of reduced debt burdens.

Following the most recent agreements in principle with Argentina and Brazil, almost all the major debtor nations have reached debt reduction or refinancing agreements with their commercial banks. These cover 92 percent of the major debtors' outstanding commercial bank debt, or some $240 billion. When the Argentine and Brazilian agreements are completed, we expect the strategy to have produced over $50 billion in effective debt reduction, while lifting much of the remaining debt burden from the debtors' backs through market-based collateralization.

The agreements have restructured commercial bank debt into tradeable securities to broaden its appeal and usability in markets. A whole new market for LDC debt has developed as a result, which will subject both borrowers and lenders to the discipline of the market. For the international financial community, and especially for U.S. banks, the Latin debt crisis of the 1980s is now clearly behind them. Exposure and risk have declined, while capital has increased. The workout has been considerably less painful for commercial banks than the bleak market they faced in 1988. Billions of dollars are now flowing back into profits or serving as a buffer against other loan losses.

Second, the our Latin American policy has changed the tenor of relations in the region. The President's Enterprise for the Americas Initiative (EAI), announced in 1990, is transforming the hemisphere. This is a three-part initiative involving trade, investment and debt reduction. Dependency has been replaced by mutual respect and a new partnership between North and South. Through open trade and investment -- rather than providing more and more aid -- we're establishing a system where all nations benefit from increasing flows of capital and commerce.

Third, because free markets lead not only to prosperity but also to free societies, we have supported market reforms throughout the region. The EAI is built on the principle that development and prosperity will come to Latin America through creating the kind of open an liberal investment climate in those countries that will attract the capital needed for development --

both in the return of Latin American "flight capital" and in new foreign direct investment. We have supported this policy by offering relief from AID, Ex-Im, CCC and PL-480 debt to those countries that adopt major economic reforms, including investment reform. We have also supported investment sector reform loans by multilateral institutions such as the World Bank and the Inter-American Development Bank.

Fourth, we have, through the NAFTA, laid the groundwork for a future hemispheric free trade zone. I'll return to that subject at length in a moment.

<u>The Benefits to America of Our Latin American Economic Policy</u>

First I'd like to describe some of the <u>domestic</u> benefits Americans -- and Floridians -- receive from our trade, investment and debt policies in Latin America. The simple fact is that, when Latin American economies are healthy and growing, our own economy directly benefits through increasing exports and export-related jobs. For example:

- Since 1988, nearly 70 percent of U.S. economic growth has derived from increased exports.

- 1 in 7 dollars of U.S. exports now go to Latin America, which is our fastest growing regional export market.

- We've seen an 80 percent increase in exports to the region in the past 4 years. First quarter 1992 exports surged more than 32 percent over first quarter 1991 levels.

- This isn't just trade with Mexico: exports to 19 countries increased by more than 20 percent each between the first quarter of 1991 and the first quarter of 1992.

- We are extremely competitive in this region. We account for 57% of this region's imports from industrial countries -- vs. 29% for Europe and 11% for Japan. At the same time, we had a trade surplus with the region of $886 million last year.

- Florida, because of its location and the efforts of people like you, has also benefitted from stronger economies to the south. In 1990, Florida exported $7.7 billion to the region -- up $2.5 billion from 1987. In 1990, Florida was far and away the largest US state in exports to the Caribbean Basin.

The bottom line, of course, is jobs for American workers.

The North American Free Trade Agreement

When the NAFTA is approved by Congress, we can expect even more benefits to flow to the American worker. NAFTA reduces barriers to trade and investment between the three nations. Most tariff and other barriers are immediately dropped -- although a few are phased out over ten or fifteen year periods to ease the transition in sensitive industries. This is also the first trade agreement to include significant environmental provisions. NAFTA's benefits flow directly from impressive figures such as these:

- The combined NAFTA market will contain over 360 million customers and a combined total output of over $6 trillion.

- Today, Canada and Mexico are our first and third largest trading partners. US exports to Canada support approximately 1.5 million US jobs -- including 113,000 that were created between 1988 and 1990. And our exports to Mexico have almost tripled since 1987 -- now supporting over 600,000 US jobs.

- Virtually all studies agree that NAFTA will produce a net increase in US jobs. A recent International Trade Commission study found a high degree of unanimity regarding the job effects of NAFTA" -- with studies projecting net job gains of 90,000 to 180,000 jobs.

At the same time, this Administration has recognized that the NAFTA may entail some adjustment in particular industries. So, transition rules and safeguards for sensitive industries are built into the NAFTA. Sensitive sectors receive transition periods of from 10 to 15 years. Safeguards in the agreement allow reimposition of tariffs in certain industries if imports "surge" and threaten US jobs. Of course, traditional trade law remedies -- such as antidumping and countervailing duty cases -- are still available in all sectors.

To help support the small number of workers who may be displaced, President Bush recently announced an ambitious job retraining program. This program will assure that our workers have the training and skills necessary to compete -- and win -- in the today's global marketplace. All dislocated workers are eligible under the program, which will use a market-based system of vouchers for people to seek the kind of training they want in the fields they choose.

NAFTA and Financial Services

Let me move to the financial services sector implications of NAFTA, which is our area of particular responsibility at the

Treasury Department. In this sector, we have negotiated a NAFTA chapter that we believe gives the industry dramatic new opportunities -- particularly in the Mexican market.

Mexico intends to move to a modern and efficient financial system. The decision to privatize its banks, nationalized ten years ago, is one example of this 180 degree change in policy. NAFTA opens to American financial firms a Mexican market now virtually closed. More specifically, the financial services chapter provides:

- o The right to establish financial institutions in the territory of the other parties;
- o Commitment that our financial institutions receive the same treatment as domestically owned firms -- so-called "national treatment";
- o The chapter commits the governments to transparency in the regulatory process and prompt action on applications;
- o Firms obtain access to a formal dispute settlement procedure;
- o The parties are obligated to take no measures that would restrict currently permitted cross-border trade in financial services. They have guaranteed that their residents are free to purchase financial services in the other countries' territory.

During a short transition period - which ends no later than January 1, 2000 - Mexico will be able to impose limits on the size of some categories of financial firms and on the aggregate market share of the foreign-owned firms. We believe that these limits provide sufficient scope for US firms. During the transition period, the size of individual banks will be limited to 1.5 percent of the entire system as measured by net capital. (This implies a maximum capital currently of around $100 million for individual banks. The minimum capital will be around $10 million, or the same as for a Mexican-owned bank.) Total market share for foreign banks will be limited to 8 percent of the system's net capital in the first year and will rise to 15 percent on January 1, 1999.

This market share limitation will be eliminated on January 1, 2000. Mexico reserves the right to reimpose an aggregate limit for three years, but only if the market share of the U.S. and Canadian banks reaches 25 percent prior to January 1, 2004.

Similar arrangements will be applicable to securities firms. Their market share limitation will be increased from ten to twenty percent over the transition period, and be eliminated entirely on January 1, 2000. The individual market share limitation for securities firms during the transition period will be 4 percent.

Insurance firms will have a slightly different transitional regime. There, U.S. firms will have the option of going into Mexico as a joint venture or as a wholly owned subsidiary. US participation in joint ventures will be allowed to increase from 30 percent in 1994 to 51 percent in 1998 to 100 percent ownership by January 1, 2000. Those US insurers already involved in joint ventures can increase to 100 percent ownership even earlier -- on January 1, 1996. There will be no aggregate or individual market share limitations for insurance joint ventures.

Foreign insurers that enter the Mexican market as wholly-owned subsidiaries will be subject to market share limitations. The aggregate market share limitation begins at 6 percent and increases to 12 percent until the limitation is completely lifted on January 1, 2000. During this transition period, the individual firm's market share limitation will be 1.5 percent.

Other types of financial firms - leasing and factoring - will not be subject to individual firm limits, but will have an aggregate market share limitation until January 1, 2000.

Mexico has agreed to create a new type of financial intermediary called a limited scope financial company. It will be able to engage in, for example, consumer finance, mortgage lending, or act as a credit card bank. The kind of firm will not be allowed to accept deposits from the public, but may fund itself in Mexico's capital markets.

What kind of benefits can you, as international bankers, expect to flow from these market-opening provisions? The Mexican government is committed to making Latin America's largest financial market private, efficient and attractive to foreign capital. By establishing in Mexico, you will get access to this rapidly growing financial market. The peso-denominated loan portfolio of Mexican banks increased by 50 percent in 1990 and by a similar amount in 1991. Total loans outstanding amounted to 90 billion dollars at the end of April.

You will also be able to market all the other financial services that a Mexican bank can undertake to offer. Further, you will be able to establish a holding company which can have subsidiaries that engage in banking, securities, foreign exchange trading, leasing and factoring. These auxiliary activities are significant. For example, leasing company assets amount to well over 3 billion dollars and factoring companies have assets approaching 3 billion dollars. In addition, Mexico's stock market, the largest in Latin America, has developed rapidly.

NAFTA as a Model for Global Free Trade

To some, NAFTA may wrongly be seen as a first step towards a world characterized by hostile and exclusive regional trading blocs. In reality, the opposite is true. Free trade agreements like NAFTA add momentum to the global drive towards free trade and support, rather than undercut, efforts in the GATT. The GATT agreement itself contemplates regional free trade zones, and NAFTA is consistent with the GATT. In fact, in many areas, the NAFTA provides greater trade liberalization commitments than the GATT has been able to provide so far.

Trading blocs will emerge only if the parties retreat within themselves, and erect barriers to foreign trade. This is clearly not the path we intend to take. In his economic program -- titled an "Agenda for American Renewal" -- President Bush announced his intention to both conclude the Uruguay Round of GATT and to begin developing a "strategic network of free trade agreements across the Atlantic and the Pacific and in our own hemisphere."

NAFTA will serve as the catalyst for such a network. Other countries will recognize the benefits of launching their economic boats on the surging tide of free trade and free markets -- or risk becoming stranded on a low-growth, protectionist shore. Countries need to make the kind of free trade and open investment reforms NAFTA requires in order to win in the global competition for goods, capital and technology.

Others appear already willing to join us. On their own, other Latin American and Caribbean countries are establishing agreements among themselves to reduce barriers to trade and investment -- within the Southern Cone countries, the Andean Pact, Central America, and the CARICOM group of countries. The President's goal of hemispheric free trade -- and the regional growth and prosperity that accompany it -- is within our grasp if we persevere.

# # #

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
September 17, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $13,790 million of 52-week bills to be issued September 24, 1992 and to mature September 23, 1993 were accepted today (CUSIP: 912794E34).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.02%	3.13%	96.946
High	3.03%	3.14%	96.936
Average	3.02%	3.13%	96.946

Tenders at the high discount rate were allotted 7%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	12,200	12,200
New York	38,123,070	13,030,710
Philadelphia	6,620	6,620
Cleveland	10,815	10,815
Richmond	9,740	9,740
Atlanta	12,330	10,470
Chicago	1,685,530	188,530
St. Louis	8,375	6,445
Minneapolis	1,760	1,760
Kansas City	10,200	10,200
Dallas	5,120	5,120
San Francisco	944,015	263,085
Treasury	234,630	234,630
TOTALS	$41,064,405	$13,790,325
Type		
Competitive	$37,733,000	$10,458,920
Noncompetitive	401,405	401,405
Subtotal, Public	$38,134,405	$10,860,325
Federal Reserve	2,800,000	2,800,000
Foreign Official Institutions	130,000	130,000
TOTALS	$41,064,405	$13,790,325

An additional $1,090,000 thousand of bills will be issued to foreign official institutions for new cash.

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TREASURY NEWS

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The Honorable
Nicholas F. Brady
Remarks to the
CNN WORLD ECONOMIC DEVELOPMENT CONGRESS
Washington, D.C.
September 18, 1992

"THE NEW MOBILITY"

Thank you, Tom [Johnson]. I am pleased to be here today with this distinguished group.

We have the great good fortune to be living on the leading edge of the 21st century. That statement may seem premature -- the more widely accepted calculation would still give us seven years to reach the hundred year mark. But when the history of our age is written by the industrious scholars of future generations, it seems clear that they will locate the central turning point -- the end of one era and the beginning of the next -- in the critical 2- or 3-year period from which we are now emerging. The fall of the Berlin Wall, the collapse of the Soviet Union, the dawn of markets and democracies in the East and Latin America, and the restructuring of economic relationships throughout the world -- these are the heralds of the next millennium and the harbingers of a new economic order.

And to find our way in this new world, we must have a clear, articulated sense of where we are heading. For with change come uncertainty and opportunity. Without a sure knowledge of the economic landscape, uncertainty can paralyze and opportunity can be missed. So today I would like to set out my view of that landscape and of the route we will take to cross it.

To begin, we must understand the nature of the profound economic transition through which America and the world have passed during the last four years. In my view, this transition has had two distinct elements: a series of significant but ***temporary*** disruptions, and more important, a structural and ***permanent*** change in the organization of economic competition. This transition is greater than any we have seen since the end of the Second World War -- in some ways greater than any since the Industrial Revolution of the 19th century.

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First, let me give you some examples of the significant but temporary disruptions:

- The victory in the Cold War will bring immeasurable benefits to the world economy as we reduce the enormous burden of military spending. But the benefits of peace did not come free: this country now shows the strain of having carried the burden of the free world's defense for almost 50 years. The strain becomes most clear when we look at the transition to a peacetime economy and the difficult adjustment that is involved for defense workers, military families and their communities -- strains being felt not only by workers in California and New England, but in Poland and Russia as well.

  These are adjustments that we have made at war's end in the past, and we will work through them again. Indeed, when America last went through a comparable period -- the first Truman Administration, just after World War II -- gross national product actually **fell 19%** in a single year. This puts today's positive growth of over 2% in perspective -- and we should also keep in mind that Truman's **second** term, after the restructuring was well in hand, saw the economy grow by almost 25% in four years. Yet the knowledge that today's ills are temporary does not lessen the strain now on the people involved or on the economy as a whole.

- Second, the volume of debt in every segment of American society over the last four years has been at historically high levels. Those levels, however, are at last 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.

- Third, 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. U.S. banks, thrifts and insurance companies have become hesitant to provide the credit needed to fuel the economy. But the Third World Debt crisis is now behind us and the S&L cleanup nearly complete. Banks are more liquid than they have been in decades, better capitalized than at any time since 1966, have the highest earnings in a decade, and are poised to finance expansion.

- Fourth, the restructuring process that has been going on in American industry over the last several years is nearly finished.

- Finally, we have been in a period of restrained world growth. Most observers, however, including the IMF in its updated outlook, expect that growth in the United States and throughout the industrialized world will increase significantly in 1993. This growth will in large part be the result of a U.S.-led G-7 consensus on growth. Japan's recently designed fiscal stimulus package, the largest in its history, certainly supports that trend. And amid Europe's response to the current turmoil this week lies the solution to strengthened European growth. Lower interest rates in Europe are inevitable if that continent is to return to growth. It is important that a return to growth be accomplished as soon as possible.

These five conditions have formed a significant brake on economic growth in the short term. And their cumulative effect on our whole economy has been much greater than the sum of their parts: by undermining business and consumer attitudes, they have created an additional, independent restraint on growth. Fortunately, each of these factors is now on the road to resolution. But as that resolution occurs, we will see even more clearly the significant long-term transformation of economic competition -- a transformation that technology has made possible in the last decade. The old industrial age is fading and being replaced by a new global economy, characterized by a new mobility of capital, ideas and information.

That long-term transformation is the topic of this conference: the increasing globalization of the market for goods and services of every kind. Twenty years ago most businesses could find their customers on a road map; today they need a world map. Today's new mobility has become a way of life not only in our travel, but in our daily work:

- In today's market, businesses are not bound to a particular country by the dictates of geography. Over an electronic network, separate elements of the production process can be directed from anywhere in the world.

- What is more, information and intellectual capital have become increasingly important parts of the production process. As this happens, new businesses are created that depend less on physical capital and more on skills and know-how that are not limited to a particular location. These new businesses are in fact becoming leading industries of the new century: Microsoft, for example, has a total stock market value of $22 billion; Amgen, a leading biotechnology company, has a stock market value of $9 billion; and McCaw Cellular's is $5 billion.

- Improvements in transportation combined with new information and communication systems have dramatically shortened the transportation "pipeline" for goods, allowing companies to maintain "just-in-time" inventory methods even with far flung suppliers. An aircraft factory in Central California can fax a parts order to a supplier in Leeds, England and receive the components by air courier the next day.

- Capital moves around the world at the touch of a button -- without government approval -- to wherever it will bring the highest return, whether that is Paris, Texas or Paris, France. To put the mobility of capital in perspective, each day well in excess of $1 trillion of international transactions move through or are settled at the New York Federal Reserve Bank.

These changes have transformed the economic order that has existed through most of our lives. This is understandably unsettling to workers and their families. Vigorous international competition has caused some of our nation's largest and most well-known companies to restructure, not only General Motors, but also Ford, IBM, AT&T and others. American workers go to the parts shelf and see labels that concern them. As George Shultz recently remarked:

> A few months ago I saw a snapshot of a shipping label for some integrated circuits produced by an American firm. It said, "Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, Mexico, Philippines. The exact country of origin is unknown." That label says a lot about where current trends are taking us.

But those who try to convince Americans that they are diminished in the new economic world of free trade and the new mobility are wrong.

In the United States, the fact is that the new mobility will create millions of new and better jobs -- and these export-based jobs pay, on average, 17% more than the average wage. Other countries will also gain jobs and increase their standard of living. What is more, the new mobility will increase standards of living in developing countries around the world. As a result they will buy more high-value-added products from the U.S. That is why Mexico has increased its imports from Michigan and Illinois and why our industrial states stand to benefit.

This new mobility that characterizes the world economy has an exact parallel in the political sphere. Just as world commerce flows ever more freely across national borders, the invigorating breeze of political freedom has swept through much of the former communist world. Indeed, the new mobility of information -- epitomized by CNN and the personal computer -- played a central role in destroying the old authoritarian regimes.

Those who would make political hay out of people's fears of increased trade are doing so for narrow political advantage. They are the newest members of the Flat Earth Society. Most of the economic conditions that are giving America its leadership in the industries of this new world economy -- industries like pharmaceuticals, software, telecommunications, aerospace, and computers -- are reinforced by trade, and will continue to give us economic leadership if we follow policies that nurture these conditions.

The fact is, Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. And in tomorrow's world, where intellectual capital will be as important as physical capital, innovation, which is the application of intellectual capital to the process of production, will produce more jobs than traditional advantages in physical costs.

In this we Americans are fortunate. Innovation and change are our heritage -- from that summer's day in 1776 when we established a new theory of government to the most recent flight of the space shuttle Atlantis. Americans are uniquely well positioned to succeed in the innovation-driven world of the 21st century.

But the challenge -- for policymakers and for private enterprise of all countries -- will be maintaining and improving the conditions for innovation and growth. This will not only involve domestic policies, but equally important the completion of treaties such as NAFTA in this hemisphere and GATT on a worldwide scale.

What are the conditions that count in this country? First and foremost, competition -- unfettered by government interference. The areas in which America -- or any country -- is strongest internationally are those in which there is substantial domestic competition. When the U.S. has a strong competitive industry, it is a leader internationally and a provider of attractive jobs domestically. There are over 5,000 software companies in the United States, competing against subsidized companies in Japan, France, and elsewhere -- yet this fragmented U.S. industry has 75% of the world's market share.

Second, investment. The pharmaceutical companies in my home state of New Jersey are world class because they have invested and reinvested. We must develop policies that increase the amount of investment in America and that lengthen the horizon of that investment to allow sensible, long-term management decisions; policies that direct capital to productive investment, not government coffers.

Third, education. The new mobility will reward a highly skilled, educated workforce. Government policies that facilitate this skill development and make it available to everyone will be critical for future gains in national productivity. I refer not just to general education, but industry-specific training as well.

Finally, trade. If competition is the lever with which a country will increase its productivity in the 21st century, trade is the fulcrum. As an industry develops new products, it must be able to sell them in the widest possible market. As the new mobility raises the living standards of previously underdeveloped countries, it will create almost 4 1/2 billion potential new customers for the world's goods. And trade has the added merit of ensuring that each country -- indeed, each region -- benefits from the stiff wind of competition in increasing its productivity and thus raising its standard of living.

For the last four years President Bush has set forth a program to pursue exactly those policies. His administration has strived to shape a competitive environment by fighting unnecessary government regulation and resisting calls to shield our industries from world competition. And we have sponsored programs to encourage the development of small businesses -- through tax incentives, regulatory relief, and expansion of credit availability -- which create two-thirds of the jobs in our country.

To spur investment, we have reduced capital costs by achieving the lowest interest rates and lowest inflation levels in a generation -- and we propose to reduce costs even further through differential capital gains tax rates and a lower tax burden on businesses and individuals.

We have proposed ambitious education reforms -- both in general schooling and specialized training. Our America 2000 program, including school choice and the creation of national testing standards, would ensure we have the best trained, most highly skilled people to do tomorrow's jobs. Workers who lose jobs in one area must have help retraining; the Administration's proposals would replace the fragmentation of current Federal programs with a coordinated, market-driven system, and triple the funding currently provided for training.

We have acted vigorously to ensure free, open and growing markets around the world. The recently completed North American Free Trade Agreement with Canada and Mexico will link us with our neighbors to the North and South to create an historic trade partnership.

And finally, we have been at the forefront of international efforts to increase world growth.

There are those who will say that, while this analysis is right, the prescription is wrong. International competition, they will say, is destructive -- trade saps jobs, choice guts schools, incentives to invest help only the rich. All these critics have to offer -- tricked up in the latest jargon -- are the tired remedies of protectionism, taxes, and government direction.

But we cannot hold on to the old world, and we should not want to. As we embark on the 21st century, we must do so with daring, foresight -- and a little pride. We know what we must do to take advantage of the new mobility, to succeed in the new world economy; indeed we are doing it now. Americans in particular have every reason to be optimistic about this new world, for the field of play is our native one: creating, risking, competing, achieving. With optimism, energy and commitment, we can meet the challenges of this new century together. Thank you.

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TREASURY NEWS

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Contact: Rich Myers
(202) 622-2930

REMARKS BY SECRETARY NICHOLAS F. BRADY
SIGNING OF THE PROPOSED TAX TREATY WITH MEXICO
SEPTEMBER 18, 1992

It's my pleasure to welcome to the Treasury Department Pedro Aspe, Mexico's Secretary of Finance and Public Credit.

Secretary Aspe joins us today for the signing of the first tax treaty between the United States and Mexico. The treaty is a significant milestone in economic relations between our two nations, especially when seen against the historic backdrop of the North American Free Trade Agreement.

The proposed tax treaty will complement NAFTA, an important initiative in President Bush's economic growth agenda, and improve the investment climate in both the U.S. and Mexico, building on an already vibrant economic partnership.

The tax treaty will benefit U.S. residents that are shareholders in Mexican companies, and those who license technology into Mexico, and such diverse groups as students, artists, athletes and charities.

Like other U.S. tax treaties, it specifies how income earned in the U.S. and Mexico may be taxed by the other country. It prevents double taxation through foreign tax credits or by exempting the income from further tax.

The treaty also provides for administrative cooperation between the tax authorities of the two countries to prevent income tax evasion.

The Administration will seek approval of the tax treaty from the U.S. Congress, and Secretary Aspe will seek approval from the Mexican Congress.

Under the leadership of President Bush and President Salinas, our two nations have forged an economic partnership on many fronts.

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First, we have largely solved the Latin American debt crisis, and the economic stability of the Americas is better because of this.

Second, we have made great strides in advancing a new vision of economic growth for our hemisphere as embodied in the Enterprise for the Americas Initiative (EAI). Our neighbors in Latin America and the Caribbean have responded with enthusiasm to the prospect of increased trade, investment and growth. Their commitment to economic reform, led by Mexico, is producing results.

And finally, with the NAFTA, we will achieve the world's largest and richest trading zone -- a single North American market with 360 million consumers and $6 trillion in annual output. NAFTA will create jobs on both sides of the border and forge opportunities for prosperity that only open markets and unfettered competition can bring.

Today's treaty signing is representative of the close economic partnerships developing between the United States and our neighbors to the South, including Mexico.

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TREASURY NEWS

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

FOR RELEASE:
September 18, 1992

CONTACT: RICH MYERS
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FACT SHEET

PROPOSED INCOME TAX CONVENTION WITH MEXICO

The Treasury Department announced today the signing of a proposed income tax treaty between the United States and Mexico.

The proposed treaty was signed in Washington on September 18, 1992, by Secretary of the Treasury, Nicholas Brady for the United States, and Secretary of Finance and Public Credit Pedro Aspe, for Mexico. The proposed treaty is subject to ratification. It would be the first such treaty between the two countries.

The basic purposes of the treaty are to avoid double taxation of income and to prevent fiscal evasion. By establishing clear rules of taxing jurisdiction, reducing the overall tax on investment income flowing between the two countries, granting relief from double taxation, and providing for cooperation between the tax authorities, the proposed treaty would improve the climate for bilateral investment and contribute to expanded economic and cultural relations between the two countries. It is regarded by both countries as a significant complement to the proposed North American Free Trade Agreement.

In particular, the proposed treaty establishes rules for the taxation of various categories of income in the country in which the income arises (the "source" country) and confirms that the country of residence of the beneficial owner of the income will avoid double taxation by providing a foreign tax credit. In the case of dividends, interest, branch taxes, and royalties, the proposed treaty sets specific ceilings on the rate of tax which may be imposed at source. For dividends, the maximum rate is 5 percent on dividends from corporations to shareholders owning more than 10 percent of the voting stock. For other dividends, the rate is 15 percent for the first five years that the treaty is in effect and then declines to 10 percent. In the case of interest, the maximum rate of tax at source is 15 percent, reduced to 10 percent on interest on bank loans and on publicly traded securities.

More...

U.S. - Mexico Tax Treaty

After five years, the 15 percent rate is reduced to 10 percent on interest paid by banks or by purchasers of machinery and equipment on credit, and the 10 percent rate is reduced to 4.9 percent on interest on bank loans and on publicly traded securities. Exemptions apply to interest paid to or by either government, on certain loans from government banks, and on interest derived by certain pension funds. The branch tax rate is 5 percent on the dividend equivalent amount and 10 percent on excess interest; the latter is reduced to 4.9 percent after five years for bank branches. Royalties may be taxed at source at not more than 10 percent of the gross amount.

The proposed treaty permits a tax at source on certain gains on the sale of corporate shares by substantial shareholders.

The proposed treaty includes a provision for reciprocal recognition of certain charitable organizations, based on common rules and procedures in both countries, and provides for competent authority cooperation in enforcing compliance. Under this provision, U.S. taxpayers may deduct contributions to Mexican charities, subject to the same limitations that apply to domestic contributions.

The limitation of benefits, or "treaty shopping," provision in the treaty includes an expansion of some of the safe harbor standards to include participation by residents of Canada, Mexico and the United States once the North American Free Trade Agreement is in force.

Mexico's asset tax is not covered as an income tax under the proposed treaty, but there are provisions to ensure that its application does not contravene income tax benefits provided by the treaty.

The proposed treaty is subject to ratification. It will enter into force when both countries have completed their constitutional requirements and have so notified each other. The withholding rate provisions affecting dividends, interest, and royalties will take effect on the first day of the second month after the entry into force if that takes place prior to July 1, and otherwise on the January 1 following entry into force. With respect to other taxes, the treaty will apply to taxable periods on or after the first day of January of the year following the entry into force of the treaty.

Copies of the proposed treaty may be obtained from the Office of Public Affairs, Room 2315, Department of the Treasury, Washington, D.C., 20220, telephone (202) 622-2960.

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as transmitted to the U.S. Senate

CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNITED MEXICAN STATES FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United States of America and the Government of the United Mexican States, desiring to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, which shall hereafter be referred to as the "Convention," have agreed as follows:

ARTICLE 1

General Scope

1. This Convention shall apply to persons who are residents of one or both of the Contracting States, except as otherwise provided in the Convention.

2. The Convention shall not restrict in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded:

a) by the laws of either Contracting State; or

b) by any other agreement between the Contracting States.

3. Notwithstanding any provision of the Convention except paragraph 4, a Contracting State may tax its residents (as determined under Article 4 (Residence)), and by reason of citizenship may tax its citizens, as if the Convention had not come into effect. For this purpose, the term "citizen" shall include a former citizen whose loss of citizenship had as one of its principal purposes the avoidance of tax, but only for a period of 10 years following such loss.

4. The provisions of paragraph 3 shall not affect

a) the benefits conferred by a Contracting State under paragraph 2 of Article 9 (Associated Enterprises), under paragraphs 1(b) and 3 of Article 19 (Pensions, Annuities, Alimony, and Child Support), and under Articles 22 (Exempt Organizations), 24 (Relief From Double Taxation), 25 (Non-Discrimination), and 26 (Mutual Agreement Procedure); and

b) the benefits conferred by a Contracting State under Articles 20 (Government Service), 21 (Students), and 28 (Diplomatic Agents and Consular Officers), upon individuals who are neither citizens of, nor lawful permanent residents in, that State.

ARTICLE 2

Taxes Covered by the Convention

1. This Convention applies to income taxes imposed by each of the Contracting States.

2. There shall be regarded as taxes on income all taxes imposed on total income or any part of income, including tax on gains derived from the alienation of movable or immovable property.

3. The existing taxes to which this Convention shall apply are:

a) in the United States: the Federal income taxes imposed by the Internal Revenue Code (but excluding the accumulated earnings tax, the personal holding company tax, and social security taxes), and the excise taxes imposed on insurance premiums paid to foreign insurers and the excise taxes with respect to private foundations to the extent necessary to implement the provisions of paragraph 4 of Article 22 (Exempt Organizations). The Convention shall, however, apply to the excise taxes imposed on insurance premiums paid to foreign insurers only to the extent that the risks covered by such premiums are not reinsured with a person not entitled to exemption from such taxes under this or any other convention which applies to these taxes.

b) in Mexico: the income tax imposed by the Income Tax Law.

4. The Convention shall apply also to any identical or substantially similar taxes which are imposed after the date of signature of the Convention in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of any significant changes which have been made in their respective taxation laws and of any official published material concerning the application of the Convention, including explanations, regulations, rulings, or judicial decisions.

ARTICLE 3

General Definitions

1. For the purposes of this Convention, unless the context otherwise requires, it is understood that:

a) the term "person" includes an individual or legal person, including a company, a corporation, a trust, a partnership, an association, an estate, and any other body of persons;

b) the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;

c) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean, respectively, an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;

d) the term "international traffic" means any transport by a ship or aircraft, except when such transport is solely between places in the other Contracting State;

e) the term "competent authority" means:

(i) in the United States, the Secretary of the Treasury or his authorized representative; and

(ii) in Mexico, the Ministry of Finance and Public Credit;

f) the term "United States" means the United States as defined in the Internal Revenue Code;

g) the term "Mexico" means Mexico as defined in the Federal Fiscal Code;

h) the term "national" means

(i) any individual possessing the nationality of a Contracting State; and

(ii) any legal person, association, or other entity deriving its status as such from the law in force in a Contracting State.

2. As regards the application of the Convention by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning which it has under the laws of that State concerning the taxes to which the Convention applies.

ARTICLE 4

Residence

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation, or any other criterion of a similar nature. However, this term does not include any person who is liable to tax in that State in respect only of income from sources in that State.

2. Where by reason of the provisions of paragraph 1, an individual is a resident of both Contracting States, then his residence shall be determined as follows:

a) he shall be deemed to be a resident of the State in which he has a permanent home available to him; if he has a permanent home available to him in both Contracting States, he shall be deemed to be a resident of the State with which his personal and economic relations are closer (center of vital interests);

b) if the State in which he has his center of vital interests cannot be determined, or if he does not have a permanent home available to him in either State, he shall be deemed to be a resident of the State in which he has an habitual abode;

c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident of the State of which he is a national;

d) in any other case, the competent authorities of the Contracting States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Contracting States, such person shall not be treated as a resident of either Contracting State for purposes of this Convention.

ARTICLE 5

Permanent Establishment

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially:

a) a place of management;

b) a branch;

c) an office;

d) a factory;

e) a workshop; and

f) a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources.

3. The term "permanent establishment" shall also include a building site or construction or installation project, or an installation or drilling rig or ship used for the exploration or exploitation of natural resources, or supervisory activity in connection therewith, but only if such building site, construction or activity lasts more than six months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

a) the use of facilities solely for the purpose of storage, display, or delivery of goods or merchandise belonging to the enterprise;

b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display, or delivery;

c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

e) the maintenance of a fixed place of business solely for the purpose of advertising, supplying information, scientific research, or for the preparations relating to the placement of loans, or for similar activities which have a preparatory or auxiliary character, for the enterprise;

f) the maintenance of a fixed place of business solely for any combination of the activities mentioned in subparagraphs a) to e), provided that the total activity of the combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person - other than an agent of an independent status to whom paragraph 7 applies - is acting in a Contracting State on behalf of an enterprise of the other Contracting State, that enterprise shall be deemed to have a permanent establishment in the first-mentioned State in respect of any activities which that person undertakes for the enterprise, if such person:

a) has and habitually exercises in that State an authority to conclude contracts in the name of the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph; or

b) has no such authority but habitually processes in the first-mentioned State on behalf of the enterprise goods or merchandise maintained in that State by that enterprise, provided that such processing is carried on using assets furnished, directly or indirectly, by that enterprise or any associated enterprise.

6. Notwithstanding the foregoing provisions of this Article, an insurance enterprise of a Contracting State shall, except in regard to reinsurance, be deemed to have a permanent establishment in the other Contracting State if it collects premiums in the territory of that other State or insures risks situated therein through a representative other than an agent of an independent status to whom paragraph 7 applies.

7. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent, or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business and that in their commercial or financial relations with the enterprise conditions are not made or imposed that differ from those generally agreed to by independent agents.

8. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

ARTICLE 6

Income From Immovable Property (Real Property)

1. Income derived by a resident of a Contracting State from immovable property (real property), including income from agriculture or forestry, situated in the other Contracting State may be taxed in that other State.

2. The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources. Ships, boats, aircraft, and containers shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise and to income from immovable property used for the performance of independent personal services.

5. A resident of a Contracting State who is liable to tax in the other Contracting State on income from real property situated in the other Contracting State may elect for any taxable year to compute the tax on such income on a net basis as if such income were attributable to a permanent establishment in such other State. Any such election shall be binding for the taxable year of the election and all subsequent taxable years unless the competent authority of the Contracting State in which the immovable property is situated agrees to terminate the election.

ARTICLE 7

Business Profits

1. The business profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on or has carried on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on or has carried on business as aforesaid, the business profits of the enterprise may be taxed in the other State but only so much of them as is attributable to

a) that permanent establishment;

b) sales in that other State of goods or merchandise of the same or similar kind as the goods or merchandise sold through that permanent establishment.

However, the profits derived from the sales described in subparagraph (b) shall not be taxable in the other State if the enterprise demonstrates that such sales have been carried out for reasons other than obtaining a benefit under this Convention.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on or has carried on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the business profits which it might be expected to make if it were a distinct and independent enterprise engaged in the same or similar activities under the same or similar conditions.

3. In determining the business profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated or elsewhere. However, no such deduction shall be allowed in respect of such amounts, if any, paid (otherwise than towards reimbursement of actual expenses) by the permanent establishment to the head office of the enterprise or any of its other offices by way of royalties, fees or other similar payments in return for the use of patents or other rights, by way of commission, for specific services

performed or for management, or except in the case of a banking enterprise, by way of interest on moneys lent to the permanent establishment.

4. No business profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

5. For the purposes of this Convention, the business profits to be attributed to the permanent establishment shall include only the profits or losses derived from the assets or activities of the permanent establishment and shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

6. Where business profits include items of income which are dealt with separately in other Articles of the Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

ARTICLE 8

Shipping and Air Transport

1. Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.

2. For the purposes of this Article, profits from the operation of ships or aircraft in international traffic include profits derived from the rental of ships or aircraft on a full

(time or voyage) basis. They also include profits from the rental of ships or aircraft on a bareboat basis if such ships or aircraft are operated in international traffic by the lessee and such rental profits are accessory to other profits described in paragraph 1. The operation of ships or aircraft in international traffic by an enterprise does not include transportation by any other means of transport provided directly by such enterprise or the provision of overnight accommodation.

3. Profits of an enterprise of a Contracting State from the use, demurrage or rental of containers (including trailers, barges, and related equipment for the transport of containers) used in international traffic shall be taxable only in that State.

4. The provisions of paragraphs 1 and 3 shall also apply to profits from participation in a pool, a joint business, or an international operating agency.

ARTICLE 9

Associated Enterprises

1. Where:

a) an enterprise of a Contracting State participates directly or indirectly in the management, control, or capital of an enterprise of the other Contracting State; or

b) the same persons participate directly or indirectly in the management, control, or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which, but for those conditions, would have accrued to one of the enterprises, but by reason of those conditions have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

2. Where a Contracting State includes in the profits of an enterprise of that State, and taxes accordingly, profits on which an enterprise of the other Contracting State has been charged to tax in that other State, and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State, shall in

accordance with paragraph 2 of Article 26 (Mutual Agreement Procedure), make a corresponding adjustment to the amount of the tax charged therein on those profits if it agrees with the adjustment made by the first-mentioned Contracting State. In determining such adjustment, due regard shall be paid to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

3. The provisions of paragraph 1 shall not limit any provisions of the law of either Contracting State which permit the distribution, apportionment, or allocation of income, deductions, credits, or allowances between persons, whether or not residents of a Contracting State, owned or controlled directly or indirectly by the same interests when necessary in order to prevent evasion of taxes or clearly to reflect the income of any such persons.

ARTICLE 10

Dividends

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. Such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the laws of that State. However, if the beneficial owner of the dividends is a resident of the other

Contracting State, except as provided in paragraph 3, the tax so charged shall not exceed:

a) 5 percent of the gross amount of the dividend if the beneficial owner is a company which owns at least 10 percent of the voting stock of the company paying the dividends;

b) 10 percent of the gross amount of the dividends in other cases.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. For a period of five years from the date on which the provisions of this Article take effect, the rate of 15 percent will apply in place of the rate provided in subparagraph b) of paragraph 2.

4. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident.

5. The provisions of paragraphs 1, 2 and 3 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on or has carried on business in the

other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs or has performed in that other State independent personal services from a fixed base situated therein, and the dividends are attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

6. A Contracting State may not impose any tax on dividends paid by a company which is not a resident of that State, except insofar as the dividends are paid to a resident of that State or the dividends are attributable to a permanent establishment or a fixed base situated in that State.

ARTICLE 11

Interest

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. Such interest may also be taxed in the Contracting State in which it arises and according to the laws of that

State. However, if the beneficial owner of the interest is a resident of the other Contracting State, except as provided in paragraph 3, the tax so charged shall not exceed:

a) 4.9 percent of the gross amount of interest derived from:

(i) loans granted by banks, including investment banks and savings banks, and insurance companies;

(ii) bonds or securities that are regularly and substantially traded on a recognized securities market;

b) 10 percent of the gross amount of interest if the beneficial owner is not a person described in subparagraph a) and the interest is:

(i) paid by banks, including investment banks and savings banks;

(ii) paid by the purchaser of machinery and equipment to a beneficial owner that is the seller of the machinery and equipment in connection with a sale on credit; and

c) 15 percent of the gross amount of the interest in all other cases.

For purposes of this paragraph, interest paid on back-to-back loans will be taxed in accordance with the domestic law of the State in which the interest arises.

3. For a period of five years from the date on which the provisions of this Article take effect:

a) the rate of 10 percent shall apply in place of the rate provided in subparagraph a) of paragraph 2; and

b) the rate of 15 percent shall apply in place of the rate provided in subparagraph b) of paragraph 2.

4. Notwithstanding the provisions of paragraphs 2 and 3, interest referred to in paragraph 1 may only be taxed in the Contracting State in which the beneficial owner is a resident if:

a) the beneficial owner is a Contracting State, a political subdivision or local authority;

b) the interest is paid by any of the persons mentioned in subparagraph a);

c) the beneficial owner is a trust, company, or other organization constituted and operated exclusively to administer or provide benefits under one or more plans established to provide pension, retirement or other employee benefits and its income is generally exempt from tax in that Contracting State;

d) the interest arises in the United States and is paid in respect of a loan for a period of not less than three years made, guaranteed, or insured, or a credit for such period extended, guaranteed, or insured, by the Banco Nacional de Comercio Exterior, S.N.C. or Nacional Financiera, S.N.C.; or

e) the interest arises in Mexico and is paid in respect of a loan for a period of not less than three years made, guaranteed, or insured, or a credit for such period extended, guaranteed, or insured, by the Export-Import Bank or the Overseas Private Investment Corporation.

5. The term "interest" as used in this Convention means income from debt-claims of every kind, whether or not secured by a mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities, and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds, or debentures, as well as all other income that is treated as income from money lent by the taxation law of the Contracting State in which the income arises.

6. The provisions of paragraphs 1, 2 and 3 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State, in which the interest arises, through a permanent establishment situated therein, or performs or has performed in that other State independent personal services from a fixed base situated therein, and the interest is attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

7. Interest shall be deemed to arise in a Contracting State when the payer is that State itself or a political subdivision, local authority, or resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.

8. Where there is a special relationship between the payer and the beneficial owner or between both of them and some other person and the amount of the interest, for whatever reason, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

ARTICLE 11A

Branch Tax

1. A company which is a resident of a Contracting State may be subject in the other Contracting State to a tax in addition to the tax allowable under the other provisions of this Convention.

2. Such additional tax, however, may not exceed:

a) 5 percent of the "dividend equivalent amount" of the business profits of the company which are effectively connected (or treated as effectively connected) with the conduct of a trade or business in the other Contracting State and which are either attributable to a permanent establishment in that other State or subject to a tax in that other State under Article 6 (Income from Immovable Property (Real Property)) or Article 13 (Capital Gains); and

b) 10 percent of the excess, if any, of:

(i) interest deductible in one or more taxable years in computing the corporation's profits that are either attributable to a permanent establishment in the other Contracting State or subject to tax in that other State under Article 6 (Income from Immovable Property (Real Property)) or Article 13 (Capital Gains), over

(ii) the interest paid by or from such permanent establishment or trade or business. In the case of the persons referred to in subparagraph (a)(i) of paragraph 2 of Article 11 (Interest), the tax imposed under this subparagraph shall not be levied at a rate in excess of 4.9 percent, after a period of five years from the date on which Article 11 takes effect.

ARTICLE 12

Royalties

1. Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the beneficial owner is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the royalty.

3. The term "royalties" as used in this Convention means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic, or scientific work, including motion picture films and works on film or tapes or other means of reproduction for use in connection with television, any patent, trademark, design or model, plan, secret formula or process, or other like right or property, or for information concerning industrial, commercial, or scientific experience as well as for the use of or the right to use industrial, commercial, or scientific equipment not constituting immovable property referred to in Article 6. The term "royalties" also includes gains derived from the alienation of any such right or property which are contingent on the productivity, use, or disposition thereof.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State, in which the royalties arise, through a permanent establishment situated therein, or performs or has performed in that other State independent personal services from a fixed base situated therein, and the royalties are attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

5. Where there is a special relationship between the payer and the beneficial owner or between both of them and some other person and the amount of the royalties, for whatever reason, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of the Convention.

6. Royalties shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or a resident of that State. However,

a) Where the person paying the royalties, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the liability to pay the royalties was incurred, and such royalties are borne by such permanent establishment or fixed base, then such royalties shall be deemed to arise in that State in which the permanent establishment or fixed base is situated; or

b) where subparagraph a) does not operate to deem royalties as arising in either Contracting State and the royalties relate to the use of, or the right to use, in one of the Contracting States, any property or right described in paragraph 3, they shall be deemed to arise in that State.

ARTICLE 13

Capital Gains

1. Gains derived by a resident of a Contracting State from the alienation of immovable property, as defined in Article 6, and situated in the other Contracting State may be taxed in that other State.

2. For the purposes of this Article, the term "immovable property situated in the other Contracting State" includes:

a) immovable property referred to in Article 6 (Income from Immovable Property (Real Property)) which is situated in that other Contracting State,

b) an interest in a partnership, trust, or estate to the extent that its assets consist of immovable property situated in that other State,

c) shares or comparable interests in a company or other legal person that is, or is treated as, a resident of that other Contracting State, the assets of which company consist or consisted at least 50 percent, by value, of immovable property situated in that other Contracting State, and

d) any other right that allows the use or enjoyment of immovable property situated in that other Contracting State.

3. Gains from the alienation of personal property which are attributable to a permanent establishment which an enterprise of a Contracting State has or had in the other Contracting State, or which are attributable to a fixed base which is or was available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, and gains from the alienation of such a permanent establishment (alone or with the whole enterprise) or such a fixed base, may be taxed in that other State.

4. In addition to gains taxable in accordance with the provisions of the preceding paragraphs of this Article, gains derived by a resident of a Contracting State from the alienation of stock, participation, or other rights in the capital of a company or other legal person which is a resident of the other Contracting State may be taxed in that other Contracting State if the recipient of the gain, during the 12-month period preceding such alienation, had a participation, directly or indirectly, of at least 25 percent in the capital of that company or other legal person. Such gains shall be deemed to arise in that other State to the extent necessary to avoid double taxation.

5. Gains derived by an enterprise of a Contracting State from the alienation of ships, aircraft, and containers (including trailers, barges, and related equipment for the

transport of containers) used principally in international traffic shall be taxable only in that State.

6. Gains described in Article 12 (Royalties) shall be taxable only in accordance with the provisions of Article 12.

7. Gains from the alienation of any property other than property referred to in paragraphs 1 through 6 shall be taxable only in the Contracting State of which the alienator is a resident.

ARTICLE 14

Independent Personal Services

1. Income derived by an individual who is a resident of a Contracting State from the performance of personal services or other activities of a similar nature in an independent capacity shall be taxable only in that State, unless:

a) such resident has a fixed base in the other Contracting State which he regularly makes use of in the course of performing his activities; in such case, the other State may tax the income from services performed in that other State which is attributable to that fixed base; or

b) the resident is present in the other Contracting State for a period or periods exceeding in the aggregate

183 days within a 12-month period; in such case, the other State may tax the income attributable to activities performed in that other State.

2. The term "personal services" includes especially independent scientific, literary or artistic activities, educational or teaching activities, as well as independent activities of physicians, lawyers, engineers, architects, dentists and accountants.

ARTICLE 15

Dependent Personal Services

1. Subject to the provisions of Articles 16 (Directors' Fees), 19 (Pensions, Annuities, Alimony, and Child Support) and 20 (Government Service), salaries, wages, and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in a 12 month period;

b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State; and

c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.

ARTICLE 16

Directors' Fees

Directors' fees and similar payments derived by a resident of a Contracting State for services performed outside such Contracting State in his capacity as a director or overseer of a company which is a resident of the other Contracting State may be taxed in that other State.

ARTICLE 17

Limitation on Benefits

1. A person that is a resident of a Contracting State and derives income from the other Contracting State shall be entitled under this Convention to relief from taxation in that other Contracting State only if such person is:

a) an individual;

b) a Contracting State, or a political subdivision or local authority thereof;

c) engaged in the active conduct of a trade or business in the first-mentioned State (other than the business of making or managing investments, unless these activities are banking or insurance activities carried on by a bank or insurance company) and the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business;

d) either

(i) a company in whose principal class of shares there is substantial and regular trading on a recognized securities exchange located in either of the States;

(ii) a company which is wholly owned, directly or indirectly, by a resident of that Contracting State in whose principal class of shares there is such substantial and regular trading on a recognized securities exchange located in either of the States; or

(iii) a company which is

A) wholly owned, directly or indirectly, by residents of any state that is a party to the North American Free Trade Agreement ("NAFTA") in whose principal class of shares there is such substantial and regular trading on a recognized securities exchange; and

B) more than 50 percent owned, directly or indirectly, by residents of either Contracting State in whose principal class of shares there is such substantial and regular trading on a recognized securities exchange located in such a State;

e) an entity that is a not-for-profit organization (including a pension fund or private foundation) and that, by virtue of that status, is generally exempt from income taxation in its Contracting State of residence, provided that more than half of the beneficiaries, members or participants, if any, in such organization are entitled, under this Article, to the benefits of this Convention;

f) a person that satisfies both of the following conditions:

(i) more than 50 percent of the beneficial interest in such person (or in the case of a company, more than 50 percent of the number of shares of each class of the company's shares) is owned, directly or indirectly, by persons entitled to the benefits of this Convention under subparagraphs a), b), d) or e); and

(ii) less than 50 percent of the gross income of such person is used, directly or indirectly, to meet liabilities (including liabilities for interest or royalties) to persons not entitled to the benefits of this Convention under subparagraphs a), b), d) or e); or

g) a person claiming benefits under Articles 10 (Dividends), 11 (Interest), 11A (Branch Tax), or 12 (Royalties) that satisfies the following conditions:

(i) more than 30 percent of the beneficial interest in such person (or, in the case of a company, more than 30 percent of the number of shares of each class of the company's shares) is owned, directly or indirectly, by persons resident in a Contracting State and entitled to the benefits of this Convention under subparagraphs a), b), d), or e);

(ii) more than 60 percent of the beneficial interest in such person (or, in the case of a company, more than 60 percent of the number of shares of each class of the company's shares) is owned, directly or indirectly, by persons resident in a state that is a party to NAFTA; and

(iii)

A) less than 70 percent of the gross income of such person is used directly or indirectly to meet liabilities (including liabilities for interest or royalties) to persons that are not entitled to the benefits of this Convention under subparagraphs a), b), d), or e); and

B) less than 40 percent of the gross income of such person is used directly or indirectly to meet liabilities (including liabilities for interest or royalties) to persons that are neither entitled to the benefits of this

Convention under subparagraphs a), b), d), or e) nor residents of a state that is a party to NAFTA. A resident of a state that is a party to NAFTA shall only be considered as owning a beneficial interest (or share) under subparagraph (g)(ii) if that state has a comprehensive income tax Convention with the Contracting State from which the income is derived and if the particular dividend, profit or income subject to the branch tax, interest, or royalty payment, in respect of which benefits under this Convention are claimed, would be subject to a rate of tax under that Convention that is no less favorable than the rate of tax applicable to such resident under Articles 10 (Dividends), 11 (Interest), 11A (Branch Tax), or 12 (Royalties) of this Convention.

2. A person which is not entitled to the benefits of the Convention pursuant to the provisions of paragraph 1 may, nevertheless, demonstrate to the competent authority of the State in which the income arises that such person should be granted the benefits of the Convention. For this purpose, one of the factors the competent authorities shall take into account is whether the establishment, acquisition, and maintenance of such person and the conduct of its operations did not have as one of its principal purposes the obtaining of benefits under the Convention.

ARTICLE 18

Artistes and Athletes

1. Notwithstanding the provisions of Articles 14 (Independent Personal Services) and 15 (Dependent Personal Services), income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio, or television artiste, or a musician, or as an athlete, from his personal activities as such exercised in the other Contracting State, may be taxed in that other State, except where the amount of the remuneration derived by such entertainer or athlete, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed $3,000 United States dollars or its equivalent in Mexican pesos for the taxable year concerned. The other Contracting State may impose tax by withholding on the entire amount of all gross receipts derived by such entertainer or athlete during the taxable year concerned, provided that such entertainer or athlete is entitled to receive a refund of such taxes when there is no tax liability for such taxable year in accordance with the provisions of this Convention.

2. Where income in respect of activities exercised by an entertainer or an athlete in his capacity as such accrues not to the entertainer or athlete but to another person, that income of that other person may, notwithstanding the provisions of

Articles 7 (Business Profits), 14 (Independent Personal Services), and 15 (Dependent Personal Services) be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised, unless it is established that neither the entertainer or athlete nor persons related thereto participate directly or indirectly in the profits of that other person in any manner, including the receipt of deferred remuneration, bonuses, fees, dividends, partnership distributions, or other distributions.

3. Notwithstanding the provisions of paragraphs 1 and 2, income derived by a resident of a Contracting State as an entertainer or athlete shall be exempt from tax by the other Contracting State if the visit to that other State is substantially supported by public funds of the first-mentioned State or a political subdivision or local authority thereof.

ARTICLE 19

Pensions, Annuities, Alimony, and Child Support

1. Subject to the provisions of Article 20 (Government Service):

a) pensions and other similar remuneration derived and beneficially owned by a resident of a Contracting State in consideration of past employment by that individual or another individual resident of the same Contracting State shall be taxable only in that State; and

b) social security benefits and other public pensions paid by a Contracting State to a resident of the other Contracting State or a citizen of the United States shall be taxable only in the first-mentioned State.

2. Annuities derived and beneficially owned by an individual resident of a Contracting State shall be taxable only in that State. The term "annuities" as used in this paragraph means a stated sum paid periodically at stated times during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered).

3. Alimony and child support payments made by a resident of a Contracting State to a resident of the other Contracting State shall be taxable only in the first-mentioned State. The term "alimony" as used in this paragraph means periodic payments made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support. The term "child support" as used in this paragraph means periodic payments for the support of a minor child made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support.

ARTICLE 20

Government Service

1. (a) Remuneration, other than a pension, paid by a Contracting State or a political subdivision or local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.

(b) However, such remuneration shall be taxable only in the other Contracting State if the services are rendered in that State and the individual is a resident of that State who:

(i) is a national of that State; or

(ii) did not become a resident of that State solely for the purpose of rendering the services.

2. (a) Any pension paid directly by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services previously rendered to that State or subdivision or authority shall be taxable only in that State.

(b) However, such pension shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that State.

3. The provisions of Articles 14 (Independent Personal Services), 15 (Dependent Personal Services), 16 (Directors' Fees), 18 (Artistes and Athletes), and 19 (Pensions, Annuities, Alimony, and Child Support) shall apply to remuneration and pensions in respect of commercial or industrial activities carried on by a Contracting State or a political subdivision or a local authority thereof.

ARTICLE 21

Students

Payments which a student or business apprentice who is or was immediately before visiting a Contracting State a resident of the other Contracting State and who is present in the first-mentioned State solely for the purpose of his education or training receives for the purpose of his maintenance, education or training shall not be taxed in that State, provided that such payments arise from sources, or are remitted from, outside that State.

ARTICLE 22

Exempt Organizations

1. An organization resident in a Contracting State which is operated exclusively for religious, scientific, literary, educational or other charitable purposes shall be exempt from tax in the other Contracting State in respect of items of income, if and to the extent that:

a) such organization is exempt from tax in the first-mentioned Contracting State, and

b) the items of income of such organization would be exempt from tax in the other Contracting State if received by an organization recognized in such other Contracting State as exempt from tax as an organization with religious, scientific, literary, educational, or other charitable purposes.

2. If the Contracting States agree that a provision of Mexican law provides standards for organizations authorized to receive deductible contributions that are essentially equivalent to the standards of United States law for public charities:

a) an organization determined by Mexican authorities to meet such standards shall be treated, for purposes of grants by United States private foundations and public charities, as a public charity under United States law, and

b) contributions by a citizen or resident of the United States to such an organization shall be treated as charitable contributions to a public charity under United States law.

However, contributions described in subparagraph b) shall not be deductible in any taxable year to the extent that they exceed an amount determined by applying the limitations of the laws of the United States in respect to the deductibility of charitable contributions to public charities (as they may be amended from time to time without changing the general principle hereof) to the income of such citizen or resident arising in Mexico. The preceding sentence shall not be interpreted to allow in any taxable year deductions for charitable contributions in excess of the amount allowed under the limitations of the laws of the United States in respect to the deductibility of charitable contributions.

3. If the Contracting States agree that United States law provides standards for public charities that are essentially equivalent to the standards of Mexican law for organizations authorized to receive deductible contributions, contributions by a resident of Mexico to an organization determined by the United States authorities to meet the standards for public charities shall be treated as deductible contributions under Mexican law. However, such contributions shall not be deductible in any taxable year to the extent that they exceed an amount determined by applying the limitations of the laws of Mexico in respect to the deductibility of contributions to organizations authorized

to receive deductible contributions (as they may be amended from time to time without changing the general principle hereof) to the income of such resident arising in the United States. The preceding sentence shall not be interpreted to allow in any taxable year deductions for contributions in excess of the amount allowed under the limitations of the laws of Mexico in respect to the deductibility of contributions.

4. A religious, scientific, literary, educational or other charitable organization which is resident in Mexico and which has received substantially all of its support from persons other than citizens or residents of the United States shall be exempt in the United States from the United States excise taxes imposed with respect to private foundations.

ARTICLE 23

Other Income

Items of income of a resident of a Contracting State not dealt with in the foregoing Articles of this Convention and arising in the other Contracting State may be taxed in that other State.

ARTICLE 24

Relief From Double Taxation

1. In accordance with the provisions and subject to the limitations of the law of the Contracting States (as it may be amended from time to time without changing the general principle hereof), a Contracting State shall allow to a resident of that State and, in the case of the United States to a citizen of the United States, as a credit against the income tax of that State:

a) the income tax paid to the other Contracting State by or on behalf of such resident or citizen; and

b) in the case of a company owning at least 10 percent of the voting stock of a company which is a resident of the other Contracting State and from which the first-mentioned company receives dividends, the income tax paid to the other State by or on behalf of the distributing company with respect to the profits out of which the dividends are paid.

For purposes of this paragraph, the taxes referred to in paragraphs 3 and 4 of Article 2 (Taxes Covered) shall be treated as income taxes, including any profits tax imposed on distributions but only to the extent such tax is imposed on earnings and profits as calculated under the tax accounting rules of the Contracting State of the beneficial owner of such distribution.

2. Where in accordance with the provisions of the Convention income derived by a resident of Mexico is exempt from tax in that State, Mexico may nevertheless, in calculating the amount of tax on the remaining income of such resident, take into account the exempted income.

3. For the purposes of allowing relief from double taxation pursuant to this Article, income derived by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with this Convention (other than solely by reason of citizenship in accordance with paragraph 2 of Article 1 (General Scope)) shall be deemed to arise in that other State. Except as provided in Article 13 (Capital Gains), the preceding sentence is subject to such source rules in the domestic laws of the Contracting States as apply for purposes of limiting the foreign tax credit.

4. Where a United States citizen is a resident of Mexico:

a) With respect to items of income obtained by said citizen that are exempt from United States tax or that are subject to a reduced rate of United States tax, Mexico shall allow as a credit against Mexican tax, subject to the provisions of Mexican tax law regarding credit for foreign tax, only the tax paid, if any, that the United States may impose under the provisions of this Convention, other than taxes that may be imposed solely by reason of citizenship of the taxpayer;

b) For purposes of computing United States tax, the United States shall allow as a credit against United States tax the income tax paid to Mexico after the credit referred to in subparagraph a); but the credit so allowed shall not reduce that portion of the United States tax that is creditable against the Mexican tax in accordance with subparagraph a);

c) For the exclusive purpose of relieving double taxation in the United States under subparagraph b) items of income referred to in subparagraph a) shall be deemed to arise in Mexico to the extent necessary to avoid double taxation of such income under subparagraph b).

ARTICLE 25

Non-Discrimination

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected. However, a national of a Contracting State who is subject to tax in that State on worldwide income and a national of the other Contracting State who is not taxed in the

first-mentioned State on worldwide income are not in the same circumstances.

2. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This provision shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs, and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.

3. Nothing in this Article shall be construed as preventing either of the Contracting States from imposing the tax described in Article 11A (Branch Tax) or, in the case of Mexico, from denying a deduction for presumed expenses (without regard to where such expenses are incurred) to an individual resident of the United States who elects to be subject to tax in Mexico on a net basis with respect to income from real property.

4. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 8 of Article 11 (Interest), or paragraph 5 of Article 12 (Royalties) apply, interest, royalties, and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable profits of

the first-mentioned resident, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State.

5. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

6. The provisions of this Article shall, notwithstanding the provisions of Article 2 (Taxes Covered), apply to all taxes imposed by a Contracting State or a political subdivision or local authority thereof.

ARTICLE 26

Mutual Agreement Procedure

1. Where a person considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with the provisions of this Convention, he may, irrespective of the remedies provided by the domestic law of those States, present his case to the competent

authority of the Contracting State of which he is a resident or national.

2. The competent authority shall endeavor, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Convention, provided that the competent authority of the other Contracting State is notified of the case within four and a half years from the due date or the date of filing of the return in that other State, whichever is later. In such case, any agreement reached shall be implemented within ten years from the due date or the date of filing of the return in that other State, whichever is later, or a longer period if permitted by the domestic law of that other State.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. They may also consult together regarding cases not provided for in the Convention.

4. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

5. If any difficulty or doubt arising as to the interpretation or application of this Convention cannot be resolved by the competent authorities pursuant to the previous paragraphs of this Article, the case may, if both competent authorities and the taxpayer(s) agree, be submitted for arbitration, provided that the taxpayer agrees in writing to be bound by the decision of the arbitration board. The decision of the arbitration board in a particular case shall be binding on both States with respect to that case. The procedures shall be established between the States by notes to be exchanged through diplomatic channels. The provisions of this paragraph shall have effect after the States have so agreed through the exchange of diplomatic notes.

ARTICLE 27

Exchange of Information

1. The competent authorities shall exchange information as provided in the Agreement Between the United States of America and the United Mexican States for the Exchange of Information with Respect to Taxes signed on November 9, 1989.

2. In the event such Agreement is terminated, the competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or to administer and enforce the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is not contrary to the Convention. The exchange of information is not restricted by Article 1 (General Scope). Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to individuals or authorities (including judicial and administrative bodies) involved in the determination, assessment, collection, and administration of, the recovery and collection of claims derived from, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes which are the subject of the Convention. Such individuals or authorities shall use the information only for such purposes. These individuals or authorities may disclose the information in public court proceedings or in judicial decisions.

3. For the purposes of this Article, the Convention shall apply, notwithstanding the provisions of Article 2 (Taxes Covered), to all federal taxes.

ARTICLE 28

Diplomatic Agents and Consular Officers

Nothing in this Convention shall affect the fiscal privileges of diplomatic agents or consular officers under the general rules of international law or under the provisions of special agreements.

ARTICLE 29

Entry Into Force

1. The Contracting States shall notify each other when their respective constitutional and statutory requirements for the entry into force of this Convention have been satisfied. The Convention will enter into force on the date of receipt of the later of such notifications.

2. The provisions of the Convention shall have effect:

a) in respect of taxes imposed in accordance with Articles 10 (Dividends), 11 (Interest), and 12 (Royalties), for amounts paid or credited on or after the first day of the second month next following the date on which the Convention enters into force if the Convention enters into force prior to July 1 of that year; otherwise, on the first day of January of the year following the year in which the Convention enters into force;

b) in respect of other taxes, for taxable periods beginning on or after the first day of January of the year following the year in which the Convention enters into force.

3. The existing agreement between the United Mexican States and the United States of America for the avoidance of double taxation of income derived from the operation of ships or aircraft in international traffic concluded by exchange of notes of August 7, 1989, shall terminate upon the entry into force of the Convention. However, the provisions of the said agreement shall continue in effect until the provisions of the Convention, in accordance with the provisions of paragraph 2(b), shall have effect.

ARTICLE 30

Termination

1. This Convention shall remain in force until terminated by a Contracting State. Either Contracting State may terminate the Convention at any time after five years from the date on which the Convention enters into force, provided that at least

six months prior notice of termination has been given through diplomatic channels. In such event, the Convention shall cease to have effect:

a) in respect of taxes imposed in accordance with Articles 10 (Dividends), 11 (Interest), and 12 (Royalties), for amounts paid or credited on or after the first day of the second month next following the expiration of the six months period;

b) in respect of other taxes, for taxable periods beginning on or after the first day of January next following the expiration of the six months period.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed this Convention.

DONE at Washington D.C., in duplicate, in the English and Spanish languages, both texts being equally authentic, this eighteenth day of September, 1992.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:	FOR THE GOVERNMENT OF THE UNITED MEXICAN STATES:
Nicholas F. Brady	[illegible]

PROTOCOL

At the moment of signing the Convention between the Government of the United States of America and the Government of the United Mexican States for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the undersigned have agreed upon the following provisions which shall be an integral part of the Convention.

1. With reference to paragraphs 1(f) and (g) of Article 3 (Definitions),

When referred to in a geographical sense, Mexico and the United States include the areas of the seabed and subsoil adjacent to their respective territorial seas in which they may exercise rights in accordance with domestic legislation and international law.

2. With reference to paragraph 1 of Article 4 (Residence),

For purposes of paragraph 1 of Article 4 it is understood that:

a) Mexico shall consider a United States citizen or an alien admitted to the United States for permanent residence (a "green card" holder) to be a resident of the United States only if the individual has a substantial presence in the United States or would be a resident of the United States and not of another country under the principles of subparagraph a) and b) of paragraph 2 of that Article;

b) a partnership, estate, or trust is a resident of a Contracting State only to the extent that the income it derives is subject to tax in that State as the income of a resident, either in the hands of the partnership, estate or trust, or in the hands of its partners or beneficiaries;

c) the term "resident" also includes a Contracting State or a political subdivision or local authority thereof.

3. <u>With reference to Articles 5 (Permanent Establishment), 6 (Income from Immovable Property (Real Property)), 7 (Business Profits) and 12 (Royalties),</u>

It is understood that the asset tax imposed by Mexico shall not be applied to residents of the United States that are not subject to tax under the terms of Articles 5 and 7 of this Convention, except for the assets referred to in paragraph 2 of Article 6 and in paragraph 3 of Article 12 that are furnished by those residents to a resident of Mexico. In the former case, Mexico shall grant a credit against the tax on such assets in an amount equal to the income tax that would be imposed under the Mexican Income Tax Law on the gross income (if any) referred to in paragraph 1 of Article 6, whether or not the resident of the United States makes the election under paragraph 5 of Article 6 to be taxed on a net basis, provided less than 50 percent of the United States resident's gross income from such assets is used directly or indirectly to meet liabilities (including liabilities for interest) to persons who are not United States residents. In the latter case, Mexico shall grant a credit against the tax on such assets in an amount equal to the income tax that would have been imposed on the royalties paid (if any) applying the rate of tax provided in the Mexican Income Tax Law instead of the rate provided in Article 12.

4. With reference to Article 7 (Business Profits),

Nothing in this Article shall affect the application of any law of a Contracting State relating to the determination of the tax liability of a person in any case where the information available to the competent authority of that State is inadequate to determine the profits to be attributed to a permanent establishment or in the cases covered by Article 23 of the Income Tax Law of Mexico, provided that, on the basis of the available information, the determination of the profits of the permanent establishment is consistent with the principles stated in this Article.

5. With reference to paragraph 3 of Article 7 (Business Profits),

Expenses allowed as a deduction include a reasonable allocation of research and development expense, interest, and other expenses incurred in the taxable year for the purposes of the enterprise as a whole (or the part thereof which includes the permanent establishment), regardless of where incurred, but only to the extent that such expenses have not been deducted by such enterprise and are not reflected in other deductions allowed to the permanent establishment, such as the deduction for the cost of goods sold or of the value of the purchases.

6. With reference to Article 8 (Shipping and Air Transport),

Residents of the United States, whose profits derived from Mexico may not be taxed by Mexico in accordance with the provisions of Article 8 of the Convention, may not be subject to the Mexican assets tax on the assets used to produce such profits.

7. With reference to Article 9 (Associated Enterprises),

The provisions of paragraph 2 shall not apply in the case of fraud, gross negligence, or willful default.

8. With reference to paragraphs 2 and 3 of Article 10 (Dividends),

a) In the case of the United States, subparagraph a) of paragraph 2 shall not apply to dividends paid by a United States Regulated Investment Company or a Real Estate Investment Trust. Subparagraph b) of paragraph 2 and paragraph 3 shall apply in the case of dividends paid by a Regulated Investment Company. In the case of dividends paid by a Real Estate Investment Trust, subparagraph b) of paragraph 2 and paragraph 3 shall apply if the beneficial owner of the dividends is an individual holding a less than 10 percent interest in the real estate investment trust; otherwise the rate of withholding applicable under domestic law shall apply.

b) If the United States agrees in a treaty with another country to impose a lower rate on dividends than the rate specified in subparagraph a) of paragraph 2, both Contracting States shall apply that lower rate instead of the rate specified in subparagraph a) of that paragraph.

9. With reference to paragraph 3 of Article 7 (Business Profits), paragraph 4 of Article 10 (Dividends), and paragraph 5 of Article 11 (Interest),

If the law of a Contracting State calls for a payment to be characterized in whole or in part as a dividend or limits the deductibility of such payment because of thin capitalization rules or because the relevant debt instrument includes an equity interest, the Contracting State may treat such payment in accordance with such law.

10. With reference to paragraphs 2, 3, and 4 of Article 11 (Interest),

a) The provisions of paragraphs 2, 3, and 4 shall not apply to a Mexican resident that is a holder of a residual interest in a U.S. real estate mortgage investment conduit (REMIC) with respect to any excess inclusion. Upon notification of the United States competent authority by the Mexican competent authority that, after this treaty takes effect, Mexico has authorized the marketing of securitized mortgages in a manner identical to a REMIC, the provisions of paragraphs 2, 3, and 4 also shall not apply to a U.S. resident that is a holder of an interest in any such entity with respect to income that is comparable to an excess inclusion. Moreover, if either of the Contracting States develops an entity that, although not identical to a REMIC, is substantially similar to a REMIC or an instrument that is substantially similar to a residual interest in a REMIC, the competent authorities of the Contracting States shall consult to determine whether the treatment provided in this paragraph for REMICs shall apply to such instrument or entity.

b) With reference to subparagraph b(ii) of paragraph 2 of Article 11, the rate specified shall apply only if the beneficial owner of the interest is the original seller of the machinery and equipment. If the original seller transfers the beneficial ownership of the interest, the identity of the transferee will determine the rate of tax that may be charged upon the interest by the Contracting State in which the interest arises.

11. With reference to paragraph 3 of Article 12 (Royalties),

It is understood that the term "information concerning industrial, commercial or scientific experience" will be defined in accordance with paragraph 12 of the Commentary on Article 12 (Royalties) of the 1977 Model Convention for the Avoidance of Double Taxation with Respect to Taxes on Income and on Capital of the Organization for Economic Cooperation and Development.

12. With reference to paragraph 2 of Article 13 (Capital Gains),

The term "immovable property situated in the other Contracting State," as described in this paragraph, when the United States is that other Contracting State includes a United States real property interest.

13. With reference to paragraph 4 of Article 13 (Capital Gains),

For purposes of this paragraph, no tax shall apply in the case of a transfer of property between members of a group of companies that file a consolidated tax return, to the extent that the consideration received by the transferor consists of participation or other rights in the capital of the transferee or of another company resident in the same Contracting State that owns directly or indirectly 80 percent or more of the voting rights and value of the transferee, if:

a) the transferor and transferee are companies resident in the same Contracting State;

b) before and immediately after the transfer, the transferor or the transferee owns, directly or indirectly, 80 percent or more of the voting rights and value of the other, or a company resident in the same Contracting State owns directly or indirectly (through companies resident in the same Contracting State) 80 percent or more of the voting rights and value of each of them; and

c) for the purpose of determining gain on any subsequent disposition,

(i) the initial cost of the asset for the transferee is determined based on the cost it had for the transferor, increased by any cash or other property paid, or

(ii) the gain is measured by another method that gives substantially the same result.

Notwithstanding the foregoing, if cash or property other than such participation or other rights is received, the amount of the gain (limited to the amount of cash or other property received), may be taxed by the other Contracting State.

14. <u>With reference to paragraph 1 of Article 14 (Independent Personal Services),</u>

Article 14 shall also apply to income derived by a company which is a resident of the United States from the furnishing of personal services through a fixed base in Mexico in accordance with subparagraph a) of paragraph 1. In that case, the company may compute the tax on the income from such services on a net basis as if that income were attributable to a permanent establishment in Mexico.

15. With reference to paragraph 2 of Article 11 (Interest), paragraph 2 of Article 11A (Branch Tax), and paragraph 1 of Article 17 (Limitation on Benefits),

a) For purposes of subparagraph c of paragraph 1 of Article 17 and paragraph 2 of Article 11A, the term "trade or business" means, in the case of Mexico, activities carried on through a permanent establishment as defined in the Income Tax Law of Mexico.

b) For purposes of subparagraph a(ii) of paragraph 2 of Article 11 and subparagraph d) of paragraph 1 of Article 17, the term "recognized securities exchange" means:

(i) the NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the Securities and Exchange Commission as a national securities exchange for purposes of the Securities Exchange Act of 1934;

(ii) stock exchanges duly authorized under the terms of the Stock Market ("Mercado de Valores") Law of January 2, 1975; and

(iii) any other stock exchange agreed upon by the competent authorities of the Contracting States.

c) For purposes of subparagraph f(ii) of paragraph 1 of Article 17, the term "gross income" means gross receipts, or where an enterprise is engaged in a business which includes the manufacture or production of goods, gross receipts reduced by the direct costs of labor and materials attributable to such manufacture or production and paid or payable out of such receipts.

d) the provisions of subparagraphs d(iii) and g of paragraph 1 of Article 17 shall only take effect when NAFTA enters into force.

16. With reference to Article 18 (Artistes and Athletes),

Remuneration derived by an entertainer or athlete who is a resident of a Contracting State shall include remuneration for any personal activities performed in the other Contracting State relating to that individual's reputation as an entertainer or athlete. The provisions of this Article shall not apply to auxiliary or supporting personnel, such as technicians, or to managers or coaches, who shall remain subject to the provisions of Articles 14 and 15.

17. With reference to paragraphs 1, 2, and 3 of Article 22 (Exempt Organizations),

a) The certification made by a Contracting State of the status of a resident of that State as an organization which is operated exclusively for religious, scientific, literary, educational or other charitable purposes and exempt from tax in that State shall be accepted by the other Contracting State for the purpose of allowing such organization to be exempt from tax in that other Contracting State in accordance with the provisions of paragraph 1. However, if the competent authority of the other Contracting State determines that granting an exemption is inappropriate in a specific case or circumstance, the exemption may be denied after consultation with the competent authority of the first Contracting State.

b) The Contracting States agree that:

(i) Article 70-B of the Mexican Income Tax Law and section 509(a)(1) and (2), except for organizations described in section 170(b)(1)(A)(i), of the United States Internal Revenue Code, as interpreted by the governing regulations and administrative rulings of Mexico and the United States, respectively, in effect on the date of the signing of this Convention, provide essentially equivalent standards for organizations within their coverage, within the meaning of paragraphs 2 and 3; and

(ii) Therefore, a finding by the tax authorities of Mexico that an organization qualifies under Article 70-B, or by the United States tax authorities that an organization qualifies under section 509(a)(1) or (2), except for an organization described in section 170(b)(1)(A)(i), shall be accepted by the other Contracting State for the purpose of extending to such organization the benefits provided for in paragraphs 2 and 3. However, if the competent authority of the other Contracting State determines that granting such benefits is inappropriate with respect to a particular organization or type of organization, such benefits may be denied after consultation with the competent authority of the first Contracting State.

18. With reference to paragraph 5 of Article 26 (Mutual Agreement Procedure),

a) After a period of three years after the entry into force of this Convention, the competent authorities shall consult in order to determine whether it is appropriate to make the exchange of diplomatic notes referred to in paragraph 5 of Article 26 (Mutual Agreement Procedure).

b) If the competent authorities of both States agree to submit a disagreement regarding the interpretation or application of this Convention in a specific case to arbitration according to paragraph 5 of Article 26, the following procedures will apply:

(i) If, in applying paragraphs 1 to 4 of Article 26, the competent authorities fail to reach an agreement within two years of the date on which the case was submitted to one of the competent authorities, they may agree to invoke arbitration in a specific case, but only after fully exhausting the procedures available for paragraphs 1 to 4 of Article 26. The competent authorities will not accede to arbitration with respect to matters concerning the tax policy or domestic law of either State.

(ii) The competent authorities shall establish an arbitration board for each specific case in the following manner:

A. An arbitration board shall consist of not fewer than three members. Each competent authority shall appoint the same number of members, and these members shall agree on the appointment of the other member(s). The competent authorities may issue further instructions regarding the criteria for selecting the other member(s) of the arbitration board.

B. Arbitration board member(s) (and their staffs) upon their appointment must agree in writing to abide by and be subject to the applicable confidentiality and disclosure provisions of both States and the Convention. In case those provisions conflict, the most restrictive condition will apply.

(iii) The competent authorities may agree on and instruct the arbitration board regarding specific rules of procedure, such as appointment of a chairman, procedures for reaching a decision, establishment of time limits, etc. Otherwise, the arbitration board shall establish its own rules of procedure consistent with generally accepted principles of equity.

(iv) Taxpayers and/or their representatives shall be afforded the opportunity to present their views to the arbitration board.

(v) The arbitration board shall decide each specific case on the basis of the Convention, giving due consideration to the domestic laws of the States and the principles of international law. The arbitration board will provide to the competent authorities an explanation of its decision. The decision of the arbitration board shall be binding on both States and the taxpayer(s) with respect to that case. While the decision of the arbitration board shall not have precedential effect, it is expected that such decisions ordinarily will be taken into account in subsequent competent authority cases involving the same taxpayer(s), the same issue(s), and substantially similar facts, and may also be taken into account in other cases where appropriate.

(vi) Costs for the arbitration procedure will be borne in the following manner:

A. Each State shall bear the cost of remuneration for the member(s) appointed by it, as well as for its representation in the proceedings before the arbitration board;

B. The cost of remuneration for the other member(s) and all other costs of the arbitration board shall be shared equally between the States; and

C. The arbitration board may decide on a different allocation of costs.

However, if it deems appropriate in a specific case, in view of the nature of the case and the roles of the parties, the competent authority of one of the States may require the taxpayer(s) to agree to bear that State's share of the costs as a prerequisite for arbitration.

(vii) The competent authorities may agree to modify or supplement these procedures; however, they shall continue to be bound by the general principles established herein.

19. With reference to paragraph 1 of Article 27 (Exchange of Information),

If the Agreement between the United States of America and the United Mexican States for the Exchange of Tax Information should be terminated, the Contracting States shall promptly endeavor to conclude a protocol to this Convention to accomplish the purposes of this Article.

20. With reference to Article 30 (Termination),

When the competent authority of one of the Contracting States considers that the law of the other Contracting State is or may be applied in a manner that eliminates or significantly limits a benefit provided by the Convention, that State shall inform the other Contracting State in a timely manner and may request consultations with a view to restoring the balance of benefits of the Convention. If so requested, the other State shall begin such consultations within three months of the date of such request.

If the Contracting States are unable to agree on the way in which the Convention should be modified to restore the balance of benefits, the affected State may terminate the Convention in accordance with the procedures of paragraph 1, notwithstanding the five year period referred to in that paragraph, or take such other action regarding this Convention as may be permitted under the general principles of international law.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed this Protocol.

DONE at Washington D.C., in duplicate, in the English and Spanish languages, both texts being equally authentic, this eighteenth day of September, 1992.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE UNITED MEXICAN STATES:

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September 19, 1992

STATEMENT OF THE GROUP OF SEVEN FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

The Ministers and Governors reaffirm the commitment made by their Heads of State and Government at the Munich Summit to strengthen world growth without rekindling inflation. Since then, measures to reinforce economic recovery have been taken, including interest rate reductions in a number of countries, as well as the recent announcement of the Japanese stimulus package. These measures will strengthen the global economic recovery and foster greater stability of exchange markets.

Ministers and Governors expressed concern about the recent volatility in world financial markets. They agreed on the importance of restoring stable and long-lasting exchange rate relationships. The Ministers and Governors will continue to cooperate and to monitor closely economic and financial conditions in their countries and will take appropriate additional actions as needed to achieve sustained growth and greater currency stability.

The Ministers and Governors also met with representatives of the Russian Federation and discussed Russia's reform program. They urged Russia to intensify its efforts to implement comprehensive economic reform. They also urged the World Bank to form a technical assistance support group for Russia to discuss bilateral and multilateral technical assistance.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
September 19, 1992

CONTACT: Scott Dykema
(202)622-2960

Statement of Secretary of the Treasury
Nicholas F. Brady
on G-7 Meeting

The G-7 had a full discussion of the outlook for the world economy and recent exchange market developments. There was recognition that a number of actions have been taken which will help strengthen world economic recovery. The G-7 agreed on the importance of restoring stability in exchange markets in Europe. There was broad recognition that measures to strengthen recovery would also foster greater exchange market stability.

We also met with representatives of the Russian Federation to discuss Russia's reform program and their request for debt rescheduling. The G-7 encouraged the Russian government to intensify efforts to implement comprehensive economic reform. We also made progress on the issue of rescheduling Russia's debt and expect to reach a decision in the near future.

Thank you. I will be glad to take your questions.

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TREASURY NEWS

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TEXT AS PREPARED

Remarks by
Secretary of the Treasury
Nicholas F. Brady
at the Morning Session of
the Interim Committee
of the International Monetary Fund
September 20, 1992

World Economic Outlook

Thank you, Mr. Chairman. The world economy stands at a defining moment in history. A partnership of nations has produced democracy and free markets throughout the world. We are finally on a path to peace and prosperity.

Market principles are ascendent everywhere as nations seek to build a better tomorrow. The countries of the former Soviet Union and Eastern Europe have rejected central planning. Developing countries have turned away from statist rule. Now the major industrial economies can devote their resources to a more productive future.

Strong and sustained growth is needed to make this vision a reality. It will solidify the links between our countries and create a truly integrated world economy. It is an absolute prerequisite for meeting the challenges of the 21st century.

The industrial countries bear a special responsibility for a strong and growing world economy. These nations must lead by example. If we cannot build strong economies and adhere to market principles, we cannot expect reforming countries to follow.

Over the past year, the United States has sought a global consensus to strengthen world growth. A beginning has been made in implementing concrete actions.

Several major countries have cut interest rates. Japan has adopted a large and welcome package of fiscal stimulus. Inflation has declined sharply in most countries. The fruits of these efforts are beginning to appear.

However, we must be vigilant to ensure that the engines of growth do not slow. Growth remains below potential in many major industrial countries, and unemployment is at unacceptable levels.

In the United States, we have had five successive quarters of expansion. Inflation and interest rates are at the lowest levels in 25 years. Our trade deficit has been reduced significantly and we are taking actions to reduce our budget deficit. The President has proposed an Agenda for American Renewal to increase our growth potential over the longer term.

Recent developments in world currency markets highlight the importance of strengthening growth. Policy measures for a stronger world economy are consistent with and will complement efforts to promote greater stability of exchange markets.

We must also demonstrate our commitment to market principles by tackling structural rigidities. We cannot expect to achieve the benefits of free markets unless we extend market principles across borders. Bringing the Uruguay Round to a rapid and successful conclusion remains of paramount importance. The North American Free Trade Agreement and the Enterprise for Americas' Initiative complement the broader global effort and demonstrate U.S. commitment to a world of freer trade and open markets.

Strong global growth will also assist the transformation in Eastern Europe and the former Soviet Union. The demise of communism in these countries and the move towards democracy and free markets represents one of the greatest opportunities in our lifetimes for peace and prosperity. It is a challenge that we must meet collectively through cooperation and hard work. We will return to this topic this afternoon.

Turning to the developing countries, it is clear that economic growth and development depend upon self-help and external support. The combination of major market-opening reforms and commercial bank debt reduction has helped to revitalize Latin American economies. The debt crisis of the 1980s is largely over for the major debtors and the banking system. The resulting economic turn-around has been impressive. Liberalization and privatization have attracted substantial new capital flows.

We welcome the substantial adjustment efforts in many other developing countries which are helping to produce stronger growth. However, many of the poorest countries in Africa have not yet experienced the same degree of success. Their economic difficulties have been compounded by drought and political unrest.

Increasing efforts have been made in recent years to support reforming countries with deeper debt relief, bilateral forgiveness, grants, and more targeted official assistance programs. These efforts should continue. But financial relief in the absence of strong adjustment cannot assure success. Continued economic reforms, global growth, access to markets, and stronger private sectors remain crucial.

Mr. Chairman, we have an unprecedented opportunity before us to unite our nations in the pursuit of peace and prosperity on the basis of market principles. We need strong growth to make this opportunity a reality. We are making significant progress and have the means at hand to achieve success. Thank you.

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

TEXT AS PREPARED FOR DELIVERY

Remarks by
Secretary of the Treasury
Nicholas F. Brady
at the Afternoon Session of
the Interim Committee
of the International Monetary Fund
Washington
September 20, 1992

Eastern Europe and the Former Soviet Union

Thank you, Mr. Chairman. The transformation of the countries of Eastern Europe and the former Soviet Union to market economies will be one of the most difficult and challenging undertakings of our lifetime. Clearly, the reforming countries themselves will bear the primary burden of the transformation and it will take time.

But I believe success will be achieved because the people of these countries increasingly understand the benefits of democracy and free enterprise, because the international financial institutions have stepped forward with their invaluable assistance, and because our governments are ready to do their part.

Today, we see many hopeful signs of progress. Poland, the first country to implement a bold reform program, is on the verge of resuming active cooperation with the IMF. Hungary has attracted widespread foreign investment as a result of its structural reforms and has dramatically improved its creditworthiness. The Czech and Slovak Federal Republic has put in place a macroeconomic policy framework and made progress on privatization through its innovative voucher system. And both Bulgaria and Albania have solid stabilization programs.

We have been especially heartened by the momentum of reform in the Baltic states, and we welcome the recent adoption of IMF-supported programs by Estonia and Latvia. Ukraine and Kazakhstan have also made a commitment to reform, but more work needs to be done to put in place comprehensive economic programs.

We are pleased that the IMF and Russia are moving forward under a three-phased strategy of cooperation.

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We have been impressed by President Yeltsin's and Prime Minister Gaydar's recognition that bold reforms, rather than gradualism, are the course to building a strong private sector. In these circumstances, the $1 billion first credit tranche released by the IMF to Russia was merited.

We strongly urge Russia and the IMF to intensify discussions on economic reform in order to reach the second phase of cooperation -- a full IMF program -- as soon as possible. In this connection, Russia will need to establish a positive record under the first credit tranche arrangement before a full IMF program can be implemented, or the currency stabilization fund could then go into effect.

Moreover, fiscal and monetary policies in Russia must be tightened to avoid hyperinflation. Expenditures must be brought firmly under control to reduce the role of the state and deficit financing. Inter-enterprise arrears must be addressed, and workable arrangements among members of the ruble area must be developed.

Furthermore, structural reform must be intensified to achieve the benefits of a strong private sector and macroeconomic stabilization. In this connection, we welcome the recent announcement of energy price increases and of the privatization plans to be shortly implemented. The World Bank will play a key role in fostering structural reform in Russia and the recent agreement on the $600 million import rehabilitation loan is an important first step.

These actions should establish a solid basis for promoting sustained growth and strengthening Russia's relations with the international financial community.

I recognize that it is much easier to advocate tough policy prescriptions than it is for those struggling with the upheavals and hardships of transformation to implement them. But history shows that these policies are the most likely to succeed. A good start has been made on this path. All of us must redouble our efforts to ensure success. Thank you.

TREASURY NEWS

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

TEXT AS PREPARED FOR DELIVERY

STATEMENT OF
SECRETARY OF THE TREASURY
THE HONORABLE NICHOLAS F. BRADY
MEETING OF THE DEVELOPMENT COMMITTEE
OF THE WORLD BANK AND
THE INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.
SEPTEMBER 21, 1992

Mr. Chairman, fellow Governors, and distinguished guests. It is a pleasure for me to welcome the Development Committee to Washington and to participate in its important discussions.

Today's difficult economic environment requires that we work together to encourage a full range of capital flows to developing countries to advance our shared objective of reducing poverty and promoting sustainable development.

The establishment of a sound economic policy framework is fundamental to investor confidence and investment flows. We therefore welcome the demonstrated commitment of a growing number of developing countries to reforms supported by the World Bank and the IMF. These reforms, in some cases supplemented by arrangements on debt and debt service reduction, are having a positive impact in efficiently mobilizing financial resources.

The underlying message is clear: the efforts of the Bretton Woods Institutions to promote hospitable, open environments which attract private-source flows should also be maintained.

The international debt strategy has been a success. In Latin America, the combination of market-oriented reforms and the reduction of bank debt has boosted investor confidence, stimulated substantial private capital flows, and improved growth prospects. Bilateral creditors are also providing significant debt relief, grants and other concessional flows for the poorest countries.

NB-1985

Trade and investment liberalization is a key means for enhancing private resource transfers to developing countries and accelerating growth. Accordingly, the U.S. Administration remains strongly committed to a successful conclusion of the Uruguay Round and continuing reductions of tariff and non-tariff barriers for both goods and services.

The United States will continue working to achieve an IDA-10 replenishment which promotes sustainable development in the Bank's poorest and least creditworthy members. Poverty reduction, environmental protection, and the promotion of a sound economic environment must remain at the forefront of the IDA agenda. Increased financial support for IDA from certain higher income developing countries should be encouraged.

Strengthened efforts should be made to concentrate concessional resources on the poorest countries -- particularly those committed to appropriate macroeconomic policies and effective strategies for poverty reduction. Excessive and unproductive military expenditure should be discouraged.

Emphasis must be on improved lending quality and effectiveness. In this context, we welcome the establishment by the World Bank of a Task Force to look at the problem of project implementation and the development quality of the loan portfolio. We look forward to considering Management's strategy for addressing this critical issue.

I would also like to call specific attention to the tragic drought now devastating southern Africa. This clearly merits the priority attention of the donor community. The United States is responding quickly and substantially to this extraordinary humanitarian crisis. We urge other donors to do the same.

Liberalized investment regimes can provide a major economic stimulus. Competition for available investment capital is likely to remain intense. Investors will go where the policy and regulatory environment is fair and stable. We are encouraged therefore by the increased attention developing countries are placing on open investment regimes to encourage foreign and domestic investors and we welcome the efforts of the World Bank and the Inter-American Bank to promote investment reforms.

Environment and development must be approached as an integrated whole. The World Bank must play an important role in addressing these concerns in its projects and programs. It must also move to strengthen its own internal policies and procedures to protect the environment especially in energy efficiency and water resources.

In closing, Mr. Chairman, I would like to extend my strong support for the efforts of the World Bank Group and the IMF to support the efforts of the former Soviet Republics in their transition to market economies. I would also like to thank you, Mr. Chairman, for your highly professional stewardship of the Committee over the last two years.

Pool Report #1 18
Friday, Sept. ~~19~~, 1992

location: Treasury Department Conference Room across from Treasury Secretary Nicholas Brady's office (3rd floor)

Event: U.S.-Japan bilateral meeting ahead of Saturday G-7

Japanese Finance Minister Tsutomu Hata, a translator and press officer were in the room, admiring the fireplace, joking about how old the wood must be.

Brady enters the room, smiling, extends his hand to shake hands with Hata and says: Hi how are you? Good to see you again. When did you get here?

Hata, via a translator, smiled back, shook hands and said "about 40 minutes ago." Everybody laughed.

Brady: "Well, we're very grateful you'd come meet with us ahead of our meetings tomorrow. It's very helpful to have this kind of consultation."

Reporter: Are you going to discuss intervention?
Brady just smiled and remained silent as U.S. press officers shouted that there could be no questions during the photo op.

Hata, said, according to Japanese reporter: "We will have a lot of discussions about the world economic situation." He laughed, waved off the question, joking to the reporters-something like: "Leave me out of this question, don't ask me."

Brady, then laughed (and since Hata was speaking in Japanese without being translated) said, "Get it?" to the reporters.

Reporters were escorted out of the room, other officials came in the room--including Olin Wethington.

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TREASURY NEWS

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

STATEMENT BY OLIN L. WETHINGTON
GOVERNOR FOR THE UNITED STATES OF AMERICA
IDB AND IIC BOARDS OF GOVERNORS
SEPTEMBER 19, 1992

I am extremely pleased to be here today for a discussion of the current activities of the IDB. This also is an important opportunity for all of us to share our thinking about the future of the IDB Bank Group and its role in supporting the economic and social progress of its borrowing members.

When we met six months ago in Santo Domingo we had an opportunity to review the progress of the Bank and its borrowing members dating back to the time of our decision to fund a $26.5 billion capital replenishment in 1989.

We noted the dramatic advances in the region and the contributions of the Bank in fostering that progress. Again, I want to congratulate the President of the Bank, the Management and the Board of Directors for the success they have achieved in implementing the ambitious IDB-7 mandate.

REVIEW OF THE PROGRAMS OF THE IDB

Since 1989, under the able leadership of Enrique Iglesias, the IDB experienced the following important achievements:

-- The Bank has been reorganized and operates far more effectively. Country economic strategies help shape the loan pipeline and project teams from different departments now ensure that projects are consistent with overall country strategies.

-- The IDB has fortified its environmental protection efforts. Country programming now incorporates evaluation of the environmental aspects of lending projects, a difficult but important first step in creating economically sustainable development.

-- Sector lending has been an integral part of the Bank's economic approach to help speed the pace of reform.

-- The Bank is playing a central role in supporting debt reduction under both the Brady Plan and under the Enterprise for the Americas Initiative. While there is still work to

NB-1986

be done in some countries, we are putting Latin America's debt crisis behind us.

-- Investment reform has become a central policy focus.

-- IDB financing is helping privatize state-run enterprises.

ADVANCES IN THE LATIN AMERICAN AND CARIBBEAN REGION

We want recognize once again all those who helped foster the economic advances of Latin American and Caribbean governments in the face of the formidable challenges of the 1980's. Those advances have been guided by a sense of vision and determination among Latin leaders, assisted by the work of the IDB. Today, while much remains to be accomplished, many countries are well along in implementing major economic reforms. Hope and opportunity continue to grow. As confidence in the region rebounds, capital is flowing into Latin America and the Caribbean with renewed vigor: US$40 billion in 1991 as compared to US$13 billion in 1990 and US$4 billion in 1989.

As I indicated, the debt crisis is steadily being put behind us, particularly with the prospect of major new Brady Plan commercial debt agreements on the near horizon. In some countries, bilateral debt burdens are being further reduced by the debt reduction component of President Bush's Enterprise for the Americas Initiative.

Many countries are making dramatic strides in strengthening the prospects for growth through liberalized trade and investment regimes. Clearly, the IDB's Investment Sector Loan Program is making a major contribution to improve the investment climate for both domestic and foreign participants. The Multilateral Investment Fund promises to advance the trend toward liberalization significantly. Moreover, trade framework agreements under the Enterprise Initiative hold great promise for a dynamic trading region which can complement a liberalized global trading environment. The recent conclusion of a North American Free Trade Agreement is a major advance which can have benefits throughout the region by accelerating economic integration and growth.

While there are difficult economic and social problems yet to be addressed in the region, on balance, economic advances have been sound -- growth is rebounding; inflation is subsiding; markets are opening; and trade is flourishing.

THE FUTURE ROLE OF THE IDB

As the United States noted when the IDB Governors met in Santo Domingo, we remain favorably disposed to increasing the resources of the Bank. We firmly believe that the basic challenge for the Bank is support for a market oriented economic approach driven by a growing and dynamic private sector. At the same time, we recognize that the challenges facing the region are different from those that shaped the Seventh Replenishment.

As the economies of the region move toward recovery and growth, the Bank must help ensure that the benefits of economic growth are shared by all segments of society throughout the Latin American and Caribbean Region. History shows that the alternative to broadly distributed economic opportunity is a disaffected economic underclass which can undermine political stability and economic advancement.

In our view the Bank has a critical role to play in ensuring broad based social and economic advancement in the region. As we head into the next century we believe the priority areas of activity for the Bank must be:

- o Maintenance of Sound Economic Conditions and Policies;
- o Economic Growth with Broad Social Participation, which includes:
    - o Sustainable Poverty Alleviation and Social Infrastructure,
    - o Improvement of Public Administration and Governance,
    - o Business Opportunities for the Poor;
- o Environmental Protection; and,
- o Increased Generation of Private Domestic Savings and Capital Flows.

I would like to discuss in some detail our views as we consider shifting the focus of the Bank and how the Bank might go about achieving its social and development objectives in the years ahead. Broadly speaking, I would first note that several key requirements must guide our activities if success is to be assured in the years ahead. These include:

- o Maintenance of complementary roles between the IDB and other IFIs, particularly the World Bank;
- o Country programs linked to maintenance of sound policy environment monitored through Board approval of country economic and social memoranda;
- o Emphasis on careful project design with focus on sustainability, implementation and evaluation;

- o Targeted and tightly defined use of concessional resources;
- o Reduced and well focused non-project lending to advance governance, and traditional economic reform or debt enhancements for the poorer countries.
- o Tighter integration and coordination of IDB programs to support private sector development to include the Bank, IIC and the Multilateral Investment Fund; and,
- o Increased emphasis on private flows of capital and reduced dependence on official capital as countries reform and advance;

<u>Economic Opportunity and Social Equity Lending</u>

As I have indicated already, we believe the most difficult and the primary challenge facing the Bank in the decades ahead is to ensure that economic opportunity and government services are broadly distributed. The Bank must help lead in attacking the base causes of poverty and a structural economic underclass if democracy and economic growth are to be sustained. Government services and opportunities for social and economic advancement must be made available to the entire population of member countries.

We believe that fully 50 percent of the bank's lending should support economic opportunity, social sector development and governance objectives in all borrowing member countries. Broadly speaking, we would outline the following mandate for the Bank in these areas; the Bank should:

-- stimulate entrepreneurs and employment generating industry, especially in poor population centers.

-- stimulate savings through self-sustaining social investment funds, such as retirement and workers compensation.

-- support domestic capital formation and financial intermediation.

-- develop productive employment through small and medium scale enterprise and agriculture; and where required provide appropriate alternatives to illicit drug production.

-- accelerate future economic growth and competitiveness through investment in education, particularly basic education.

-- develop worker skills through retraining to match needs of revitalized private sector.

-- improve economic efficiency and relieve rural poverty through the expansion of basic agriculture.

-- ensure economically sustainable development through an ambitious program of environmental protection.

-- improve work force and living standards through family planning and primary health, with an emphasis on maternal/child health care.

-- improve living standards and economic efficiency through water supply, sanitation and upgrading of housing targeted to urban poor.

-- expand economic dynamism through attention to role of women in economic development.

I would add a strong note of caution. In efforts to reduce poverty, poorly designed non-sustainable projects can raise countries' debt service obligations with little or no lasting benefit. Therefore, Bank lending to reduce poverty must include only projects which have an identified priority in a Country Lending Strategy. The project should be financed only if institutional arrangements and policies needed for program success are in place. In addition, the program must be financially sustainable. Finally, and perhaps most importantly, the activity must be consistent with the needs of those who are expected to benefit from it.

Public participation is an essential component of Bank activities to address social needs. The Bank must put in place mechanisms to work closely with affected populations in the selection, design, execution and evaluation of its programs. We believe that the role of the Bank's field offices in borrowing countries must be examined carefully in light of this requirement. The offices must be restructured and be made fully relevant to the Bank's lending and development activities, with a strong mandate on close collaboration with local groups and affected populations and project identification, execution and evaluation.

<u>Traditional Infrastructure Projects</u>

Traditional infrastructure also remains a priority for Bank lending. We continue to note that in many Latin American and Caribbean economies, the lack of traditional infrastructure remains a basic constraint to economic development perpetuating the conditions of poverty. There is a strong need for transportation, communication and energy. It is our view that the Bank must continue to play a well-defined role in this area and we suggest that approximately 30 percent of its lending be directed accordingly.

We believe the Bank's infrastructure lending should focus on the poorer economies which still lack access to other sources of capital. As noted earlier, many countries have reformed and opened up their economies. Capital, which had fled the country, is now returning. In addition, several countries, such as Mexico, Chile and Venezuela, have recently tapped international credit markets. As these economies grow, private sources of funding will play an increasingly larger role in financing their development, particularly for large, traditional infrastructure projects.

Policy-Based Lending

Under IDB-7, the Bank is providing substantial levels of policy-based lending to support macroeconomic adjustment and debt reduction packages. Many countries in the region have successfully utilized financing under this program aggressively to open up their previously protected economies and to reduce debt burdens under the Brady Plan. In many countries, where capital has begun to flow from other sources, the IFIs can return to their primary development task of poverty alleviation and investment in social sectors and infrastructure.

However, over the next several years, we envision that the IDB will still be required to provide some level of policy-based lending in support of adjustment and debt agreements. This is especially true for smaller countries which are still working to complete their economic restructuring. In addition, there may be some need for governance-oriented policy based lending to help countries enact regulatory and administrative reforms, such as land titling measures, to help spread the benefits of economic growth to all segments of society. Accordingly, in our view policy-based lending should remain at a level not to exceed 15 percent of lending.

Programs in Support of the Private Sector

The Bank Group currently has numerous programs to support private sector development with each program providing an essential development service to the region. Currently, these include the IDB's programs, principally small projects and global credit loans, the activities of the Inter American Investment Corporation and soon, the Multilateral Investment Fund.

As the private sector increasingly becomes a force behind economic growth, we believe it is essential to sharply improve efficiency and effectiveness of the Bank Group's private sector programs. The Bank group must be in a position to be provide an integrated, flexible and dynamic response for a full range of private sector requirements, including small scale entrepreneurs up through privatizing state owned industries. These activities must be reinforced by a Bank presence to maintain an enabling macroeconomic and structural policy environment.

To accomplish this objective, we are proposing a strong emphasis on the activities of the IIC within the Bank Group, recognizing its private sector and entrepreneurial orientation. We propose that the programs of the IDB, the IIC and the MIF be implemented by a fully integrated management and operations team. Our objective is to ensure that the Bank's private sector activities are able to mobilize the appropriate mix of expertise and funds. We also consider it appropriate that future capital contributions for the IIC be provided by the Bank itself in addition to the Bank acting as financial market intermediary for IIC operations.

The activities of the Multilateral Investment Fund also must support the investment activities of the Bank Group in a tightly integrated manner. It is clear to us that MIF support for policy reforms, worker training and development of small scale entrepreneurs should complement bank activities, rather than substitute for them. Grants and concessional loans provided by the MIF should selectively augment IIC and IDB resources, and only in cases where added concessionality is clearly warranted. In addition, because MIF funds are scarce, they should be used to address clearly identified investment constraints where there is a high probability for successful resolution of the problem.

<u>Lending to Privatized SOEs</u>

I would like to expand a bit further on our thinking regarding the Bank's role in privatization. In many cases, state-owned enterprises (SOEs) throughout Latin America and the Caribbean are poised to move to the private sector. However, the absence of a credit history or relationship with private lenders can be a strong disincentive to a company's taking the final step to becoming private.

We believe that the Bank Group should have the tools to fully support privatization. As the Bank does now, it should provide resources to a country to devise a cohesive national privatization plan. Once a specific SOE is targeted for privatization, the Bank can support financial, managerial and marketing expertise to determine whether a company can be competitive. These services can be provided through the OC or the MIF on a reimbursable basis.

If a company does not have realistic prospects for being fully competitive, it should be closed to avoid further drains on fragile national fiscal plans. In such cases the MIF could be available to help train displaced workers.

When a company has a potential to be profitable, the Bank can help to restructure it for entry into the competitive private sector. For some companies, a degree of transitional financing may be needed until they can establish a record which would allow them to tap private sources of finance on their own.

Without endorsing any specific proposal, we think the Bank might usefully explore whether in selected cases, the IDB Ordinary Capital window might also be used to lend to eligible companies during a limited transitional period. This might include the possibility of lending without a sovereign guarantee. We offer this suggestion in the expectation that it could be of interest to some Governors and, if so, we would be willing to examine the proposal further.

I would add a strong cautionary note. If we were to incorporate such a capability into our lending programs, I think it would be necessary to define the program tightly. We would want to sharply limit the eligibility requirements and time frame for available financing. I would also expect we would have to limit the program to a small percentage of IDB's annual lending and total country exposure. Finally, we might also recommend that from the outset, any such IDB lending would require the presence of private cofinancing. This would ensure that our basic purpose of moving the company toward its objective of relying fully on private commercial finance is being realized.

Facilitating the Flow of Commercial Loans

The Bank also has an essential role in helping countries in the region attract private commercial lenders. Although we have seen some recent progress, in general commercial lenders have been slow to return to full, voluntary participation in providing capital to the region. As the level of non-project lending tapers off, a catalytic bank role in generating private flows becomes more compelling.

We urge the Bank to continue to press policies which attract capital flows to the region, including foreign direct and portfolio investment, trade receipts and the return of flight capital. The Bank can also continue to work aggressively to attract parallel and independent private financing to Bank operations. This can be especially important for newly privatized SOEs.

As many of you are aware, we continue to strongly oppose current cofinancing practices by some other MDBs which share preferred creditor status with commercial lenders, including Complementary Financing Scheme arrangements and the use of guarantees. We believe that those types of practices only serve to weaken the preferred creditor status of MDBs and inhibit the emergence of fully mature relations between borrowers and lenders.

We do however, see room for a more aggressive Bank role in working to associate voluntary parallel commercial finance and equity investment with Bank operations. We believe that in all Bank operations and especially with the fundamentally restructured private sector approach, much greater attention should be given to attracting private financing to Bank supported operations.

<u>The Need for Concessional Resources -- FSO II</u>

Despite exceptional economic strides in recent years, several countries in the region have not made the desired economic advances. These countries are still not in a position to accept financing on ordinary capital terms. Therefore, to support needed macroeconomic reforms and make the necessary investments in health, education, and infrastructure we recognize that the Bank will have to continue providing lending on concessional terms to the poorest borrowers.

We are in an era, however, when the demand for increasingly scarce concessional funds is expanding throughout all regions of the world.

We believe that some level of additional donor contributions to the FSO will be needed over the next several years. However, we believe that the resource base is already present in the IDB to foster a creative approach which can ensure a substantial level of concessional lending. We are proposing to restructure the Fund for Special Operations (FSO), moving to a second generation of operations, or FSO II.

In restructuring the FSO, we propose to move away from an FSO which serves as a direct lender to an FSO which provides interest support on OC loans. This is similar to the current activities of the Intermediate Financing Facility. In doing so, we recognize it may be difficult to meet fully existing FSO maturities. In addition, the FSO II would continue to provide technical assistance on a grant or loan basis.

According to our initial analysis, we believe we can provide a significant amount of concessional lending and technical assistance over the next four years with contributions from donors, net income from the OC combined with existing net income from the FSO itself. In addition, when existing FSO reflows become available in 1998 and beyond, we propose that they can be redeployed to continue the buy-down program, as needed. We recognize that some of these changes may require us to revisit the IDB Charter.

The Future Financial Structure of the Bank

Let me now turn to the future financial structure of the Bank. All of the above represents an extremely ambitious mandate for the Bank as it approaches the 21st century. In reviewing the program priorities and organization of the IDB, we see a need to use this capital increase, the Eighth, to position the bank to meet the needs of its borrowers for a period of time well into the future.

Over the past four years, Bank administration has improved dramatically and rules of procedure and decision-making by the Board of Directors have been strengthened. We believe these policy changes must remain in effect.

Bank lending has grown dramatically to address the challenges facing the region. The Bank has processed large amounts of fast disbursing non-project lending which was required along with an increased level of project lending. In fact, when in 1989 Governors agreed to a $26.5 billion increase with a $22.5 billion four year lending program, they in effect agreed to a subsequent capital increase to begin in 1994.

Most of us recognize that the current trends in lending growth cannot be sustained at the same pace. Now that the Bank has approached an annual commitment level of $7 billion it must begin to tailor its annual lending program to meet the shifting needs of its borrowers. The Bank recognizes that lending targets and country lending allocations simply are not an appropriate basis on which to plan the lending activities of the Bank Group.

We are suggesting that the Bank be managed on the basis of a sustainable lending level concept. This would mean that for the Eight Replenishment, the Bank would be provided a level of capital which can sustain its lending operations for an indefinite period. We are prepared to explore a healthy capital increase to accommodate the Bank's lending requirements. In addition, in pursuit of our objective to integrate the managerial and financial activities of the IIC, we are prepared to consider a capital increase which would allow the Bank sufficient capacity to act as a market intermediary for the IIC, as well.

We believe that with the financial and operational maturation of the Bank, capital subscriptions for the Eighth Increase should be paid in over a five year period. As I indicated, the Eighth Increase would be structured in a way to fund Bank operations for a period significantly beyond the five year paid-in capital period. This is the current practice in other MDBs. Subscriptions for the restructured FSO may have to be paid in over four years.

It will also be necessary, in the context of the Eighth Replenishment to consider the mix of lending among the various country groups. As I indicated earlier, we believe strongly that the time for binding country allocations and targets has passed. Instead the Bank must build its portfolio on the basis of prudential considerations with primary attention to its role as a development lender.

As a development institution, the Banks resources increasingly must be allocated to those countries which do not have access to alternative sources of capital. In addition, we believe that consideration of graduation for some countries is overdue. As country per capita GDP advances, the Bank must graduate countries from concessional resources and ordinary capital as appropriate.

Finally, the Bank must continue its efforts to achieve the administrative and operational efficiencies needed for a modern, tightly integrated financial institution. We are seeking to use the ample resources of the Bank in an ambitious program of financial engineering.

With a greater emphasis on social investment and additional responsibilities for Bank capital, there is a need to protect the Bank's income levels. It is increasingly urgent, therefore, that unnecessary administrative expenditure be cut from operating expenses. Headquarters operations and field offices must be examined from the ground up. Where programs are redundant or of marginal value -- they must be cut or eliminated.

Environmental Programs of the Bank

As the IDB continues to move to the forefront of the development effort for Latin America and the Caribbean, the Bank must lead in adapting development lending to ensure that economic growth can be sustained over the longer term.

Public participation is at the heart of environmental awareness. We believe the Bank can be a dynamic leader in this area. We encourage early and continuing dialogue between the Bank and affected populations in borrowing countries.

Urgent areas for attention include recruitment and training of qualified staff, a stronger Bank role and policies in protecting forests, energy efficiency and conservation on the demand side and promotion of renewables, and development of integrated water resource policies.

CONCLUSION

In conclusion, I realize that we have laid out an extremely ambitious program that will require thoughtful debate among Governors. We have set our sights high to assist in the formation of a mature lending institution that can respond to the changing needs of the region.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 21, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,246 million of 13-week bills to be issued September 24, 1992 and to mature December 24, 1992 were accepted today (CUSIP: 912794ZW7).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.90%	2.96%	99.267
High	2.92%	2.98%	99.262
Average	2.91%	2.97%	99.264

Tenders at the high discount rate were allotted 13%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	27,725	27,725
New York	36,746,420	8,784,620
Philadelphia	9,690	9,690
Cleveland	38,935	38,935
Richmond	328,325	110,825
Atlanta	32,220	30,480
Chicago	2,273,945	136,025
St. Louis	20,280	10,280
Minneapolis	8,175	8,175
Kansas City	24,700	24,700
Dallas	20,165	20,165
San Francisco	1,036,590	317,140
Treasury	727,650	727,650
TOTALS	$41,294,820	$10,246,410
Type		
Competitive	$37,427,000	$6,378,590
Noncompetitive	1,247,310	1,247,310
Subtotal, Public	$38,674,310	$7,625,900
Federal Reserve	2,153,810	2,153,810
Foreign Official Institutions	466,700	466,700
TOTALS	$41,294,820	$10,246,410

NB-1987

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
September 21, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,268 million of 26-week bills to be issued September 24, 1992 and to mature March 25, 1993 were accepted today (CUSIP: 912794B60).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.90%	2.98%	98.534
High	2.93%	3.01%	98.519
Average	2.93%	3.01%	98.519

Tenders at the high discount rate were allotted 50%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	26,660	26,660
New York	29,962,365	9,225,755
Philadelphia	7,070	7,070
Cleveland	30,015	30,015
Richmond	27,195	27,095
Atlanta	37,020	36,520
Chicago	1,698,605	48,605
St. Louis	15,100	12,600
Minneapolis	6,430	6,430
Kansas City	26,260	26,260
Dallas	10,290	10,290
San Francisco	614,005	162,505
Treasury	648,275	648,275
TOTALS	$33,109,290	$10,268,080
Type		
Competitive	$29,290,380	$6,449,170
Noncompetitive	1,042,410	1,042,410
Subtotal, Public	$30,332,790	$7,491,580
Federal Reserve	2,000,000	2,000,000
Foreign Official Institutions	776,500	776,500
TOTALS	$33,109,290	$10,268,080

NB-1988

TREASURY NEWS

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

PREPARED FOR DELIVERY
September 22, 1992

Contact: Anne Kelly Williams
202-622-2960

REMARKS BY
DEPUTY SECRETARY OF THE TREASURY JOHN E. ROBSON
FINANCIAL ACCOUNTING STANDARDS BOARD
NORWALK, CONNECTICUT
SEPTEMBER 22, 1992

Good morning and thanks to the Financial Accounting Standards Board for inviting me here to share a few thoughts with you. I have genuinely looked forward to this trip because of the importance of the work you do.

I should begin by emphasizing that, while this is my first trip to your offices, FASB and I are not strangers. For, as a former corporate lawyer, CEO of a large publicly held multinational company, dean of a business school where, of course, accounting was a required subject, director of several publicly held corporations, and now a U.S. Treasury official, your rulings and proposals have criss-crossed my business and professional life on numerous occasions.

But I must confess that in my mind's-eye I have had an image of FASB working in a Delphic setting and periodically issuing its solemn pronouncements which thunder down on a submissive public to be instantly and faithfully implemented like one of the commandments. So it is comforting to find myself before a group of men and women who seem to look and sound pretty much like the rest of us.

But this new-found sense of comfort does not lead me to underestimate the reach or potential impact of what you do here at FASB. And, while FASB may not be a household word amongst the general public, your decisions affect the jobs and lives of millions of men and women. Because FASB's decisions about how something must be accounted for, influence their employers' investment in plant, equipment and research, how their pensions are established and funded, how their employers are regulated by government, whether it is or is not a good idea to source a component from abroad or build an overseas factory, or make a loan, or grant a stock option, or whether a business files for bankruptcy.

NB-1989

And because of the potential real-world influence of FASB's decisions, I thought it would be worthwhile to spend a few minutes sketching what I believe will be the profile of the future economy so that we may see more clearly the context in which you will be making those decisions.

There is little question that our domestic economic environment is already undergoing change. Many of the factors now at work have contributed to the recent sluggish U.S. economy, such as the cutback in defense spending following our victory in the Cold War, the paydown of accumulated debt by business and consumers, and a weakened financial system sobered by the S&L and commercial real estate market collapses and cautious to lend. But these are by and large transitory factors that time and the inherent adaptability of the American economy will overcome.

But beyond these often painful transitional factors, there are forces at work that are creating profound and durable alterations that will define the shape and set the tone for the economies of the world and the lives of the people in them through the next century. And what will be the characteristics of the 21st Century economy?

Foremost, it will be a thoroughly interdependent and integrated global marketplace. There will be no place to hide from the competitive forces at work even in geographically distant places. There will be no economic Fortress America -- or for that matter -- any economic fortress any place. If you need persuading on this point just consider that since 1986 exports have provided nearly a third of America's economic growth, and the fact that our major export markets -- Canada, Japan and Europe -- have recently been suffering economic downturns is a large contributor to our own economic woes. And if you need further evidence of global economic inter-connectedness, look at what has been happening in the past few weeks in the world currency markets, driven by the interaction of one or another of the European economies upon the others.

Another feature of the 21st Century economy will be mobility -- mobility of capital, mobility of workers, mobility of productive assets, mobility of supply sources, and mobility of technical knowledge. Already we are witnessing swift and massive capital flows as money seeks the highest return.

A companion of that mobility will be what we might describe as "site indifference," that is the location of economic transactions will be solely driven by economic considerations. Already we see many products that bear a "Made in America" label and have been invented here, designed elsewhere, contain substantial components that were produced abroad, may be assembled anywhere, and marketed in both the U.S. and foreign markets.

I believe we will see business organizations, by necessity, become more flexible, even protean, as they configure and reconfigure themselves to respond to global competitive pressures and to take advantage of new opportunities to establish or expand market positions, reduce costs, or capitalize on new technology. Thus I see the restructuring of businesses as a continuous process essential to growth and competitive survival. And I also see a trend towards smaller, more flexible business units.

One very positive feature of the 21st Century economy will be the emergence as new players in the global economy of somewhere between three and four billion people who have historically been outside the economic loop. I refer to the peoples of China, India, Latin America, the former Soviet Union, Eastern Europe, and parts of the Pacific. Think of the exciting opportunities presented by the new economic role of this multitude, whether you are making, selling, or buying a product or service.

I also believe that the future economic environment -- where the hallmark will be continuous, high velocity change -- will have profound implications for both employers and employees. I expect the complete disappearance, if it has not already largely vanished, of the time-honored reciprocal exchange of employee loyalty for lifetime employment. Employers will not hesitate to downsize, lay off, close or relocate facilities, reorganize, and take whatever actions are needed to become more efficient and competitive. Lean and mean it is. And there isn't much patience with inefficiency.

On the employee side, loyalty has eroded and the traditional notion of a linear career, that is a working life that begins with a new first job and ends with a retirement party and a gold watch, is pretty much a relic of the past. Working lives will increasingly become lives of rapid change, a succession of organizational ties, with the need for the continuing acquisition of new skills and knowledge.

All of this raises complicated issues of how individuals prepare for lives of change in the workplace and how companies will attract, compensate, motivate and retain a nomadic workforce, and, at the same time, implement the organizational characteristics essential to maintain competitive superiority in the 21st Century economy: flexibility; efficiency; responsiveness; mobility; and creativity.

This will be a challenging environment in which to operate. But I believe that the American people and our business organizations are well positioned to succeed in this new economic environment and continue America's economic preeminence. I say this based not on blind patriotism but on some hard facts -- facts which show America to be:

-- The world's largest and strongest economy with the highest standard of living;

-- The most productive economy;

-- The world's leading exporter;

-- The most prolific in the development of high technology products and scientific advancement;

-- And to have a history of adaptability to change and creative entreprenuerism that enables us to meet these challenges and conquer them.

Indeed, I think that if we have difficultly in winning the peace -- and by that I mean the contest for future economic preeminence -- it will be because of self-inflicted wounds. Those wounds can be inflicted by our failure to do some things we should do to assure that we seize the opportunities of the future -- such as improve our educational system, pursue open and non-restrictive trade policies, cut capital gains taxes, and revamp our tax system so that we stop taxing corporate profits twice. But there are other ways in which we can wound our ability to meet the economic challenges of the 21st Century. And one of those is if we continue to bury ourselves in a tangle of regulation that stunts economic growth and discourages entrepreneurism. That is where FASB comes into the picture.

You are professionals. You have responsibilities to carry out your professional duties with integrity and skill. But, consistent with that, I cannot imagine that everyone in this room does not also want to do all within his or her power to help this country succeed in the rough and tumble economic environment of the 21st Century. So it seems to me that FASB's approach to the issues that come before it ought to take into account the value of contributing to America's economic success. And by that I mean, particularly in the frequent situations where there is some decisional latitude, avoiding actions that will make it more difficult for American enterprises to attract the talent necessary to compete effectively, or to attain the mobility, flexibility, efficiency, and responsiveness essential to their success.

Let me give you an example. That is the matter of the accounting treatment for stock options.

As it turns out, I know something about stock options. As a corporate executive and as a director of several firms, I have held them, exercised them, and granted them broadly to employees. I have watched stock options perform a very important role as an incentive for the attraction, retention and motivation of first rate talent. I believe in stock options and I think that they will perform an increasingly important role in compensating and attracting the kinds of people who are going to be critical to the future economic success of American business.

We all know that there is a debate underway as to whether there should be a change in the accounting treatment of stock options -- and specifically whether they must be reflected in a firm's income statement at some point in the chain of grant, vesting, and exercise, in ways different from the treatment which they now receive. The issues here are complex and open to honest dispute. On the one hand, the argument is made that, since stock options have some value, it is obligatory from the standpoint of sound accounting that this value be reflected in the income statement.

On the other hand, the task of determining a value for these options is a highly speculative one, since the value is entirely based on unknown future economic performance. Now, I don't think it would be particularly useful for me to debate with you here the question of whether stock options have value, or the question of, if they do, how much. But even if, as a technical matter, stock options do have value, and even if that value could in some way be credibly computed, it's very clear to me that if the accounting approach that requires option value to be run through the income statement is adopted, the use of stock options will be discouraged.

And it is also worth pointing out that, under current regulatory treatment, everyone is completely aware of the presence and the economic potential for the optionees of stock options in any public company since they are required to be set out in great detail in the proxy statements. No one is ignorant. No one is deceived.

So my question to you is this: in these circumstances, why would you want to exercise your professional discretion to discourage the use of a valuable compensatory incentive that has shown particular importance in the high tech arena and in startup businesses in biotechnology and other similar areas. These are exactly the kind of businesses that we want to foster in this country if we are going to maintain a strong, competitive position in a global economy of the future.

So it seems to me that, in dealing with this problem, you would want to take every possible step to enhance stock options and promote their use, and thereby advance entrepreneurism and the competitive prospects of American enterprises. Here, it seems to me, technical perfection ought to yield to considerations of fostering economic growth, jobs, and the welfare of the American people. And that is why I have strongly argued, and will continue to argue, for leaving the rules affecting the accounting for stock options as they are.

Let me now turn to a second topic before you -- that is the matter of market value accounting, as it applies financial institutions.

Here again is an example of potential divergence between accounting rules and the practicalities and economic consequences in the real world of finance.

Some accountants -- and our friends at the Securities and Exchange Commission -- seem to love market value accounting. Indeed, the SEC appears to be on a mission to impose its regulatory will on the banks' securities holdings without waiting for resolution by the accounting community or anyone else. However, in a recent Peat Marwick study commissioned by the Association of Reserve City Bankers, users of financial statements showed only mild interest in market value data, were skeptical about its usefulness and comparability, and evinced much more interest in data on credit quality and problem assets.

In any event, the advocates of market value accounting apparently believe that accounting for assets at historic values always distorts the economic picture of a firm, and that disclosure of current asset values always provides creditors and investors with a truer and more relevant evaluation of the financial health of an institution and the success of its investment strategy.

But the advocates of market value accounting fail to recognize the distortions that can result from partial market value accounting -- that is applying market values only to certain assets and ignoring liabilities. And with respect to a bank's securities portfolio, they fail to see that in the real world there is a real difference between investment and trading accounts held by commercial banks -- a difference we think FASB's exposure draft would eliminate with harmful results for the lending environment.

Under FASB's exposure draft historic cost accounting could be used only for those securities for which the investor -- categorically and with no exceptions -- has the "positive intent and ability to hold to maturity." Now, how often can any investor truthfully say he has a "positive intent and ability" to hold an investment until maturity? Institutions -- like individuals -- often make genuine investment decisions with no intention of future trading, but with the realization that in a dynamic economy it is quite possible that the investment could be sold before its maturity.

This is particularly true for commercial banks, where the investment account often serves as an important tool of liquidity management. The exposure draft states that a security may not be classified as held to maturity if, among other things, it might be sold in response to changes in general liquidity needs. This poses a serious dilemma for banks: either hold all securities to maturity -- and thus be unable to respond to increased loan demand by liquidating investments -- or mark the investment portfolio to market. Any bank that chooses the latter route is, in effect, opting for more volatile earnings and capital.

Among other consequences, the net effect of the market value approach may be an increased unwillingness on the part of banks to fulfill their proper role in the economy by assuming and managing longer-term risks. This is, of course, directly contrary to the Administration's efforts to put banks back in the lending business, improve credit availability and get the economy moving again.

Of course there are other general considerations that I am sure FASB weighs in considering its rulings. Obviously the practicality of implementing a prescribed accounting regime is something that must be considered, and perhaps more important, the cost of implementing an accounting rule weighed against the benefits of the particular requirement. Frankly, the weighing of costs and benefits is something that doesn't go on enough in the government regulatory process.

My overall point is simple. I expect there will be numerous instances of potential conflict between your opinions as accounting experts and the interests of this country in stimulating economic growth and winning the economic contest that lies ahead. I hope you will want to manage your professional affairs so that you do not ignore the economic consequences of what you do and put the things that really count for people and businesses in this country ahead of narrow technical considerations.

Some of you may remember the wonderful World War II story and movie, "Bridge on the River Kwai," where a British officer and his unit, who were prisoners of war of the Japanese, built a railroad bridge under the supervision of their captors. The bridge was a tremendous feat of engineering and professional determination, but there was a problem. It would directly aid the Japanese war effort in Southeast Asia. Ultimately the bridge was blown up by allied forces. I certainly hope you do not believe that accountancy demands the kind of goal-blind professionalism that the British officer displayed. We all need to blow up more of the bridges that hinder economic growth.

What underlies what I have tried to say here today is not a desire to criticize FASB or accountants. Rather, it is my deep concern that not only today's economy, but American prospects for success in the competitive economic environment of the 21st Century are being undermined by pernicious overregulation which is turning America into a nation preoccupied with process and paper shuffling rather than economic growth and entrepreneurial initiative.

I have been the head of a Federal regulatory agency. I have run a number of Federal regulatory programs. And I have been the CEO of a company regulated by the Federal Government. So I think I know something about the effect of regulation on economic activity. It can be crushing. And it seems to me that we have more and more become a country of rules and regulations. I am confident of one thing, and that is that a set of rules breeds a set of uncertainties which in turn breeds more rules, which breeds new uncertainties, etc., etc., etc. This is a process that ends in suffocation. Indeed, we need to be rolling back the rules and regulations that have already fallen upon us so we create more entrepreneurial elbow room.

Recently I saw some work tracing the decline and fall of ancient civilizations. And I would like to quote a passage about ancient Egypt. The text catalogued the multiple economic restraints the Pharaohs had imposed on people. Then it went on say, "the people no longer had any initiative and endured constraints, administrative pressure, irritating inspections and beatings. This inhumane regime led to an attitude of dull endurance in the population. After a period of brilliance, the Egyptian economy collapsed...as did her political stability."

I do not mean to suggest that this will be the fate of the United States. It will not be. But it is worth keeping in mind that bit of ancient history -- and others like it -- as we perform our respective professional tasks.

To that end, it is my hope that the Treasury Department and FASB will maintain an open and active dialogue to discuss matters of mutual interest. We look forward to that.

Thank you again for having me here today.

# # #

TREASURY NEWS

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

TEXT AS PREPARED FOR DELIVERY

REMARKS BY
SECRETARY OF THE TREASURY
THE HONORABLE NICHOLAS F. BRADY
OPENING CEREMONIES OF THE ANNUAL MEETINGS
OF THE INTERNATIONAL MONETARY FUND
AND THE WORLD BANK
WASHINGTON, D.C.
September 22, 1992

Chairman Berrada, Managing Director Camdessus, President Preston, fellow Governors and distinguished guests.

On behalf of the President of the United States, it is my honor to welcome you to Washington for the Annual Meetings of the IMF and World Bank. We stand on the threshold of a new era that all of us have been seeking for more than 40 years. We must not let the problems of the moment blind us to the opportunities now open to us. Our challenge is to overcome the problems and begin building the brighter future for the generations to follow.

During the past four years in which I have served with you as a Governor of the IMF and World Bank, we have witnessed profound changes in the world in which we live. The Cold War is over, the nations of Eastern Europe and the former Soviet Union have set themselves free. Developing countries are undertaking bold free market reforms. The debt crisis is largely over for major debtors and the banking system. The competition between state control and market economies has been decisively won by those who put their faith in the individual and the market and their people have benefitted.

Working together, in a spirit of cooperation and partnership, we have created a foundation for peace and prosperity in our time. The IMF and the World Bank have served us particularly well in helping to establish this foundation. However, to fulfill the promise of the future, we must build upon our successes of yesterday and today.

First and foremost, we must build a stronger world economy, one solidly committed to global growth. For when growth occurs the world's money is attracted to projects which produce jobs, thereby reducing poverty and creating a higher standard of living. Contrariwise, when interest rates remain high for whatever reason, the returns on investment stay sterile in the banking system.

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Second, the essence of growth is trade and its badge is competition. Nothing in the events of the last few days should deter our joint efforts to complete the Uruguay Round. It is far better to light a candle than to curse the darkness.

Third, we must strengthen our arrangements to coordinate economic policies to provide a rejuvenated and stable international monetary system that can deal with the historic changes taking place as well as differing national economic priorities.

We have reason for optimism. The events of the past four years show what we can accomplish when we apply our collective energies to work. The challenges ahead of us pale in comparison with the difficulties that have already been overcome. And the IMF, the World Bank and their sister organizations have proven since the days of Bretton Woods that they have the fibre to lead us forward.

Today begins the start of a new effort to build a better world. A year from now, let the world look back and say that today we made a good beginning.

I wish to convey the good wishes of the American people as you undertake your historic task. Thank you very much.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Tuesday, September 22, 1992

CONTACT: RICH MYERS
(202) 622-2930

STATEMENT BY TREASURY SECRETARY NICHOLAS F. BRADY
Re: Payroll Tax Deposit Reform
September 22, 1992

Reducing regulatory burden for small businesses is an integral part of the Bush administration's economic agenda. Two-thirds of all new jobs are created by small businesses and President Bush is committed to fueling these engines of economic growth. The new payroll tax rules unshackle small businesses from a costly burden of needless paperwork and confusing red tape. They are simpler, more user-friendly, and will encourage voluntary compliance.

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NB-1991

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

September 22, 1992

FEDERAL FINANCING BANK ACTIVITY

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

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $174.0 billion on August 31, 1992, posting a decrease of $3,697.1 million from the level on July 31, 1992. This net change was the result of decreases in holdings of agency debt of $3,492.2 million, in holdings of agency assets of $200.0 million, and in holdings of agency-guaranteed loans of $4.9 million. FFB made 32 disbursements in August.

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

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FEDERAL FINANCING BANK
AUGUST 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	8/14	$ 3,457,711.00	12/11/95	5.054%	
Miami Law Enforcement	8/18	1,805,363.00	1/3/95	4.487%	
Foley Square Courthouse	8/21	57,499.00	12/11/95	4.855%	
Memphis IRS Service Center	8/21	533,868.75	1/3/95	4.381%	
ICTC Building	8/25	2,415,265.82	11/16/92	3.355%	
RURAL ELECTRIFICATION ADMINISTRATION					
WRECI Electric #353	8/4	5,299,000.00	12/31/25	7.156%	7.093% qtr.
Baldwin County Elec. #361	8/12	4,147,000.00	12/31/25	7.205%	7.141% qtr.
@Arizona Electric #242A	8/24	8,329,728.80	12/31/20	7.063%	7.002% qtr.
Randolph Electric #359	8/26	2,000,000.00	9/30/94	4.499%	4.474% qtr.
@Allegheny Electric #093A	8/31	80,775,942.21	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	1,692,001.32	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	1,860,126.98	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	1,471,610.80	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	1,739,734.75	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	1,512,486.71	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,138,112.62	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	1,850,273.67	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,355,654.16	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,832,193.74	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,818,639.11	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,055,103.05	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	4,737,388.10	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,259,246.77	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,271,396.00	12/31/12	6.837%	6.780% qtr.
@Allegheny Electric #093A	8/31	2,357,592.43	12/31/13	6.878%	6.820% qtr.
@Allegheny Electric #093A	8/31	2,012,157.37	12/31/13	6.878%	6.820% qtr.
@Allegheny Electric #093A	8/31	2,615,712.08	12/13/13	6.878%	6.820% qtr.
@Allegheny Electric #093A	8/31	2,675,703.31	12/31/13	6.878%	6.820% qtr.
@Cooperative Power #005	8/31	3,792,528.00	12/31/13	6.878%	6.820% qtr.
@Cooperative Power #130A	8/31	11,377,583.99	12/31/13	6.878%	6.820% qtr.
@Cooperative Power #130A	8/31	7,585,055.98	12/31/13	6.878%	6.820% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-92-13	8/31	467,924,818.67	11/30/92	3.359%	

@interest rate buydown

FEDERAL FINANCING BANK
(in millions)

Program	August 31, 1992	July 31, 1992	Net Change 8/1/92-8/31/92	FY '92 Net Change 10/1/91-8/31/92
Agency Debt:				
Export-Import Bank	$ 8,150.0	$ 8,150.0	$ 0.0	$ -3,111.0
Federal Deposit Insurance Corporation	15,160.0	15,160.0	0.0	6,864.0
NCUA-Central Liquidity Fund	0.0	5.0	-5.0	-113.6
Resolution Trust Corporation	50,406.8	52,694.0	-2,287.2	-12,475.5
Tennessee Valley Authority	7,275.0	8,475.0	-1,200.0	-4,600.0
U.S. Postal Service	9,903.4	9,903.4	0.0	1,702.8
sub-total*	90,895.2	94,387.4	-3,492.2	-11,733.3
Agency Assets:				
Farmers Home Administration	43,009.0	43,209.0	-200.0	-7,685.0
DHHS-Health Maintenance Org.	55.2	55.2	0.0	-6.0
DHHS-Medical Facilities	64.3	64.2	0.1	-11.5
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	-65.0
Small Business Administration	4.4	4.5	-0.1	-1.8
sub-total*	47,731.8	47,931.8	-200.0	-7,769.3
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,387.0	4,398.1	-11.1	-213.0
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	0.0	-30.0
DEPCO-Rhode Island	125.0	125.0	0.0	125.0
DHUD-Community Dev. Block Grant	176.9	184.7	-7.8	-27.6
DHUD-Public Housing Notes +	1,853.2	1,853.2	0.0	-50.2
General Services Administration +	759.1	750.8	8.3	98.5
DOI-Guam Power Authority	27.7	27.7	0.0	-0.7
DOI-Virgin Islands	23.7	23.7	0.0	-0.8
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	18,238.0	18,226.5	11.4	-359.0
SBA-Small Business Investment Cos.	148.6	155.6	-7.0	-96.5
SBA-State/Local Development Cos.	636.9	641.4	-4.5	-51.4
TVA-Seven States Energy Corp.	2,407.1	2,401.0	6.2	-39.9
DOT-Section 511	19.2	19.6	-0.4	-2.1
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	35,375.6	35,380.5	-4.9	-728.5
grand-total*	$ 174,002.6	$ 177,699.7	$ -3,697.1	$ -20,231.1

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

④ TREASURY NEWS

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

For Immediate Release September 22, 1992

Monthly Release of U.S. Reserve Assets

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

As indicated in this table, U.S. reserve assets amounted to 78,474 million at the end of August 1992, up from 77,370 million in July 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					
July	77,370	11,059	11,702	44,984	9,625
August	78,474	11,059	12,193	45,460	9,762

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.

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TREASURY NEWS

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

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

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 20,400 million, to be issued October 1, 1992. This offering will result in a paydown for the Treasury of about $ 3,000 million, as the maturing bills are outstanding in the amount of $ 23,411 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, September 28, 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 $ 10,200 million, representing an additional amount of bills dated July 2, 1992 and to mature December 31, 1992 (CUSIP No. 912794 ZX 5), currently outstanding in the amount of $ 11,735 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 10,200 million, to be dated October 1, 1992 and to mature April 1, 1993 (CUSIP No. 912794 B7 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 October 1, 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 $ 2,713 million as agents for foreign and international monetary authorities, and $ 5,427 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-1994

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

FOR IMMEDIATE RELEASE
September 22, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $14,548 million of 2-year notes, Series AE-1994, to be issued September 30, 1992 and to mature September 30, 1994 were accepted today (CUSIP: 912827G89).

The interest rate on the notes will be 4%.

All competitive tenders at yields lower than 4.00% were accepted in full. Tenders at 4.00% were allotted 3%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 4.00%, with an equivalent price of 100.000.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	16,015	16,015
New York	42,592,180	13,794,450
Philadelphia	23,515	23,515
Cleveland	80,760	32,260
Richmond	82,245	33,445
Atlanta	40,105	30,255
Chicago	1,641,405	177,545
St. Louis	44,250	40,250
Minneapolis	15,005	15,005
Kansas City	49,585	49,585
Dallas	16,680	11,680
San Francisco	438,075	34,575
Treasury	288,950	288,950
TOTALS	$45,328,770	$14,547,530

The $14,548 million of accepted tenders includes $788 million of noncompetitive tenders and $13,760 million of competitive tenders from the public.

In addition, $688 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,505 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

The median yield was 3.98%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 3.93%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

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AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
September 22, 1992

CONTACT: Office of Financing
202-219-3350

RELEASE OF STATISTICS FROM SINGLE-PRICE TREASURY AUCTIONS

The Treasury will be releasing a new statistic after each of the auctions in the single-price experiment. Beginning with today's two-year note auction, the Treasury will release the median of the accepted competitive tenders at the time that the auction results are announced, or soon thereafter. The median is the midpoint of all accepted competitive bids; that is, 50 percent of the amount of accepted competitive bids are tendered at or below the median yield. The Treasury will not publish an average yield for the accepted competitive bids in the single-price auctions, as that statistics does not have the same significance as in multiple-price auctions.

In addition, the low yield that will be released after each single-price auction will represent the yield at or below which 5 percent of the amount of the accepted competitive bids were tendered.

All other statistics that the Treasury usually releases will also be included in the announcements of single-price auction results. They are the high yield (at which all awards will be made), the allotment ratio at the high yield, the amounts tendered and accepted by each Federal Reserve district and by the Treasury, and the volume of noncompetitive awards to private investors, Federal Reserve Banks, and foreign and international monetary authorities.

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NB-1996

TREASURY NEWS

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

TEXT AS PREPARED FOR DELIVERY

Address by
Secretary of the Treasury
Nicholas F. Brady
at the Annual Meetings
of the IMF and World Bank
Washington
September 23, 1992

Chairman Berrada, Managing Director Camdessus, President Preston, fellow Governors, distinguished guests.

I want to welcome the more than 20 countries which have become members of the IMF and World Bank over the past year, including Russia, Ukraine, and Switzerland. The Fund and Bank have at long last become truly universal institutions.

We are at the threshold of a new era we have been seeking for more than 40 years. The enormous economic and political change of the last four years has brought us close to our common dream of global peace and prosperity.

At the start of the Cold War 50 years ago, Dwight Eisenhower said, " 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." We are free of these burdens of the Cold War struggle, and we are witnessing the dawn of a new era of human achievement.

The competition between political philosophies and economic ideas is over. Those who put their faith in the individual and the market have won. The benefit will be a world of greater freedom, faster growth, higher productivity, more jobs, and a better life.

<u>The Triumph of Market Principles</u>

Countries all over the world are demonstrating their commitment to market principles and have made sweeping changes in their policies. We are seeing tangible results.

The triumph of market principles is perhaps most dramatically demonstrated by events in the former Soviet Union and Eastern Europe. The people of these countries have made a clear choice, not just to reform central planning, but to replace it as rapidly as possible with market systems. Their conviction is strong enough to make them willing to undergo the enormous hardships arising from complete economic transformation.

NB-1997

There have been setbacks along the way and that is to be expected given the magnitude of the task. The progress, however, has been impressive. In the space of less than one year, Russia has freed prices, cut its fiscal deficit, liberalized its exchange rate, and is about to embark on an ambitious privatization program. Estonia and Latvia have already reached agreement on Fund-supported adjustment programs. In Eastern Europe, Poland is successfully implementing comprehensive reforms, Hungary is attracting extensive foreign investment and the Czech and Slovak Federal Republic has made major progress on stabilization and privatization. These countries and others have earned our support as they continue on the road to stabilization, reform and growth.

In the developing countries, sound market-based policies and commercial bank debt reduction are revitalizing economies, particularly in Latin America. The fruits of these actions are evident. Growth in several countries now ranges from 4 to 6 percent, inflation has plummeted, private capital flows have soared and access to world capital markets is being restored.

Most major debtor nations have reached debt reduction or refinancing agreements with their commercial banks. These agreements cover 92 percent or some $240 billion, of their outstanding commercial bank debt. And, for the major debtors and the banking system, it is no exaggeration to say that the debt crisis of the 1980s is largely over. This is an impressive achievement.

This revitalization has not touched every corner of the world. An important lesson for these developing countries is that debt reduction alone cannot produce dramatically improved economic performance. Sound market-based policies, the key to sustained growth, are an integral part of the solution.

Building a Stronger Tomorrow

Our successes in recent years make it all the more imperative that we develop a strong strategy for sustaining reform and raising global living standards.

Let me begin with the role of the major industrial countries. Our first priority must be to resume strong growth. For when growth occurs, the world's money is attracted to projects which produce jobs, thereby reducing poverty and creating a higher standard of living. On the other hand, when interest rates remain high for whatever reason, the returns on investment remain sterile in the banking system. The choice is clear.

Reforming countries also need trade and investment links with growing industrial economies to be able to translate their policy improvements into growth. And we can hardly expect reforming countries to maintain their commitment to market-based systems if our own economies are failing to perform.

The recovery is underway. We are determined, however, to strengthen that recovery. Interest rates have been reduced in most countries, including the first cut in German interest rates in five years. Japan has introduced the largest fiscal stimulus package in its history which will increase domestic growth and the demand for imports.

In the United States, we have experienced five quarters of growth. Inflation and interest rates have been reduced to the lowest level in 25 years. We are bringing our budget deficits down. The President has proposed an Agenda for American Renewal to increase our long-term growth potential.

The major industrial countries are committed to strengthen world growth. We stand ready to take appropriate additional actions to achieve sustained growth and greater currency stability.

Strengthening Arrangements for Economic Policy Coordination

The present world economy highlights the need to strengthen our economic policy coordination efforts. The basic premise of policy coordination remains valid. A sound world economy requires that the major countries pursue policies that are consistent with our overall objectives and produce a convergence of performance at a higher level of growth. A stable international monetary system is also essential for success.

Policy coordination has worked, sometimes with fanfare, sometimes quietly. In the 1980s, it helped to reduce the wide divergence in economic policies and performance. As a result, our economies prospered, price stability was restored, external imbalances declined, and exchange rates were more stable.

Recently, our economic performance has again diverged, creating new uncertainties. We have had to seek a new consensus, this time on the priority for growth. That consensus was clear at Munich and concrete steps to enhance growth have since been taken.

However, the world has changed significantly since the coordination process was developed. Capital markets have grown dramatically in size and complexity. Daily transactions in the foreign exchange market are approaching $1 trillion. This is roughly double the total reserves of the major industrial countries and well beyond the resources governments can bring to bear in the markets. The channels through which capital moves have become more diverse with the creation of new derivative products and the number of market participants has grown. The speed of international transactions has increased dramatically with the introduction of new technology. New ways of cooperating must be developed to fit the changed circumstances of this new world.

It is for this reason that President Bush has called on the world to further strengthen our international economic and monetary systems. There is a clear need for a better understanding of the changing face of financial markets and the implications for the international monetary system.

Therefore, as Chairman of the Group of Ten, I am proposing that the G-10 undertake an examination of global capital flows, their size and movements, and their implications for the international monetary system. This analysis will complement the work of the IMF and could serve as the basis for G-7 Finance Ministers to consider proposals and recommendations to fulfill the mandate of the Heads of State and Governments to strengthen their cooperation and to intensify their efforts to remove obstacles to growth.

Extending Market Principles

Market-based principles must also be extended throughout and across nations to build a better tomorrow.

In our own countries, we must intensify efforts to achieve structural reforms. These reforms will reduce obstacles to growth, increase efficiency and productivity, and create greater economic dynamism and competition.

In the past few years, more and more countries have recognized the importance of trade liberalization. They understand that the rising tide of trade lifts the economic growth of all countries.

Let me say unequivocally that the United States remains fully committed to the multilateral trading system. A rapid and successful conclusion of the Uruguay Round is our top trade policy priority. We cannot afford to lose the gains from increased trade and investment that this confidence-building agreement would create.

The Role of the International Financial Institutions

The international financial institutions have been central to all of this progress. Over more than forty years, we have entrusted them with the job of guiding and supporting the course of reform in widely different economies around the globe. It is clear their success is reflected in their universal membership.

As important as the international financial institutions have been, we will expect no less of them in the future. They must remain at the center of the effort to spread market principles, support the implementation of sound and effective economic policies, and promote world growth. They are at the center of the world's efforts to help transform the countries of Eastern Europe and the former Soviet Union.

Adequate resources are essential for this job. The United States remains strongly committed to passage of legislation providing for the IMF quota increase. We are also committed to an IDA-10 replenishment that will support the environmentally sustainable development efforts of the poorest, least creditworthy countries. Progress also requires further attention to ensuring that all parts of society participate in growth.

Conclusion

We must not let the problems of the moment blind us to the opportunities now before us. Our challenge is to overcome the problems and to seize this once-in-a-lifetime opportunity to build a brighter future. Our goal must be an integrated global market economy that produces growth and prosperity, as well as peace and democracy, shared by all.

Today begins the start of a new effort to build a better world. A year from now, let the world look back and say that we made a good beginning.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $10,514 million of 5-year notes, Series R-1997, to be issued September 30, 1992 and to mature September 30, 1997 were accepted today (CUSIP: 912827G97).

The interest rate on the notes will be 5-1/2%. All competitive tenders at yields lower than 5.54% were accepted in full. Tender at 5.54% were allotted 57%. All noncompetitive and successful competi tive bidders were allotted securities at the yield of 5.54%, with an equivalent price of 99.827. The median yield was 5.50%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.45%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	20,127	20,127
New York	22,176,957	9,731,557
Philadelphia	16,572	16,572
Cleveland	33,513	33,513
Richmond	56,425	56,425
Atlanta	28,999	28,996
Chicago	1,096,968	265,468
St. Louis	17,663	17,663
Minneapolis	12,208	12,208
Kansas City	38,012	38,012
Dallas	10,234	10,234
San Francisco	192,847	192,847
Treasury	90,170	90,170
TOTALS	$23,790,695	$10,513,792

The $10,514 million of accepted tenders includes $542 million of noncompetitive tenders and $9,972 million of competitive tenders from the public.

In addition, $1,203 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $400 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-1998

TREASURY NEWS

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

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PREPARED FOR DELIVERY
September 24, 1992

Contact: Anne Kelly Williams
202-622-2960

REMARKS BY
DEPUTY SECRETARY OF THE TREASURY JOHN E. ROBSON
TRI-CITY SMALL BUSINESS/SMALL BANK REGULATORY BURDEN LUNCHEON
UNIVERSITY OF TEXAS-TYLER BUSINESS SCHOOL
TYLER, TEXAS
SEPTEMBER 24, 1992

Good afternoon, and thanks to the good people here at the University of Texas at Tyler Business School for providing me with the opportunity to relive my old days as the dean and professor of management at Emory University's Business School, and to discuss something that's on all our minds these days -- the overregulation of small businesses and banks.

All of us in this room know that the American economy is undergoing fundamental changes that have caused its sluggish performance. The defense conversion brought on by our triumphal victory in the Cold War, the transformation of more and more industries into leaner, skill-based organizations, the paying down of corporate and consumer debt, a lending-cautious financial system hamstrung by anachronistic laws, and the emergence of a high velocity, intensely competitive global economy have substantially altered the business environment for American enterprises. And there is no denying that these changes have been painful for many Americans.

And yet, these are mainly transitional difficulties that we will overcome. And I have a fundamental optimism about the future. I do not believe the pundits and politicians who tear down America -- and who describe this country as economically decrepit and past her prime. Because, however you measure, the United States is still the preeminent economic power in the world. For example, with just one twentieth of the world's population, we produce one fourth of its goods and services and more than one third of its high-tech products. And we are the world's leading exporter.

The President knows that our transitional economic difficulties have made many Americans uncertain about their own, their children's, and our country's future. But he also knows that we will work through these tough transitional problems, and, that if given enough entrepreneurial elbow room, America will continue to outwork, outproduce and outsmart the rest of the

NB-1999

world. Which is why the President has laid the foundation for the future by unveiling his Agenda for American Renewal, an integrated, comprehensive economic plan which builds on our strengths and will prepare American businesses to compete in the next century.

One transitional difficulty which we must overcome is the credit crunch, which has hit small businesses particularly hard. President Bush is a former Texas businessmen himself -- he knows what it's like to sweat over a P&L statement and try to meet a payroll. The President also knows that small business is the backbone of our nation's economy, employing 57 percent of our private workforce, accounting for 39 percent of our Gross Domestic Product, and generating over two-thirds of all net new private sector jobs. But most importantly, he knows that America's small businesses cannot perform their role as the engine for economic growth without access to credit.

The credit crunch has many causes. They include a born-again conservatism in bankers, lender caution induced by the recent recession, the searing experience of the savings and loan collapse, overbuilding of real estate in the 1980s, fear of legal exposure by bank directors and officers, and a new emphasis by bank management on building up capital levels.

We also know that many banks feel besieged by the 7,000 or so bank and thrift examiners across the country. No doubt there are still some examiners out there in the field who are not implementing our anti-credit crunch policies the way we want. But that is precisely why several months ago we established a parallel appeals process for bankers who feel victimized by unprofessional examiner conduct, or think the credit crunch guidelines have not been properly applied. We have invited banks to appeal to higher levels of regulatory agencies, and frankly, we have not received many RSVPs.

I have heard the reasons why bankers have not used this appeals process -- how they fear examiner revenge. But we have said from the start that examiner retribution will not be tolerated. Bankers cannot have it both ways -- complaining to us about examiner abuses, but refusing to use the appeals process created expressly for the purpose of correcting those abuses. And if you are the operator of a small business sitting in a bank trying to get a loan, and a banker tells you, "Geez, I'd love to do it, but the examiners won't let me," insist that he use the parallel appeals process and get back to you with the outcome.

It is not my purpose to bash bankers for the credit crunch. But I do think it is time for banks to step up to the plate and start making loans again. The economy needs those loans at the margin, especially the character loans that helped build this country. I understand the caution in the industry after this difficult period, but banking is the business of making loans to provide needed capital. It is not risk-free -- and it is not intended to be so. So we urge bankers to step forward and make loans to sound borrowers and work with them during their temporary difficulties.

I concede that regulatory practices have contributed to the credit crunch. One reason is that, having witnessed the fate of S&L regulators who were deemed too lax by Congress, it didn't take a weatherman for examiners to know which way the wind was blowing. The message was loud and clear -- when in doubt, criticize the loan.

That is why we at Treasury have focused so much of our anti-credit crunch effort on regulatory issues -- trying to ensure that examiners use balance and common sense in the regulatory process. But there is one thing we cannot do. And that is abandon our regulatory responsibilities to foster the safety and soundness of financial institutions. I would hope you would not want us to do so. And frankly, blaming all the credit crunch on examiners is like blaming a bad baseball season on the umpires.

With that said, let me tell you what we have been trying to do in our three-pronged attack to combat the credit crunch.

The first prong of attack is to revise regulatory policy and practices to ease the credit crunch. Over 35 guidelines have been issued to provide bank and thrift examiners in the field with specific instructions aimed at credit crunch issues. Examples of these new instructions include:

-- Instructions that encourage lenders to work with borrowers experiencing temporary difficulty.

-- Guidelines to ensure banks' valuation of real estate is based on ability to generate income over time, not on liquidation value.

-- Expanding the capital base from which banks may lend by approving an increase in the amount of purchased mortgage servicing rights and purchased credit card relationships.

And,

-- Instructions to examine each credit on its own merits rather than, for example, lumping all real estate loans together.

The second prong of our attack on the credit crunch is a broad communications effort to make sure examiners are applying the letter and spirit of these new guidelines in the field. To accomplish that, we have held three national meetings of examiners at which Secretary Brady or I have spoken. Bank and thrift regulators have held numerous educational meetings with their examiner corps. And in May, I met with Texas bank examiners in Houston to discuss current problems banks are experiencing in Texas. The message we give at all of these gatherings is straightforward -- bring common sense and balance into the examination process and follow the new guidelines.

Treasury's third prong of attack expands on this communication effort by bringing bankers, borrowers, business people and regulators together at the same time and place to discuss the credit crunch. We have held over 350 of these meetings across the country to open a dialogue on credit crunch issues, and to make sure that each group understands the other's perspectives. I travelled to Houston in May to discuss these efforts at the Urban Land Institute's National Convention, and met with Texas Bankers at the Houston Federal Reserve Offices to discuss Texas banking issues. Tomorrow morning I'll be at a similar meeting in Dallas with the Board of Directors and senior officers of the Dallas Federal Reserve Bank.

And Secretary Brady has recently expanded this communications effort by calling for a nationwide series of meetings that will focus on three main areas -- the restructuring and/or rollover of commercial real estate loans; acquisition, development and construction financing of residential and multi-family housing; and small business loans. Bankers and borrowers will come together with officials from the Office of Thrift Supervision and the Comptroller of the Currency to allow open discussion of these issues and of possible regulatory abuses.

But regulatory overzealousness associated with the credit crunch is also a symptom of a broader and more dangerous disease which has eaten away at our country's economic growth. And that disease is the spread of excessive government regulation.

The Bush Administration has dug in against overregulation through several actions. The President has imposed a moratorium on new regulations, attacked needless regulation through the Council on Competitiveness, and proposed regulatory relief measures in a number of areas.

The Treasury Department has played an active role in the President's regulatory initiative. It has taken a number of regulatory actions that will promote economic growth, and has identified for elimination or modification 175 existing regulations. While it is often difficult to quantify precisely the economic impact of these reforms, I am happy to say that, when fully implemented, these reforms could result in annual savings to the economy of almost $1 billion.

One significant example of these reforms is a brand new set of IRS regulations which significantly simplify the payroll tax reporting rules for the nation's nearly six million employers. Under the new guidelines, which are published in today's Federal Register, most small businesses will now only have to deposit their employment taxes once a month, similar to how they pay monthly bills like rent and electricity. Other employers will deposit their taxes on fixed days of the week. Either way, the deposit schedule will be set yearly, and the IRS will notify employers at the beginning of each year which category their businesses fit into. This change will free employers from the costly task of constantly monitoring payroll taxes, and allow small businesses to focus on what they do best -- create jobs.

Earlier in this speech I prodded banks to do their jobs by providing credit for businesses, but the Administration also believes we must <u>allow</u> bankers to do their job. Which is why the Treasury has worked to ease the regulatory burdens on banks by sending to Congress the Credit Availability and Regulatory Relief Act. This bill would repeal many of the needless, Congressionally-imposed burdens that require banks to spend more time filling out forms than making loans.

The legislation would let bankers be bankers by repealing a number of onerous statutory requirements contained in last year's Federal Deposit Insurance Corporation Improvement Act, or "FDICIA". It would eliminate the requirement to develop so-called "tripwire" regulations, which would allow government to micromanage many aspects of a bank's operations, including minimum earnings levels and employee compensation. It would make auditors auditors again, not policeman or regulators, and would advance the goals of the Community Reinvestment Act while reducing its needless paperwork requirements.

But the disease of overregulation has even spread beyond its traditional areas into corporate governance decisions like executive compensation and employee stock options. And it won't come as a surprise that a Congress ever anxious to get its mitts on other people's money has led the charge. Some members advocate an outright ceiling on executive pay. Others want to bar the business expense tax deduction for compensation over a certain amount.

Yes, there have been some well-publicized cases of apparent mismatch between executive pay and corporate performance. But Congress shouldn't be anywhere near this stuff. These legislative proposals amount to the kind of government wage-setting so ruinously employed in the former communist economies of Eastern Europe and the Soviet Union, and it would be a supreme irony if we ourselves were now to adopt them. These decisions do not lend themselves to any sort of uniform "cookie-cutter" formulas, and they must be left to the marketplace and the vehicles of corporate governance.

Another place government shouldn't mess around in is employee stock options. I know something about stock options. I have held and exercised them, granted them broadly to my company's employees, and watched them work as powerful incentives for motivating, attracting and retaining talented people. But there are others who are considering actions that could put stock options on the endangered species list.

I refer specifically to the accounting idea, now being considered by the Financial Accounting Standards Board, at least one U.S. Senator, and possibly the SEC, to require companies to record the "expense" of stock options as a charge against income.

Never mind that for many companies, stock options are not a luxury, but a necessity. Never mind that these companies would be hurt if stock options are eviscerated by an accounting rule. The accounting experts say that stock options have value, and, therefore, they must be reflected as a compensation expense in the company's profit and loss statements.

But even if the accounting experts are technically correct, and I don't concede that they are, why in the name of little green eyeshades would you want to sacrifice a proven and important employee incentive -- one that stimulates innovation and economic growth -- on the altar of accounting theology?

That is obviously a very bad trade. And it is unimaginable that FASB, members of Congress, or anyone else would want to damage this valuable tool for economic growth when there is so little to gain by doing so.

I have told you how the Administration's anti-credit crunch and regulatory reform efforts will help banks get back into the business of making loans. But let me now return to how the President's Agenda for American Renewal will provide particular help for small business.

The President knows that we must ensure that government helps economic growth, entrepreneurial opportunity and job creation by providing incentives for American small businesses. To accomplish this, the President just yesterday proposed a five-year, $20 billion initiative for small businesses. The initiative includes:

-- Reducing the lowest corporate tax-rate for small businesses from 15 percent to 10 percent.

-- Helping small business startup by increasing the equipment deduction limit from $10,000 to $25,000.

-- Eliminating capital gains taxes on newly-issued small business stock.

-- Permitting the immediate write-off of up to $2,500 of the front-end costs of starting a new business.

And,
-- Simplifying the tax laws so that most small businesses can file one or two-page tax returns.

The Bush Administration is committed to making government an ally of American enterprise, not an adversary. Towards that end, the President has also proposed a permanent R&D tax credit and an Investment Tax Allowance to stimulate private sector investment and technical innovation. He has proposed a capital gains tax cut to lower the cost of capital, and the creation of enterprise zones in our inner cities and rural areas. He has called for the reform of our legal and health care systems, which have produced an avalanche of lawyers, lawsuits, and paper shuffling that has burdened American businesses with unnecessary costs. And he has vigorously pursued free and open trade polices which will increase U.S. exports and spur economic growth.

This is the agenda the next Bush Administration will carry out in the next four years. And this is President Bush's vision of the future -- a strong, sound banking system that meets the needs of the American people and businesses, and a business environment which allows American enterprise to prosper.

I know you share this vision. And we at the Treasury Department and in the Administration look forward to working with you to see that it becomes a reality as our country enters the next American Century.

Thank you.

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TREASURY NEWS

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

EMBARGOED UNTIL 1:15 PM
PREPARED FOR DELIVERY
September 25, 1992

Contact: Anne Kelly Williams
202-622-2960

REMARKS BY
DEPUTY SECRETARY OF THE TREASURY JOHN E. ROBSON
INDEPENDENT BANKERS ASSOCIATION OF TEXAS
18TH ANNUAL CONVENTION
DALLAS, TEXAS
SEPTEMBER 25, 1992

Good afternoon. It is a pleasure for me to join this 18th annual convention of the Independent Bankers Association of Texas. I'd like to congratulate you on your skill and tenacity over the past few years in weathering some pretty rough storms. So I salute you for your accomplishments.

Indeed the banking industry, which continues to show increasing signs of stability and profitability, ought to be feeling pretty good these days. The most recent FDIC Quarterly Banking Profile showed bank earnings at a record high for the second consecutive quarter, and earnings of $15.7 billion for the first six months of 1992, more than 33 percent higher than the same period of 1991. Troubled assets at commercial banks fell below $100 billion for the first time since the end of 1990, and banks of all sizes and in all regions showed improvement in their average ratio of troubled assets to total assets.

That is tremendous progress of which you can be rightfully proud. In fact, it is this progress that enabled us to convince the FDIC to hold the line on Bank Insurance Fund premiums for 76 percent of American banks, and to hold the increase to as little as possible for the rest of the banks. But I don't think it's time yet to declare final victory or overdose on complacency. These early signs of industry profitability are still subject to the forces at work in a changing, difficult and increasingly complex economy. Which is why the Bush Administration will continue to pursue its commitment to ensuring a financial system that is modern, competitive, safe, sound and financially strong -- one that can perform its critical role as the provider of credit to American businesses and consumers.

All of us in this room know that the American economy is undergoing some fundamental changes. The defense conversion brought on by our triumphal victory in the Cold War, the transformation of more and more industries into leaner, skill-based organizations, the paying down of corporate and consumer debt, a lending-cautious financial system hamstrung by anachronistic laws and excessive regulation, and the emergence of a high velocity, intensely competitive global economy have altered the business environment for American enterprises. And there is no denying that these changes have been painful for many Americans.

The President knows that these transitional difficulties have made many Americans, and many American banks and businesses, uncertain about the future. But he also knows that if given enough entrepreneurial elbow room, America will continue to outwork, outproduce and outsmart the rest of the world. Which is why the President has laid the foundation for the future by unveiling his Agenda for American Renewal, an integrated, comprehensive economic plan which builds on our strengths and will prepare Americans and American businesses to compete in the next century.

One crucial part of the President's Agenda calls for rolling back excessive regulation. I am sure many of you participated in a nationwide survey conducted by your parent organization, the Independent Bankers Association of America, so the following number won't shock you, but it is worth repeating -- the 1,861 banks that responded to the survey estimated that the costs of complying with regulations ate up an astonishing 42 percent of net income. Now that is horrifying!

So the Bush Administration has tackled the problem of overregulation head on. The President has imposed a moratorium on new regulations, attacked needless regulation through the Council on Competitiveness, and has proposed regulatory relief measures in a number of areas.

The Treasury Department has played an active role in the President's regulatory initiative. We have taken a number of regulatory actions that will promote economic growth and reduce or simplify regulatory burdens. Altogether we have identified for elimination or modification 175 existing regulations. And while it is often difficult to quantify precisely their economic impact, I am happy to say that, when fully implemented, these reforms could result in annual savings to businesses and the economy of almost $1 billion.

One significant example of these reforms is a brand new set of IRS regulations, announced this week, which significantly simplify the payroll tax reporting rules for the nation's nearly six million employers, including many of you in this room. Under the new guidelines, most small businesses will now only have to deposit their employment taxes once a month. Other employers will deposit their taxes on fixed days of the week. Either way, the deposit schedule will be set yearly. This change will free employers from the costly task of constantly monitoring payroll taxes, and allow businesses to focus on selling products and services and creating jobs.

The Administration has paid particular attention to easing the burden of regulation on bankers. In one key action, the Treasury Department has asked Congress to enact our Credit Availability and Regulatory Relief Act. This legislation would let bankers be bankers by curtailing many of the Congressionally-imposed burdens that require banks to spend more time filling out forms than making loans.

Specifically, the proposed law would repeal a number of excessive statutory requirements contained in last year's mis-named "Federal Deposit Insurance Corporation Improvement Act". For example, it would eliminate the requirement to develop so-called "tripwire" regulations, which would allow government to micromanage many aspects of a bank's operations, including minimum earnings levels and employee compensation. It would make auditors be auditors again, not policeman or regulators, and would advance the substantive goals of the Community Reinvestment Act while reducing its needless paperwork requirements. In short, it would help get government off your back.

But there is one thing that our regulatory relief proposal would not do. It will not compromise the safety and soundness of our financial institutions. The Administration will continue to target needless regulatory burdens. But at the same time, we must not abdicate our regulatory responsibilities.

Another economic problem where regulation has had an impact is credit availability. There's no question that regulatory policies and practices have contributed to the credit crunch. One reason is that, having witnessed the fate of S&L regulators who were deemed too lax by Congress, it didn't take a weatherman for examiners to figure out which way the wind was blowing. The message was loud and clear -- when in doubt, criticize the loan.

So at Treasury, we have focused much of our anti-credit crunch effort on regulatory issues -- with the goal of ensuring that examiners use balance and common sense in the regulatory process. Our anti-credit crunch campaign is a three-pronged attack.

The first prong of attack is to revise regulatory policy and practices to ease the credit crunch. Over 35 guidelines have been issued to provide bank and thrift examiners in the field with specific instructions aimed at credit crunch issues. Examples of these new guidelines include:

-- Instructions that encourage lenders to work with borrowers experiencing temporary difficulty.

-- Guidelines to ensure that valuation of real estate is based on the ability to generate income over time, not on liquidation value.

-- Expanding the capital base from which banks may lend by increasing the includible amount of purchased mortgage servicing rights and purchased credit card relationships.

And,

-- Instructions to examine each credit on its own merits rather than, for example, lumping all real estate loans together.

The second prong of our attack on the credit crunch is a broad communications effort to make sure examiners are applying the letter and spirit of these new anti-credit crunch guidelines in the field. To accomplish that, we have held three national meetings of examiners at which Secretary Brady or I have spoken. Bank and thrift regulators have held numerous educational meetings with their examiner corps. And I have met with bank examiners in several cities, including Houston, to discuss current problems banks are experiencing. The message given at all of these gatherings has been straightforward -- bring common sense and balance into the examination process and follow the new guidelines.

Treasury's third prong of attack expands on this communication effort by bringing bankers, borrowers, business people and regulators together at the same time and place to discuss the credit crunch. We have held over 350 of these meetings across the country to open a dialogue on credit crunch issues, and to make sure that each group understands the other's perspectives. I travelled to Houston in May to discuss these efforts at the Urban Land Institute's National Convention, and met with Texas Bankers at the Houston Federal Reserve Offices to discuss Texas banking issues. And this morning I met here with the Board of Directors and senior officers of the Dallas Federal Reserve Bank.

Secretary Brady has recently expanded this communications effort by calling for a nationwide series of credit crunch meetings, including one here in Dallas next month. These meetings will bring bankers and borrowers together with officials from the Office of Thrift Supervision and the Comptroller of the Currency to allow open discussion of possible regulatory abuses, and to focus on three main areas -- the restructuring and/or rollover of commercial real estate loans; acquisition, development and construction financing of residential and multi-family housing; and small business loans.

It would be naive of me to believe that every one of the 7,000 or so bank and thrift examiners is uniformly and correctly applying our anti-credit crunch guidelines and using balance and common sense in the field. I do not doubt that there are some overzealous examiners out there. But that is precisely why several months ago we established a parallel appeals process for bankers who feel victimized by unprofessional examiner conduct, or think credit crunch guidelines have not been properly applied. We have invited banks to appeal to higher levels of regulatory agencies, and frankly, we have not received many RSVPs.

I have heard the reasons why bankers have not used this appeals process -- how they fear examiner revenge. But we have said from the start that examiner retribution will not be tolerated. And bankers cannot have it both ways -- complaining to us about examiner abuses, but refusing to use the appeals process created expressly for that purpose.

If the anti-credit crunch guidelines are being ignored or misapplied by examiners in the field, we want to hear about it. And if specific allegations of inappropriate conduct are verified, prompt and appropriate action will be taken.

So we have persistently, and with all the energy we can muster, tried to combat the credit crunch on a number of fronts. And while it is not my purpose to bash bankers for the credit crunch, I think it is time for banks to step up to the plate and start making loans again. I know that demand for credit is not strong, and I understand the caution in the industry after this difficult period. But banking is the business of making loans to provide needed capital. It is not risk-free -- and it is not intended to be so. And so we urge bankers to step forward aggressively and make loans to sound borrowers and work with them during their temporary difficulties.

At the same time -- while we <u>prod</u> bankers to do their job -- we must allow bankers to do their job. For one thing, that means we should resolutely fight the market value accounting efforts of the SEC and the Financial Accounting Standards Board.

Just two days ago I travelled to the headquarters of the Financial Accounting Standards Board in Connecticut so that I could look them in the eye and tell them what I thought about this market value accounting issue, and how I worried that a bean-counter mentality was going to create a harmful divergence between accounting rules and the practicalities in the real world of financial institutions.

I told them that the net effect of adopting a market value accounting regime could be an increased unwillingness on the part of banks to assume and manage longer term risks and fulfill their traditional and proper role in the economy.

I told them that the FASB proposal on the accounting treatment for the securities portfolios of financial institutions would, as a practical matter, require every bank to mark their entire securities portfolio to market, with the undesirable consequences of creating volatility in bank earnings statements and capital accounts and depriving financial institutions of a valuable tool in meeting changes in liquidity needs.

I asked the FASB people to recall the World War II movie, "Bridge on the River Kwai," where a British officer and his unit, who were prisoners of war of the Japanese, built a railroad bridge under the supervision of their captors. The bridge was a tremendous feat of engineering and professional determination, but there was a problem. It would directly aid the Japanese war effort. Ultimately, the bridge was blown up by allied forces. And I told the FASB people that I did not believe that accountancy demanded the kind of consequence-blind professionalism that the British officer displayed. We all need to blow up more of the bridges that hinder economic flexibility and growth.

Yet it seems to me that the mark-to-market accounting problem is only one example of a lot of questionable trades being made in the regulatory arena. Too much in economic growth and entrepreneurial elbow room is being given for too little. And economic opportunity, entrepreneurial initiative and the spirit of commerce that have been the hallmark of America since the beginning of the Republic are suffocating, suffocating in an avalanche of unnecessary regulations, forms, accountants, lawyers, lawsuits, technical experts, and paper shuffling that, as far as I can see, do very little except distract us from what really matters, burden us with unnecessary costs, and advance the quality of life in America not one jot.

This is not just missing the forest for the trees. This is inspecting the leaves and pine needles! And it must stop!

But it will take more than the considerable effort we have made in the Bush Administration -- and more than the resistance of energetic associations like yours -- to stop and roll back the tidal wave of regulation. Because the seed of regulatory reform must be planted in the hearts, homes and businesses of the American people. It will not take root inside the Washington Beltway.

More than 200 years ago, our founding fathers ignited a revolution against the oppression of a far away government. Their cry was "no taxation without representation," and the rest, as they say, is history. Now, the time has come once again for the American people, and for American banks and businesses, to rise against Federal, state and local governments that would limit their economic freedom by excessive regulation -- to rebel against "strangulation through regulation."

I am convinced that nothing short of a national rebellion will break the chokehold of overregulation that has throttled small businesses and banks. And to be motivated to mount such a rebellion, the working men and women in America must realize that it is their jobs, and their pocketbooks, and their standard of living, that are at stake. Then, maybe then, we will see a national uprising against excessive regulation, excessive lawsuits, and the excesses of other enemies of economic growth, competitiveness, productivity and entrepreneurism.

That is what it is going to take. I hope that all of you in this room will be active participants in such a movement. And I can assure you that the Bush Administration will continue to devote its full energies to stop excessive regulation. We are committed to making government an ally of American business and banks, not an adversary. And we will strive to create an environment marked by economic growth, entrepreneurial opportunity and job creation.

I know you share this vision. And we at the Treasury Department and in the Administration look forward to working with you to see that it becomes a reality as our country enters the next American Century.

Thank you.

# # #

TREASURY NEWS

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

Olin L. Wethington
Assistant Secretary for International Affairs
U.S. Department of the Treasury

Remarks for the Session on
"Capital Flows, Investment, and Growth"
Ninth General Meeting of the Pacific Economic Cooperation Council

San Francisco
September 24, 1992

Introduction

Our topic today give us an opportunity to discuss one of the key aspects of the success of the Pacific region: the ability to attract a significant share of global capital flows to fuel high growth. It is appropriate that we pay a great deal of attention to this subject because it is at the heart of the region's prospects for further economic integration as well as for strong economic performance.

According to the 1992 U.N. World Investment Report, Asian destinations dominate foreign direct investment flows into developing countries. The region received $19.5 billion, or 61 percent of total flows, in 1990. Indeed, over the last decade, most of the developing countries receiving the largest average annual inflows of direct investment were Pacific countries, including Singapore, Malaysia, China, Hong Kong, Thailand, and Taiwan.

Pacific countries are also among the leaders of the developing world in building securities markets. In the last decade, stock markets, supported in part by foreign capital, emerged throughout the region, and several were among the best-performing markets in the world in 1991.

Growing Regional Diversification of Investment and Trade Flows

At the moment, we are witnessing an important evolution in the international sources of capital inflows into the Pacific region: they are becoming more diverse. While the stock of Japanese direct investment in developing and industrializing Asia remains considerably larger than that of the United States, recent flows from the United States are accelerating. U.S. direct investment outflows to developing and industrializing Asia tripled in 1990 and rose 12 percent in 1991.

In the immediate future, we are likely to see some leveling off in Japanese influence over other Asian capital and investment markets as a consequence of the difficulties in Japan's own financial markets. In the case of direct investment alone, outflows from Japan to Asia fell 14 percent in 1990 and 16 percent in 1991.

At the same time, we are seeing other players enter the ranks of important foreign investors in the region, particularly Taiwan, Singapore, Hong Kong, and Korea. In 1991, outward FDI flows from these newly industrializing economies (NIEs) surpassed those of both Japan and the U.S. in Malaysia and Indonesia, and were almost as large as Japan's in Thailand. Taiwan alone was the largest single foreign investor in Malaysia and Vietnam in 1991.

I see no evidence of a trend toward a trade or investment economic bloc in Asia, nor of a dominant role for any major industrial power. In fact, developments seem to be going in the opposite direction.

A trend toward diversification now characterizes the region's trading patterns. Developing and industrializing Asian countries are increasingly turning to new suppliers within their own region for their imports. Japan's share of developing and industrializing Asia's imports has declined only slightly from 23.7 percent in 1985 to 21.5 percent in 1991. The U.S share has remained unchanged at roughly 15 percent. But developing and industrializing Asia now buys 33.1 percent of its imports from other countries within the region, compared to 23.7 percent in 1985. At the same time, the region's trade with the rest of the world remains very large. By comparison, only 40 percent of Europe's trade is with the rest of the world.

Moreover, I do not believe that we are witnessing the emergence of a yen monetary bloc, despite the increase in yen-denominated international transactions. Recent research also suggests no clear pattern in the influence exerted by different major financial centers on interest rates in different Asian financial markets; some reflect rates in Tokyo and others rates in New York.

In our view, the greater dispersion of economic power and diversification of trade and investment flows will serve the region well. As any investor knows, diversification can be a significant source of strength and stability.

U.S. Economic Relations with the Pacific Region

Our own trade patterns remain the most diverse of any major industrial country or region. In our post-war international economic relations, we have avoided regional specialization and a one-sided mercantilist strategy, and have instead chosen broad-based global engagement, open markets, and expanded two-way trade.

In the wake of NAFTA and EAI, we have been accused of an excessive focus on Latin America. Latin America is increasingly important to U.S. economic interests, but our trade with developing and industrializing Asia remains larger and is growing. Today, developing and industrializing Asia accounts for 18.9 percent of U.S. trade, up from 15.6 percent in 1985. Latin America's share of our trade has remained roughly constant at about 14 percent. In short, our trade and investment ties with the region remain critical and will continue to promote mutually beneficial economic integration and growth.

In addition, I would like to highlight certain elements of the domestic U.S. economic picture which augur well for Pacific and global economic performance. The U.S. economy has been undergoing substantial adjustment for some time. Partly as a result, a restoration of strong economic growth is likely to come sooner for the U.S. than for a number of the other major industrial countries.

We have also become a low-capital-cost country. Indeed, a 1992 OECD study found the overall cost of capital to be lower in the U.S. than in Japan and about even with Germany. The U.S. inflation rate for 1992 and 1993 is expected to be around 3 percent, at or below the rate for all the industrial countries as a group.

The United States has the largest, most liquid and most efficient capital markets in the world. Our stock market remains near its record highs, as other major markets struggle at levels of four or five years ago. The ongoing sluggish performance in the Nikkei is generating a retrenchment by Japanese investors, with diminished capital outflows to the Pacific region.

All of these factors, the willingness to adjust and restructure in the face of international competition rather than avoid it, low capital costs, and efficient, open capital markets will sustain the United States in its role as a global focal point for economic integration in the post-Cold War period.

Future Capital Flows to the Pacific Region: The Policy Environment

As we look to the future as a region, we are entering an era of intense competition for global capital. Other regions must mobilize financing for major tasks: the economic transformation of the former Soviet Union and Eastern Europe, ongoing reform and strengthened growth throughout Latin America, and economic recovery in the major industrial nations.

In this context, no country can be confident of needed capital inflows in the absence of an attractive environment. And an attractive environment cannot be provided through a few special incentives. It depends on a whole complex of policies spanning direct investment, capital market regulation, monetary policy, financial services, and foreign exchange controls, as well as the overall economic and regulatory environment.

The interdependence among these policies is crucial. Foreign investors need more than the legal right to invest.

- o They need to be able to secure local financing and access to local savings.
- o They need access to foreign exchange through freely operating markets open to domestic and foreign customers alike.
- o They need access to traditional suppliers of banking services and modern financial infrastructures.
- o They need a stable monetary environment without wide fluctuations in inflation and interest rates.
- o They need the freedom to make their own decisions about where to lend, what plant and equipment to build, and what products to produce.
- o They need the right and practical means to repatriate profits without impediment.

<u>The Contribution of Foreign Investment to Recipient Countries</u>

If countries fail to take a comprehensive approach to the policy environment for foreign investment, foreign investors have other options and the crucial boost that foreign investors can make to development and growth is diminished. Foreign investment is an effective vehicle for promoting technology transfer, increased labor skills, export expansion, and capital formation.

If we look at the contribution of foreign direct investment in individual countries of developing and industrializing Asia, we can see some significant differences. In Malaysia, Thailand, and Indonesia, foreign direct investment in the manufacturing sector accounts for 10, 8 and 6 percent respectively of total capital formation. But, for other countries, the contribution to overall investment is still relatively small. In Korea, the Philippines, and China, the share is around 1 percent or lower.

While part of the variation is clearly due to differences in countries' overall economic size, I would suggest that there are also some very clear policy reasons for these differing shares. The countries with low ratios share certain characteristics:

-- use, to varying degrees, of capital and foreign exchange controls;

-- distorted, and frequently high, capital costs;

-- government intervention in capital allocation;

-- a variety of constraints on foreign financial service providers' activities, ranging from inability to enter the market, to limits on the services which can be provided, to denial of access to domestic funds.

I would urge countries to review these policies very seriously. Asia, like other regions, will be in competition for scarce global capital in the years ahead. The countries that win this competition will be those which construct a policy environment which encourages private investment, domestic and foreign alike. Countries which do not liberalize will lose the competition.

It is perfectly clear that official bilateral flows will no longer make a major contribution to the development and growth of middle- and upper-income developing countries. I would suggest therefore that the payoff from government activity directed at trying to increase official inflows will be small. Asian and other governments would be better advised to work on generating an appropriate regime for attracting private investment.

I might add that this is not just an issue for the developing and industrializing countries of Asia. I believe that Japan could benefit greatly from an increase in investment inflows over their current exceptionally low levels. Japan's cumulative inward direct investment was $23 billion in 1991, while its cumulative outward direct investment was $352 billion. Its current investment regime has some serious impediments, such as the access problems created by the keiretsu and disincentives to portfolio investment stemming from the difficulties foreigners have in exercising shareholder rights.

Financial Services Liberalization

As part of the effort to construct a supportive policy environment for capital inflows, we must not underestimate the role played by financial services liberalization in attracting investment. U.S. companies routinely cite access to financial service providers of their choice and to modern financial infrastructures as important incentives to invest.

The United States has underway a number of bilateral discussions to further liberalization progress in certain key areas. We have bilateral financial policy talks with Korea, Taiwan, China, and Japan. And we are expanding our dialogue with a number of rapidly liberalizing markets in Southeast Asia. But financial services liberalization is an issue which merits a broad, comprehensive, cross-country approach.

President Bush's recent call for a strategic network of free trade agreements with Pacific countries will lead us in the direction of enlarged consultations among our governments in the financial policy area. While it may be too early to talk about the structure of regional trade and investment arrangements, we can contemplate the possibility of future regional arrangements covering financial market liberalization. This can deepen the process of multilateral liberalization.

Furthermore, as you all know, we are engaged in a major effort in the context of the Uruguay Round to establish standards for financial services liberalization. Unfortunately, a number of countries in the Pacific region have hung back from this effort -- in some cases, even countries which have made significant liberalization progress but refuse to commit themselves formally and permanently to maintaining their openness.

The failure of many Asian countries to provide strong commitments in the Uruguay Round for financial market liberalization is a fundamental misreading of our mutual economic and financial interests and ignores the capital needs of this outward-oriented, high-growth region. As a region, we should be united on this issue and at the forefront of Uruguay Round financial services liberalization.

Foreign Investment and Economic Integration

In general, international investment flows, both inward and outward, are a potent force for successful economic integration. Both recipient and investing countries benefit because the international competitiveness and efficiency of both are increased. The production process can be allocated to different countries based on comparative advantage.

As a consequence, international investment has a major impact on trade flows. In the United States, for example, trade between multinationally affiliated companies accounted for 26.7 percent of total U.S. exports and 17.9 percent of total U.S. imports in 1989. The evidence suggests that international investment flows have contributed to an expansion in U.S. trade flows in both directions. In the developing region with which the U.S. historically has had the strongest investment ties, Latin America, we have seen strong growth in both exports and imports in recent years. Thus, international investment flows may well act to restrain the size of external imbalances. This is a significant potential benefit which has important implications in the Pacific context, given large U.S. bilateral external imbalances with some countries in the region.

Conclusion

In summary, let me reiterate several key aspects of recent regional economic developments which bear heavily on the regional outlook as we move into the post-Cold War era.

- the growing diversification of investment and trade ties within the region;

- the importance of capital inflows to the economic success of a number of the best-performing countries in the region;

- the crucial role played by investment flows in the region's economic integration and these flows' potential role in helping to reduce large external imbalances;

- the substantial variation in financial/capital market policies among countries of the region which will result in differences in countries' ability to attract foreign capital, particularly in the context of increasingly intense competition for global capital.

If we put these developments together, we get a clear picture of the contribution that expanding investment flows can make to regional growth and integration, as well as to decreasing the disparity in economic size and income levels among the countries of the region. But these expanded flows cannot be taken for granted. Deliberate and comprehensive policy strategies clearly play a major role in encouraging inflows.

Many of the developing and industrializing countries of the Pacific have served as models of market-oriented development and growth in the post-WWII period. I would submit that if they are to continue to serve as models in the post-Cold War era they must adopt open, market-oriented policies with respect to financial and capital markets. A good immediate step would be to come forward with strong commitments for financial services liberalization in the Uruguay Round.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
September 25, 1992

CONTACT: ANNE KELLY WILLIAMS
(202) 622-2960

Treasury applauds CFTC conferees' action

The Treasury Department lauded the agreement reached by the conferees on the Commodity Futures Trading Commission (CFTC) reauthorization legislation yesterday as a key break in the legislative logjam. The agreement addressed two critical reforms recommended by the 1987 Presidential Task Force on Market Mechanisms (The Brady Commission).

The first reform vests one agency, the Federal Reserve, with the authority to oversee and coordinate margin requirements in the "one market" of equity-related instruments -- stocks, stock options and stock index futures. This step will allow the government to help avoid the kind of major market disruptions that occurred in October 1987 and again in October of 1989. The second provision would allow the CFTC to clear up the legal uncertainty concerning "swap" transactions.

"I applaud the conferees for their farsighted efforts in unifying regulation for the 'one market'," said Treasury Secretary Nicholas F. Brady. "This puts in place the final recommendation of the President's 1987 Task Force on Market Mechanisms." All of the other major recommendations have already been implemented.

The Brady Commission proposals included:

- one agency to coordinate the critical intermarket regulatory issues (CFTC reauthorization legislation)
- circuit breaker mechanisms coordinated between stocks and stock index futures (adopted voluntarily by the exchanges)
- margins set at consistent levels between stocks and stock index futures (CFTC reauthorization legislation)
- unified clearing and settlement systems (Market Reform Act of 1990)
- enhanced information disclosure for large stock traders (Market Reform Act of 1990)

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NB-2002

TREASURY NEWS

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

For release upon delivery
Expected at 2:00 PM
September 29, 1992

STATEMENT OF THE HONORABLE JEROME H. POWELL
UNDER SECRETARY FOR FINANCE
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
SEPTEMBER 29, 1992

Thank you for inviting me to discuss the settlement agreement that the government concluded with Salomon Brothers in May 1992. To summarize briefly the Treasury's perspective on that settlement, it was, in our view, a fair one. The firm's openness and cooperation during the investigation were taken into account, but the charges against Salomon were very serious. Salomon's misdeeds had posed a very real threat to the integrity of this crucial market, and it was therefore appropriate that the consequences for the firm be severe.

That said, I would point out that the Treasury was not itself directly involved in formulating or negotiating the settlement agreement. Thus, on questions relating to the specifics of that process, I would defer to my colleagues from the enforcement agencies. In my statement today, I will instead concentrate on the role that the Treasury has played more broadly in the thorough-going review and substantial change that the government securities market has been subjected to during the last year.

Market and Auction Reforms

That topic forms the core of my answer to the first of the questions posed in the letter of invitation to this hearing, that is, what the Treasury's role has been in ensuring the integrity of the market and of the auction process. I would note that it was Treasury officials who, in May and June of 1991, alerted the Securities and Exchange Commission to suspicious behavior in the Treasury securities market and provided related information to the Department of Justice. That timely action prompted the investigations that eventually led to Salomon's admissions.

Throughout this period, the Treasury has taken the lead in designing and implementing a comprehensive set of reforms, taking into account both the identified problems and the potential for improvement in the government securities market. We have approached this task with care, for even small mistakes in a market this large can be very costly to the taxpayer. In that vein, we have generally invited public comment and debate on our proposals for change. But we have not been timid. The roster of recent changes in this market is a long one.

Last fall, the Treasury, the SEC, and the Federal Reserve embarked on a wide-ranging study of the market that culminated in the Joint Report on the Government Securities Market, which the agencies presented to the Congress in January 1992. The Joint Report directly addressed problems that had surfaced with disclosures by Salomon Brothers and made recommendations for administrative and legislative reforms.

While no new legislation has been enacted, the bulk of the administrative changes have already been implemented. For instance, we have taken measures to strengthen enforcement of auction rules, including verification of large bids by customers and closer monitoring of noncompetitive bidding. We are in the process of automating the bidding in Treasury auctions, which will facilitate both participation by bidders and surveillance by the Treasury. In addition, we are releasing today a revised version of the proposed uniform offering circular which contains the rules governing Treasury auctions. The new offering circular will be published tomorrow for comment in the Federal Register.

In the Joint Report, the Treasury announced a new policy to combat shortages or "squeezes" of particular Treasury securities. The Treasury will provide additional quantities of a security to the marketplace when an acute, protracted shortage develops. The reopening of security issues will reduce the incentives to corner a security and thereby reduce the potential for squeezes. In addition, a new interagency working group has been formed to improve surveillance and strengthen coordination among the various agencies in this area.

The Treasury has taken steps to broaden auction participation, including allowing all government securities brokers and dealers to submit bids for customers and permitting any auction participant to bid without deposit, as long as a valid autocharge agreement is in place. The Treasury also has raised the limit on noncompetitive bids in note and bond auctions to accommodate more participants.

We have undertaken an intensive review of the auction method itself. This has resulted in our current experiment with a single-price (or "Dutch") auction method. This new method of awarding all securities at a single price lowers the risk to bidders of overpaying for securities, and will, we hope, also encourage broader participation in the auctions. With its potential to encourage more aggressive bidding, the single-price auction format could result in lower financing costs for the federal government. The first two Treasury auctions in our year-long experiment took place last week.

Together with the Subcommittee on Oversight, we have strongly supported both legislation that would reinstate the Treasury's rulemaking authority under the Government Securities

Act of 1986, as well as the bill that would make false or misleading written statements in connection with the issuance of government securities explicit violations of the federal securities laws. We have also encouraged legislation that would allow regulators access to information on large positions in Treasury securities.

I could continue to enumerate our initiatives in this market, but I will simply note that the Treasury has taken all these actions because of our direct and paramount interest in maintaining the fairness and integrity of the Treasury auction process and the government securities market. Moreover, throughout the process, we have chosen market-oriented solutions whenever possible to bolster the effectiveness and efficiency of this very important market.

The Settlement Agreement with Salomon Brothers

The Treasury fully supports the settlement agreement reached between Salomon and the U.S. government. We believe that the settlement agreement, together with other sanctions imposed on Salomon by the Treasury and the Federal Reserve Bank of New York, are a sufficient deterrent to violations of auction rules and to anticompetitive behavior. As you know, shortly after Salomon Brothers' disclosure of auction violations, the Treasury prohibited the firm from submitting bids for customers in

Treasury auctions, a sanction that was only recently lifted. The Federal Reserve Bank of New York also suspended its trading activity with Salomon Brothers for two months starting in June 1992.

Furthermore, market participants have seen Salomon Brothers' management forced out and have seen the firm's financial position suffer as a result of its actions. In addition to the sanctions imposed by the government, Salomon has experienced extensive losses of employees and clients, as well as significant damage to its reputation.

The settlement agreement was negotiated directly between Salomon and the enforcement agencies: the SEC and the Department of Justice. The Treasury was consulted and kept apprised of the progress of the negotiations. The Treasury also reviewed drafts of certain documents related the settlement. As the SEC and the Department of Justice were directly involved in the settlement negotiations, those agencies may be able to provide further information on how the $290 million figure was reached.

Taxation Issues Related to the Salomon Brothers Settlement

I am not in a position to comment on Salomon Brothers' tax situation, including the question of deductibility of the settlement payments. In response to your questions about the alleged fictitious tax trades, I would stress that the settlement agreement does not preclude potential adjustments to Salomon Brothers' tax liability or the assessment of penalties, nor does it preclude charges of tax fraud. Specifically, the settlement agreement reserves for the government the ability to bring future actions against Salomon Brothers for any violation of Title 26 of the U.S. Code. The Departmental Offices of the Treasury played no role with respect to the provision of the settlement agreement excluding claims with respect to the Internal Revenue Code.

Other Issues

Mr. Chairman, in your letter, you requested information on the administration of the $100 million restitution fund. The administration of this civil claims fund is described in detail in the settlement document entitled "Final Judgment of Permanent Injunction and Other Relief as to Salomon Inc and Salomon Brothers Inc," filed with the U.S. District Court for the Southern District of New York on May 20, 1992. That document was enclosed with the Treasury's response to your earlier letter. As the SEC is involved in administration of the fund, that agency may be best able to provide additional information, should you require it.

With regard to potential criminal charges stemming from the Salomon Brothers violations, I can only mention that it is the responsibility of the SEC to refer criminal violations of federal securities laws to the Department of Justice, and it is the responsibility generally of the Department of Justice to prosecute criminal violations of federal law. I suggest that you inquire of those agencies as to the status of potential criminal charges.

In closing, we appreciate the continuing interest of this Subcommittee in ensuring that the Treasury can continue to finance the public debt at the lowest possible cost to the taxpayer.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 28, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,246 million of 13-week bills to be issued October 1, 1992 and to mature December 31, 1992 were accepted today (CUSIP: 912794ZX5).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.72%	2.78%	99.312
High	2.74%	2.80%	99.307
Average	2.73%	2.79%	99.310

Tenders at the high discount rate were allotted 12%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	24,630	24,630
New York	36,325,805	9,066,205
Philadelphia	11,420	11,420
Cleveland	24,750	24,750
Richmond	43,595	43,595
Atlanta	52,235	30,235
Chicago	1,734,445	32,165
St. Louis	12,465	12,465
Minneapolis	8,675	8,675
Kansas City	24,745	24,745
Dallas	21,405	21,405
San Francisco	488,540	163,900
Treasury	781,400	781,400
TOTALS	$39,554,110	$10,245,590
Type		
Competitive	$34,722,515	$5,413,995
Noncompetitive	1,290,160	1,290,160
Subtotal, Public	$36,012,675	$6,704,155
Federal Reserve	2,826,535	2,826,535
Foreign Official Institutions	714,900	714,900
TOTALS	$39,554,110	$10,245,590

NB-2004

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
September 28, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,272 million of 26-week bills to be issued October 1, 1992 and to mature April 1, 1993 were accepted today (CUSIP: 912794B78).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.85%	2.93%	98.559
High	2.86%	2.94%	98.554
Average	2.85%	2.93%	98.559

Tenders at the high discount rate were allotted 18%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	17,540	17,540
New York	38,095,710	9,310,410
Philadelphia	5,050	5,050
Cleveland	23,955	23,955
Richmond	26,075	21,975
Atlanta	29,915	20,895
Chicago	1,514,830	73,750
St. Louis	8,945	8,945
Minneapolis	5,040	5,040
Kansas City	28,370	28,370
Dallas	12,440	12,440
San Francisco	357,240	63,740
Treasury	679,500	679,500
TOTALS	$40,804,610	$10,271,610
Type		
Competitive	$36,045,650	$5,512,650
Noncompetitive	1,006,060	1,006,060
Subtotal, Public	$37,051,710	$6,518,710
Federal Reserve	2,600,000	2,600,000
Foreign Official Institutions	1,152,900	1,152,900
TOTALS	$40,804,610	$10,271,610

NB-2005

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 29, 1992

Contact: Peter Hollenbach
(202) 219-3302

TREASURY PUBLISHES PROPOSED OFFERING CIRCULAR

The Treasury today made public a revised uniform offering circular for the sale of marketable Treasury securities. The circular will be appear in the September 30, 1992, edition of the Federal Register as a proposed rule. The uniform offering circular was first published for comment on January 31, 1992. As a result of comments received from the public, Treasury made significant revisions to the proposed circular, and is publishing the revised circular for additional comment. The comment period will last 30 days. The Treasury believes that this revised circular will provide clear and comprehensive rules for auction participants and minimize regulatory burden.

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PA-108

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
September 29, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 20,400 million, to be issued October 8, 1992 This offering will result in a paydown for the Treasury of about $ 4,025 million, as the maturing bills are outstanding in the amount of $ 24,415 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, October 5, 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 $ 10,200 million, representing an additional amount of bills dated July 9, 1992 and to mature January 7, 1993 (CUSIP No. 912794 ZY 3), currently outstanding in the amount of $ 12,033 million, the additional and original bills to be freely interchangeable.

182 -day bills (to maturity date) for approximately $ 10,200 million, representing an additional amount of bills dated April 9, 1992 and to mature April 8, 1993 (CUSIP No. 912794 B8 6), currently outstanding in the amount of $ 14,247 million, the additional and original bills to be freely interchangeable.

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

The bills will be issued for cash and in exchange for Treasury bills maturing October 8, 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 $ 2,297 million as agents for foreign and international monetary authorities, and $ 5,004 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-2006

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.

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

FOR IMMEDIATE RELEASE
September 30, 1992

CONTACT: Peter Hollenbach
(202) 219-3302
or
L. Richard Keyser
(202) 708-1591

TREASURY AUTHORIZES HUD CALL OF FHA INSURANCE FUND DEBENTURES

The Departments of Treasury and Housing and Urban Development announced today the call of all Federal Housing Administration (FHA) debentures, outstanding as of September 30, 1992, with interest rates of 7 1/2 percent or higher. Debentures that have been registered on the books of the Federal Reserve Bank of Philadelphia as of September 30, 1992, are considered, "outstanding." The date of the call for the redemption of the more than $150 million in debentures is January 1, 1993, with the semi-annual interest due January 1, paid along with the debenture principal.

Debenture owners of record as of September 30, 1992, will be notified by mail of the call and given instructions for submission. Those owners who cannot locate the debentures should contact the Federal Reserve Bank of Philadelphia (215) 574-6684 for assistance.

No transfers or denominational exchanges in debentures covered by this call will be made on or after October 1, 1992, nor will any special redemption purchases be processed. This does not affect the right of the holder to sell or assign the debentures.

The Federal Reserve Bank of Philadelphia has been designated to process the redemptions and to pay final interest on the called debentures. To ensure timely payment of principal and interest on the debentures, they should be received by December 1, 1992, at:

The Federal Reserve Bank of Philadelphia
Securities Division
P.O. Box 90
Philadelphia, PA 19105-0090

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PA-109

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
September 30, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION $9,750 MILLION OF 7-YEAR NOTES

The Treasury will auction $9,750 million of 7-year notes to refund $6,190 million of 7-year notes maturing October 15, 1992, and to raise about $3,550 million new cash. The $6,190 million of maturing 7-year notes are those held by the public, including $359 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The $9,750 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average price of accepted competitive tenders.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $97 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders.

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

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Attachment

NB-2007

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 7-YEAR NOTES
TO BE ISSUED OCTOBER 15, 1992

September 30, 1992

<u>Amount Offered</u>:

To the public	$9,750 million

<u>Description of Security</u>:

Term and type of security	7-year notes
Series and CUSIP designation	H-1999 (CUSIP No. 912827 H2 1)
Maturity date	October 15, 1999
Interest rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	April 15 and October 15
Minimum denomination available ..	$1,000

<u>Terms of Sale</u>:

Method of sale	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full at the average price up to $5,000,000
Accrued interest payable by investor	None

<u>Key Dates</u>:

Receipt of tenders	Wednesday, October 7, 1992
a) noncompetitive	prior to 12:00 noon, EDST
b) competitive	prior to 1:00 p.m., EDST
Settlement (final payment due from institutions):	
a) funds immediately available to the Treasury ..	Thursday, October 15, 1992
b) readily-collectible check ..	Tuesday, October 13, 1992

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

STATEMENT OF JOHN P. SIMPSON
DEPUTY ASSISTANT SECRETARY
REGULATORY, TARIFF AND TRADE ENFORCEMENT
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

September 30, 1992

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to appear before you this morning to discuss those aspects of the North American Free Trade Agreement related to rules of origin, and enforcement and administration of the NAFTA.

Among the objectives we had in mind when we began negotiation of the NAFTA eighteen months ago are three that are of special interest to this Committee.

First, we wanted clear and predictable rules of origin that could be understood by the commercial community and enforced by customs administrations. As you know, rules of origin are the rules that the NAFTA provides to determine whether a product should be treated as a product of a NAFTA Party and thus eligible for preferential treatment.

We believe that we have been largely successful in developing rules of origin that meet our objective. The rules are based on the concept of change in tariff classification. By this we mean that any materials that are not wholly obtained in one of the NAFTA Parties - for example, agricultural products grown in a NAFTA Party or minerals extracted from its soil - must undergo substantial processing that results in a specified change in the tariff classification to which the materials are subject.

Tariff classification is founded on the international Harmonized System nomenclature, which the United States, along with Canada, Mexico, and many other nations have adopted as the basis for their tariff laws. Rules of origin based on change in tariff classification, which is the approach we used principally for rules of origin in the U.S.-Canada Free Trade Agreement, establish a standard that provides to both international traders and domestic interests concerned about international competition a clear understanding of the circumstances under which preferential treatment is allowed.

Another objective in the NAFTA negotiations was to ensure that the benefits of the Agreement are secured principally to the Parties to the Agreement. Therefore, goods given preference under the NAFTA must be either wholly obtained in a NAFTA Party or, as I noted a moment ago, transformed in a NAFTA Party by processing operations sufficiently substantial that we are warranted in treating the resulting product as a product of a NAFTA Party.

We are convinced that we have achieved this objective. Although the negotiations with Canada and Mexico were long and complex, and although the interests of each of the three Parties are somewhat different, we have reached agreement on a set of origin rules that strikes the appropriate balance between, on one hand, giving our manufacturers access to the world market for necessary materials and, on the other hand, ensuring that products of non-NAFTA countries are not given preferential treatment as a consequence of having been simply passed through another NAFTA Party with insignificant processing.

This is especially true with respect to agricultural goods. In the NAFTA we have built on the tough rules of origin in the U.S.-Canada Free Trade Agreement, and for several of the most sensitive products - including dairy and citrus - we have strengthened the rules to secure the maximum benefits for NAFTA producers.

A third objective in the NAFTA negotiations was to ensure that the terms of the Agreement can be administered and enforced by our customs administrations. Let me describe briefly the elements of the NAFTA that satisfy us that this objective has been achieved:

(1) <u>Certificate of Origin</u> - The NAFTA provides for a common certificate, to be executed under penalty of law by a producer or exporter, certifying that goods meet the NAFTA requirements for preferential treatment. Any importer who claims preferential treatment must have that certificate in his possession at the time he files his claim. An importer who is aware of false information on the certificate, or who has reason to know that the information is likely to be false, is liable for penalties under domestic law. Moreover, each of the NAFTA Parties has agreed that any person subject to its jurisdiction who falsely executes a Certificate of Origin will be liable for penalties under its laws.

(2) <u>Verification of Claims for Preference</u> - From the first day of the negotiations we made it clear that NAFTA would have to

provide us with satisfactory opportunities to verify claims for preferential treatment. Specifically, we needed to be able to verify information on Certificates of Origin by direct visits to the premises of exporters and producers in other NAFTA Parties. As expected, this was a delicate issue for all three countries. No one of us was prepared to allow activities by law enforcement agents of another country to be carried out in our own territories without substantial safeguards.

The NAFTA strikes the correct balance, respecting both the need of each NAFTA Party to verify claims for preferential treatment and the need to ensure the presence of appropriate safeguards for its own citizens who are subject to a verification visit by officials of another NAFTA Party. We are now satisfied that NAFTA offers us both the means to detect abuses of the NAFTA benefits, and the assurance that appropriate corrective action will be taken by the other Parties when abuses are discovered. The arrangements made in the NAFTA for coordination of administrative matters, for cooperation in enforcement activities, and for consultation in the event that difficulties arise, offer the promise that NAFTA will function smoothly, and that it will be of growing benefit to the economies of all the Parties in years to come.

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 5, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $10,221 million of 13-week bills to be issued October 8, 1992 and to mature January 7, 1993 were accepted today (CUSIP: 912794ZY3).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.63%	2.69%	99.335
High	2.67%	2.73%	99.325
Average	2.67%	2.73%	99.325

$1,435,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 83%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,855	30,855
New York	29,916,710	8,856,135
Philadelphia	17,010	17,010
Cleveland	43,465	43,465
Richmond	30,480	30,480
Atlanta	36,070	25,900
Chicago	1,703,820	91,750
St. Louis	8,770	8,770
Minneapolis	6,405	6,405
Kansas City	26,410	26,410
Dallas	23,510	23,510
San Francisco	720,720	74,130
Treasury	986,180	986,180
TOTALS	$33,550,405	$10,221,000
Type		
Competitive	$28,633,980	$5,304,575
Noncompetitive	1,531,795	1,531,795
Subtotal, Public	$30,165,775	$6,836,370
Federal Reserve	2,503,930	2,503,930
Foreign Official Institutions	880,700	880,700
TOTALS	$33,550,405	$10,221,000

NB-2009

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 5, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $10,213 million of 26-week bills to be issued October 8, 1992 and to mature April 8, 1993 were accepted today (CUSIP: 912794B86).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.76%	2.84%	98.605
High	2.78%	2.86%	98.595
Average	2.78%	2.86%	98.595

$4,000,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 93%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	24,865	24,865
New York	31,148,745	9,279,325
Philadelphia	9,450	9,450
Cleveland	20,625	20,625
Richmond	20,600	20,600
Atlanta	27,175	27,105
Chicago	1,325,130	24,360
St. Louis	13,130	13,130
Minneapolis	7,380	7,380
Kansas City	28,125	28,125
Dallas	11,790	11,790
San Francisco	875,245	64,005
Treasury	682,420	682,420
TOTALS	$34,194,680	$10,213,180
Type		
Competitive	$30,144,860	$6,163,360
Noncompetitive	1,033,120	1,033,120
Subtotal, Public	$31,177,980	$7,196,480
Federal Reserve	2,500,000	2,500,000
Foreign Official Institutions	516,700	516,700
TOTALS	$34,194,680	$10,213,180

NB-2010

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
OCTOBER 5, 1992

CONTACT: Scott Dykema
(202) 622-2960

Statement by Treasury Secretary Nicholas F. Brady
Re: IMF Quota Increase

The approval by Congress of the International Monetary Fund quota increase will help support the courageous free-market and democratic reforms in the former Soviet Union, Eastern Europe, Latin America, and elsewhere around the world. By contributing to a more prosperous world economy, this initiative will help expand markets for U.S. exporters and increase jobs for American workers.

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NB-2011

TREASURY NEWS

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

EMBARGOED UNTIL 1:15 PM
PREPARED FOR DELIVERY
October 7, 1992

Contact: Anne Kelly Williams
202-622-2960

REMARKS BY
DEPUTY SECRETARY OF THE TREASURY JOHN E. ROBSON
ROTARY CLUB OF WASHINGTON, D.C.
WASHINGTON, D.C.
OCTOBER 7, 1992

Good afternoon, and thank you for inviting me here to visit with you today. As business and civic leaders, all of you in this room are used to making difficult decisions -- decisions that affect not only your own future, but the futures of the people in your firms, your families, and many others.

Exactly four weeks from today, you and the rest of America will be asked to make another decision, a decision that will, along with other economic forces now at work, influence significantly the environment in which you will be making future decisions. So today, I thought it would be appropriate to spend some time sketching what I believe the future economy will look like, so that we may see more clearly the broader context in which you will be making those decisions.

There is little question that the domestic economic environment is already undergoing change. Many factors have contributed to the recent sluggish U.S. economy, such as the cutback in defense spending following our victory in the Cold War, the paydown of accumulated debt by business and consumers, and a weakened financial system sobered by the S&L and commercial real estate market collapses and cautious about lending. But these are by and large transitory factors that time and the inherent adaptability of the American economy will overcome.

But beyond these often painful transitional factors, there are other forces at work that will, through the next century, bring profound changes to both the economies of the world and the lives of the people in them. And what will be these changes and what will be the characteristics of the 21st Century economy?

Foremost, it will be a thoroughly interdependent and integrated global marketplace. There will be no place to hide from the competitive forces that will exist on every continent and criss-cross every ocean. Where you used to find your customers, suppliers and competitors on a road map, you now must use a world map. The U.S. will not be able to wall itself off to create an economic Fortress America. Nor will our competitors.

NB-2012

If you need persuading on this point, then consider that since 1986, exports have provided nearly one third of America's economic growth -- and that the recent economic difficulties in our major export markets in Canada, Japan and Europe have measurably contributed to our own economic woes. And if you need further evidence of global economic interconnectedness, look at what has been happening lately in the world currency markets.

Another feature of the 21st Century economy will be a new mobility -- a mobility of capital, workers, productive assets, supply sources, and technical knowledge. Already we are witnessing swift and massive capital flows as money seeks the highest return. But money will not be the only thing crossing international borders.

A companion of this mobility will be what we might describe as "site indifference" -- where transactions will be driven principally by economic rather than locational considerations. Walk into any store today and you can pick off the shelf products that have been invented in the United States, designed elsewhere, had their components produced abroad, been assembled Lord-knows-where, and are sold in both the U.S. and foreign markets.

I believe we will also see business organizations, by necessity, become more flexible, configuring and reconfiguring themselves in an effort to respond to global competitive pressures. And I expect that businesses will evolve into smaller, more flexible units to take advantage of new opportunities to establish or expand market positions, reduce costs, or capitalize on new technology. I see the restructuring of businesses as a continuous process essential to growth and competitive survival. Lean, mean, flexible and responsive will be in. Static, hidebound, lethargic, and inefficient will be out.

Will this be a challenging environment in which to operate? You bet it will! But I believe that the American people and American businesses are well positioned to succeed in it. I say this based not on blind patriotism but on some hard facts -- facts which show, among other things, that America is:

-- The world's largest and most productive economy;

-- The world's leading exporter;

-- The most prolific country in the development of high technology products and scientific advancement;

-- And a nation with a history of adaptability to change and creative entrepreneurism that enables us to meet economic challenges and conquer them.

Another very positive feature of the 21st century economy will be the emergence of somewhere between three and four billion people as new players in the global economy. I refer to the peoples of China, India, Latin America, the former Soviet Union, Eastern Europe, and parts of the Pacific who have historically been outside the economic loop. Just think of the exciting opportunities presented by this multitude, whether you are making, selling, or buying a product or service.

The combination of our own economy's inherent strength and the vast potential of new global markets puts us in excellent position to seize the unprecedented opportunities of the 21st century. Indeed, I think that if we fail to win the peace -- and by that I mean the contest for future economic preeminence -- it will be because we fail to take certain actions necessary to secure that future: Actions like improving our educational system; pursuing open trade policies; and cutting capital gains taxes and otherwise revamping our tax system so that we lower the cost of capital and spur investment and saving.

But there are other ways we can weaken our ability to meet the economic challenges of the 21st century. One way is if we continue to bury American businesses in a tangle of regulation that stunts economic growth and discourages entrepreneurism. And one of the most obvious victims of excessive regulation is small business.

President Bush is a former businessmen himself -he knows what it's like to sweat over a P&L statement and meet a payroll. He knows that small businesses are the backbone of our nation's economy, employing 57 percent of our private workforce, and accounting for 39 percent of our Gross Domestic Product and over two-thirds of all net new private sector jobs. And we don't want excess regulation to smother that splendid record.

So, the Bush Administration has dug in against overregulation through several actions -- President Bush's moratorium on new regulations, the work of the Council on Competitiveness, and proposed regulatory relief measures in a number of areas. The Treasury Department has joined this battle by identifying 175 existing regulations which will be eliminated or modified. And while it is often difficult to quantify precisely the economic impact of these reforms, I am happy to say that, when fully implemented, these reforms could result in annual savings to the economy of almost $1 billion.

One significant example of these reforms are brand new IRS regulations which significantly simplify the payroll tax reporting rules for the nation's employers. Under the new guidelines, which go into effect January 1, most small businesses will now only have to deposit their employment taxes once a month. Other employers will deposit their taxes on fixed days of the week. Either way, the deposit schedule will be set yearly. This change will free employers from the costly task of constantly monitoring payroll taxes, and allow small businesses to focus on what they do best -- create jobs.

Isn't that what's it's all about -- creating jobs? And isn't it time that we cured this disease of overregulation -- a disease which has led to a preoccupation with forms instead of substance at all levels of government. We have become bogged down in a morass of excessive regulation and constant litigation, mired in a swamp filled with too many lawyers, accountants, and bean-counters. Once we moved mountains and built railroads to open economic opportunity for all. Now we have become too much a nation of paper shufflers and form-filler-outers, dissipating our national resources and energies on non-productive process instead of directing them at the creation of jobs and economic opportunities.

I promise you that the Bush Administration will do everything in its power to see that this harmful trend is arrested and rolled back. I hope that every person in this room feels the same way about it. And I would like for us today to dedicate our mutual efforts towards these ends.

But we can do more than roll back regulation to sharpen American business' competitive edge in the 21st century. We can encourage the kind of entrepreneurial capitalism that built this country by providing American small businesses with tax incentives for investment. We can reform this country's legal, regulatory and health care systems, which have suffocated businesses beneath an avalanche of costly lawsuits and paperwork. And we can lower the cost of capital and improve access to credit so that small businesses can get started or expand.

That is why President Bush has proposed a five-year, $20 billion initiative for small businesses that would, among other things:

-- Reduce the lowest corporate tax-rate for small businesses from 15 percent to 10 percent;

-- Increase the equipment deduction limit from $10,000 to $25,000;

-- Eliminate capital gains taxes on newly-issued small business stock;

-- Permit the immediate write-off of up to $2,500 of the front-end costs of starting a new business;

-- And simplify the tax laws so that most small businesses will be able to file one or two-page tax returns.

But along with regulatory relief and incentives for investment, American businesses need reasonable access to credit to expand their operations and invest in new equipment and new technologies. And the Bush Administration is responding to these needs by making a concerted, three-pronged attack to combat the credit crunch.

The first prong of attack is to revise regulatory policy and practices to ease the credit crunch. There is no doubt that regulatory practices have contributed to the credit crunch. And that is why we at Treasury have focused much of our anti-credit crunch effort on regulatory issues -- trying to ensure that examiners use balance and common sense in the regulatory process. We have issued or approved over 40 guidelines or regulatory changes to provide bank and thrift examiners in the field with specific instructions aimed at credit crunch issues.

The second prong of our attack on the credit crunch is a legislative effort aimed at easing costly regulatory burdens on banks. President Bush has sent to Congress the Credit Availability and Regulatory Relief Act, a bill that would repeal many of the needless, Congressionally-imposed mandates that require banks to spend more time filling out forms than making loans.

The legislation would let bankers be bankers by repealing a number of onerous statutory requirements contained in last year's Federal Deposit Insurance Corporation Improvement Act, or "FDICIA". It would eliminate provisions which would allow government to micromanage many aspects of a bank's operations, including minimum earnings levels and employee compensation. It would make auditors be auditors again, not policeman or regulators, and would advance the goals of the Community Reinvestment Act while reducing needless paperwork requirements.

The third prong of our attack on the credit crunch is a broad communications effort to make sure examiners are applying the letter and spirit of these new guidelines in the field. We have held three national meetings of examiners at which Secretary Brady or I have spoken. Senior bank and thrift regulators have met regularly with their examiner corps. And we have held over 350 meetings across the country to open a dialogue on credit crunch issues between bankers, borrowers, business people and regulators to make sure that each group understands the other's perspectives. And the message we give at all of these gatherings is straightforward -- bring common sense and balance into the examination process, and follow the new credit crunch guidelines.

Secretary Brady has recently broadened this communications effort through a nationwide series of meetings that will focus on three main areas -- the restructuring or rollover of commercial real estate loans; acquisition, development and construction financing of residential and multi-family housing; and small business loans. Bankers and borrowers will come together with officials from the Office of Thrift Supervision and the Comptroller of the Currency to allow open discussion of these issues and identification of possible regulatory abuses.

But the best way for businesses to get the credit they need is for banks to step up to the plate and start making loans again. The economy needs those loans at the margin, especially the character loans that helped build this country, and banks are not making enough of them.

I understand the caution in the banking industry after this difficult period. And I understand that some of the 7,000 or so bank and thrift examiners across the country are not following the anti-credit crunch guidelines, and are thereby contributing to a more hesitant lending environment.

But banking is not taking deposits and investing them in Treasury securities -- it is taking reasonable risks and making loans to sound borrowers to provide the capital needed to foster economic activity. And there is a remedy for bankers who feel they have not gotten a fair shake from the examiners.

Several months ago we established a parallel appeals process for bankers who feel victimized by unprofessional examiner conduct, or think the credit crunch guidelines have not been properly applied. We invited banks to appeal to higher levels of regulatory agencies, and frankly, we have not received many RSVPs.

Bankers should use this appeals process. We have said from the start that examiner retribution will not be tolerated. And bankers cannot have it both ways -- complaining about examiner abuses, but refusing to use the appeals process created expressly for the purpose of correcting those abuses.

From rolling back excessive regulation to easing the credit crunch, the Bush Administration is committed to making government an ally of American enterprise, not an adversary. Towards that end, President Bush has proposed a permanent R&D tax credit and an Investment Tax Allowance to stimulate private sector investment and technical innovation. He has proposed a capital gains tax cut, and the creation of enterprise zones in our inner cities and rural areas. And he has vigorously pursued free and open trade policies which will increase U.S. exports and spur economic growth.

This is the Agenda for American Renewal the next Bush Administration will carry out in the next four years, along with proposals to cut government spending, reform our educational, health care, and legal systems, and create an environment for economic growth and entrepreneurism. And that is President Bush's vision of the economic future -- a business environment which allows American enterprise to prosper. I know you share this vision. And we at the Treasury Department and in the Administration look forward to working with you to see that it becomes a reality.

I have outlined before you today some of the transitional changes which our economy has undergone in the wake of our greatest triumph, the Cold War victory over communism. I have also acknowledged that these changes have been painful for many Americans. And it would be naive of me to stand before you and deny that there are people and families out there who are uncertain and uneasy about America's present and future standing on the eve of the 21st century.

But I will not acknowledge that this country is economically decrepit or past its prime. Others might tear down America. I will not, because I have a fundamental optimism about the future. And because, however you measure, the United States is still the preeminent economic power in the world. If we make the right decisions, and if we do the things we need to do to seize the opportunities before us, I am convinced we can be confident about our future and our children's and grandchildren's future. We have overcome tough challenges and before, and we will do so now.

Five hundred years ago, Columbus discovered America and unveiled opportunities which had never been dreamed of by the world that then existed. In no place on the earth were those opportunities realized in any greater quantity or quality, and in a richer or more humane way, than in the United States of America. This country has upheld that tradition for more than two centuries, and I can assure you that the Bush Administration will uphold that tradition as we approach the new millennium, and as we begin to decide what the next American century will look like.

Thank you.

# # #

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M. CONTACT: Office of Financing
October 6, 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 $22,000 million, to be issued October 15, 1992. This offering will result in a paydown for the Treasury of about $ 1,425 million, as the maturing bills are outstanding in the amount of $23,420 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Tuesday, October 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 $11,000 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 $ 24,827 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $11,000 million, to be dated October 15, 1992 and to mature April 15, 1993 (CUSIP No. 912794 C2 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 October 15, 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 $ 2,104 million as agents for foreign and international monetary authorities, and $4,918 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

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
October 6, 1992

Contact: Peter Hollenbach
(202) 219-3302

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

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$635,506,216
Held in Unstripped Form	$482,066,206
Held in Stripped Form	$153,440,010
Reconstituted in September	$13,963,235

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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TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, SEPTEMBER 30, 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	$4,700,154	$1,958,400	$24,000
11-1/4% Note A-1995#2	2/15/95	6,933,861	5,551,301	1,382,560	(8,000)
11-1/4% Note B-1995	5/15/95	7,127,086	4,889,006	2,238,080	94,080
10-1/2% Note C-1995	8/15/95	7,955,901	5,808,301	2,147,600	114,000
9-1/2% Note D-1995	11/15/95	7,318,550	4,945,350	2,373,200	-0-
8-7/8% Note A-1996	2/15/96	8,415,019	7,859,819	555,200	148,800
7-3/8% Note C-1996	5/15/96	20,085,643	19,503,243	582,400	30,400
7-1/4% Note D-1996	11/15/96	20,258,810	18,528,410	1,730,400	47,200
8-1/2% Note A-1997	5/15/97	9,921,237	8,982,437	938,800	284,400
8-5/8% Note B-1997	8/15/97	9,362,836	8,540,436	822,400	11,200
8-7/8% Note C-1997	11/15/97	9,808,329	8,157,129	1,651,200	24,000
8-1/8% Note A-1998	2/15/98	9,159,068	8,969,628	189,440	24,960
9% Note B-1998	5/15/98	9,165,387	8,612,987	552,400	75,800
9-1/4% Note C-1998	8/15/98	11,342,646	10,893,046	449,600	4,000
8-7/8% Note D-1998	11/15/98	9,902,875	9,312,475	590,400	108,800
8-7/8% Note A-1999	2/15/99	9,719,623	[illegible]	142,400	-0-
9-1/8% Note B-1999	5/15/99	10,047,103	[illegible]	910,400	-0-
8% Note C-1999	8/15/99	10,163,644	10,040,119	123,525	-0-
7-7/8% Note D-1999	11/15/99	10,773,960	[illegible]	46,400	-0-
8-1/2% Note A-2000	2/15/00	10,673,033	[illegible]	16,000	-0-
8-7/8% Note B-2000	5/15/00	10,496,230	[illegible]	15,200	-0-
8-3/4% Note C-2000	8/15/00	11,080,646	10,970,246	110,400	16,000
8-1/2% Note D-2000	11/15/00	11,519,682	11,349,282	170,400	-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	12,085,083	313,000	-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	11,714,397	11,642,077	72,320	132,000
6-3/8% Note B-2002	8/15/02	11,749,270	11,718,870	30,400	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	4,637,806	3,664,000	1,838,400
12% Bond 2005	5/15/05	4,260,758	3,126,108	1,134,650	194,400
10-3/4% Bond 2005	8/15/05	9,269,713	8,605,713	664,000	679,200
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	1,775,184	4,230,400	1,048,000
11-1/4% Bond 2015	2/15/15	12,667,799	2,618,199	10,049,600	301,600
10-5/8% Bond 2015	8/15/15	7,149,916	1,808,476	5,341,440	195,520
9-7/8% Bond 2015	11/15/15	6,899,859	2,520,659	4,379,200	774,400
9-1/4% Bond 2016	2/15/16	7,266,854	6,304,454	962,400	166,400
7-1/4% Bond 2016	5/15/16	18,823,551	18,141,151	682,400	20,800
7-1/2% Bond 2016	11/15/16	18,864,448	17,332,128	1,532,320	19,760
8-3/4% Bond 2017	5/15/17	18,194,169	5,765,049	12,429,120	244,160
8-7/8% Bond 2017	8/15/17	14,016,858	9,388,058	4,628,800	350,400
9-1/8% Bond 2018	5/15/18	8,708,639	2,036,639	6,672,000	249,600
9% Bond 2018	11/15/18	9,032,870	1,514,270	7,518,600	50,000
8-7/8% Bond 2019	2/15/19	19,250,798	6,513,198	12,737,600	56,000
8-1/8% Bond 2019	8/15/19	20,213,832	13,993,672	6,220,160	775,040
8-1/2% Bond 2020	2/15/20	10,228,868	4,572,468	5,656,400	46,000
8-3/4% Bond 2020	5/15/20	10,158,883	2,519,203	7,639,680	417,120
8-3/4% Bond 2020	8/15/20	21,418,606	4,710,926	16,707,680	212,000
7-7/8% Bond 2021	2/15/21	11,113,373	10,182,173	931,200	753,600
8-1/8% Bond 2021	5/15/21	11,958,888	6,002,728	5,956,160	205,120
8-1/8% Bond 2021	8/15/21	12,163,482	10,296,282	1,867,200	262,400
8% Bond 2021	11/15/21	32,798,394	21,615,919	11,182,475	3,471,675
7-1/4% Bond 2022	8/15/22	10,352,790	10,135,990	216,800	-0-
Total		635,506,216	482,066,206	153,440,010	13,963,235

#1Effective May 1, 1987, securities held in stripped form were eligible for reconstitution to their unstripped form.
#2This note has a negative reconstituted balance due to the correction of a prior month adjustment.

Note: On the 4th workday of each month a recording of Table VI will be available after 1:00 pm. The telephone number

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 7, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 7-YEAR NOTES

Tenders for $9,754 million of 7-year notes, Series H-1999, to be issued October 15, 1992 and to mature October 15, 1999 were accepted today (CUSIP: 912827H21).

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

	Yield	Price
Low	5.99%	100.056
High	6.05%	99.718
Average	6.01%	99.944

Tenders at the high yield were allotted 20%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	17,316	17,316
New York	18,624,535	9,140,525
Philadelphia	5,718	5,703
Cleveland	11,060	11,060
Richmond	117,744	117,744
Atlanta	29,711	29,711
Chicago	679,620	333,620
St. Louis	9,354	9,354
Minneapolis	3,800	3,800
Kansas City	19,533	19,533
Dallas	5,901	5,901
San Francisco	45,693	45,638
Treasury	13,677	13,677
TOTALS	$19,583,662	$9,753,582

The $9,754 million of accepted tenders includes $324 million of noncompetitive tenders and $9,430 million of competitive tenders from the public.

In addition, $473 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $97 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2014

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 9, 1992

Contact: Claire Buchan
(202) 622-2910

STATEMENT BY NICHOLAS F. BRADY
SECRETARY OF THE TREASURY

We are pleased that Congress has passed the Depository Institutions Disaster Relief Act of 1992, based on the Treasury's Hurricane Andrew Task Force proposal. By removing regulatory burdens, this legislation enables banks to provide credit more freely to residents of Florida, Louisiana and Hawaii as they begin rebuilding their homes, businesses, and communities. Its timely passage shows that government and the private sector can work together to forge meaningful solutions to real-life crises. It also shows that regulatory burden must be relieved to stimulate the flow of credit to the economy -- something that Congress must address next year.

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NB - 2015

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 9, 1992

Contact: Claire Buchan
(202) 622-2910

STATEMENT BY NICHOLAS F. BRADY
SECRETARY OF THE TREASURY

We are pleased that Congress has passed the Commodity Futures Trading Commission reauthorization legislation. This farsighted legislation, especially the margin provision, will greatly enhance the stability and competitiveness of U.S. financial markets. At the same time, the legislation's new exemptive authority allows the CFTC to remove the cloud of legal uncertainty that has threatened to disrupt the huge, global swaps market.

The Administration first requested these reforms two years ago, and I am delighted that they have been adopted. I am also delighted that with the passage of this legislation, all of the major recommendations made by the 1987 Presidential Task Force on Market Mechanisms have now become a reality.

# # #

Attachment

NB - 2016

Fact Sheet on the Commodity Futures Trading Commission reauthorization legislation

The Administration first requested key reforms in this arena over two years ago in its effort to adapt fragmented financial laws to the "one market" of stock and stock derivative instruments. Such reforms are crucial to help avoid the kinds of major market disruptions that occurred in October of 1987 and October of 1989.

With the enactment of the margin provision, <u>all</u> of the major recommendations of the 1987 Presidential Task Force on Market Mechanisms -- which analyzed the October 1987 market break -- have now been implemented:

1. <u>One agency to coordinate critical intermarket issues</u>. (The Federal Reserve for margins).

2. <u>Circuit breakers</u> adopted by the exchanges to allow markets time to adjust to major market volatility.

3. <u>Harmonized Margins</u> to apply to stock, stock options, and stock index futures.

4. <u>Clearing systems</u> coordinated across markets, as required by the Market Reform Act of 1990.

5. <u>Large trader reporting systems</u>, as required by the Market Reform Act of 1990.

Taken together, these critical reforms recognize the "one market" reality and will help protect the system against the recurrence of market breaks like October of 1987.

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TREASURY NEWS

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

AS PREPARED FOR DELIVERY
EMBARGOED UNTIL 12:30 PM EDT
OCTOBER 9, 1992

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before
THE CITY CLUB OF CLEVELAND
Cleveland, Ohio
October 9, 1992

Thank you, Scott [Fienerman, President, Board of Trustees, The City Club of Cleveland]. It is a great pleasure to be here with this distinguished group.

As we look at the world at the turn of the century -- with the perspective provided by the technological advances of the last 100 years -- it is a significantly smaller place. London and Tokyo no longer seem to be faraway places. Today, you can reach either place in less than a day. While the Pony Express once took letters across our continent in eight days, entire libraries may now be transmitted around the world in seconds.

At the same time, economic and political borders have blurred with our ever expanding ability to move capital and productive capacity to wherever they may be most effectively employed. Our national economy has been transformed from a largely self-sufficient and isolated continent to an island in the world archipelago -- an island whose prosperity is affected directly and dramatically by developments across the oceans. It no longer makes sense to think of our economy as a purely domestic matter; there is no longer a clear distinction between domestic and foreign policy. We must change as the world changes.

And we have changed. To see how, we must understand the nature of the profound economic transition through which America and the world are passing. There are two distinct elements at work: a series of significant but *temporary* disruptions, and more important, a structural and *permanent* change in the organization of economic competition. This permanent change is greater than any we have seen since the end of the Second World War -- in some ways greater than any since the Industrial Revolution of the 19th century.

First, let me give you some examples of the significant but temporary disruptions:

NB-2017

- The victory in the Cold War will bring immeasurable benefits to the world economy as we reduce the enormous burden of military spending. But the benefits of peace did not come free: this country now shows the strain of having carried the burden of the free world's defense for almost 50 years. The strain becomes most clear when we look at the transition to a peace-time economy and the difficult adjustment that is involved for defense workers, military families and their communities -- strains being felt not only by workers in California and New England, but in Poland and Russia as well.

  In this country alone, the Defense Department has estimated the shift to a peace-time economy has meant the loss of over 1.6 million jobs in the last three years. Without these job losses, the unemployment rate today would be more than a full percentage point lower than it is. Peace has its price.

  These are adjustments that we have made at war's end in the past, and we will work through them again. Indeed, when America last went through a comparable period -- the first Truman Administration, just after World War II -- gross national product actually ***fell 19%*** in a single year. This puts our economy's current growth of over 2% in perspective. And the good news is that during Truman's *second* term, after the restructuring was well in hand, the economy grew by almost 25% in four years. It stands to reason that once this conversion to a peace-time economy is again completed, the long-term implications for growth are positive.

- Second, the volume of debt in every segment of American society over the last four years has been at historically high levels. Those levels, however, are at last 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 significantly slower growth in the short term.

- Third, economic growth has been hindered by a banking system weakened first by overexposure to Third World Debt, then by failed savings and loans, and most recently by declining real estate markets. U.S. banks, thrifts and insurance companies have not provided the credit needed to fuel the economy. But the Third World Debt crisis is now behind us, the S&L cleanup nearly complete, and real estate problems are improving. Banks are more liquid than they have been in decades, better capitalized than at any time since 1966, have the highest earnings in a decade, and are poised to finance expansion.

- Fourth, American industry has been restructuring over the last several years. Having taken steps to become more productive, American industry is now leaner, meaner, and more competitive.

- Finally, we have been in a period of restrained world growth. The fact is that we are doing better economically than Germany, Japan, the U.K. and other trading partners. That provides little satisfaction to Americans -- but it is a fact.

Each of these five conditions has formed a significant brake on economic growth in its own right, but when added together, their combined effect has been much greater than the sum of their parts. By undermining business and consumer attitudes, they have created an additional, independent restraint on growth and added to concerns about this country's prospects.

But as each of these short-term factors is resolved, we must still come to terms with the significant long-term transformation of economic competition -- a transformation that technology has made possible in the last decade. The old industrial age is fading and being replaced by a new global economy, characterized by a new mobility of capital, ideas and information. Twenty years ago most businesses could find their customers on a road map; today they need a world map. Today's new mobility has affected every aspect of our lives, particularly our businesses and daily work. Let me give you some examples:

- In today's world, businesses are not bound to a particular country by the dictates of geography. Over an electronic network, separate elements of the production process can be directed from anywhere in the world. For example, personal computers may be designed in the U.S., manufactured in Malaysia, and assembled in

Singapore, with the whole operation conducted by management headquarters in the United States.

- What is more, information and intellectual capital have become increasingly important parts of the production process. As this happens, new businesses are created that depend less on physical capital and more on skills and know-how that are not limited to a particular location. These new businesses are in fact becoming leading industries of the new century: Microsoft, for example, has a total stock market value of $22 billion; Amgen, a leading biotechnology company, has a stock market value of $9 billion; and McCaw Cellular's is $5 billion.

- Improvements in transportation combined with new information and communication systems have dramatically shortened the transportation "pipeline" for goods, allowing companies to maintain "just-in-time" inventory methods even with far flung suppliers. An aircraft factory in Central California can fax a parts order to a supplier in Leeds, England and receive the components by air courier the next day.

- Capital moves around the world at the touch of a button -- without government approval -- to wherever it will bring the highest return, whether that is Athens, Ohio or Athens, Greece. To put the mobility of capital in perspective, each day well in excess of $1 trillion of transactions move through or are settled at the New York Federal Reserve Bank.

These changes have transformed the economic order that has existed through most of our lives. This is understandably unsettling to workers and their families. Vigorous international competition has caused some of our nation's largest and most well-known companies to restructure, not only General Motors, but also Xerox, IBM, AT&T and others. American workers go to the parts shelf and sees labels that concern them. As George Shultz recently remarked:

> A few months ago I saw a snapshot of a shipping label for some integrated circuits produced by an American firm. It said, "Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, Mexico, Philippines. The exact country of origin is unknown."

Americans worry about what a label like that says about their future. But those who try to convince Americans that they should fear the new economic world of free trade and the new mobility are wrong.

In the U.S., the fact is that the new mobility will create millions of new and better jobs -- and these export-based jobs pay, on average, 17% more than the average wage. Other countries will also increase their standard of living. As a result they will buy more high-value-added products from the U.S. That is why Ohio has increased its exports to Mexico from $245 million to $582 million over the last four years -- an increase of 137 percent -- and why other industrial states such as Pennsylvania and Illinois, with export increases of 283 percent and 291 percent, respectively, are benefiting as well.

Those who would make political hay out of people's fears of increased trade are doing so for narrow political advantage. They are the newest members of the Flat Earth Society, refusing to accept the reality of the changes in the world around them. Most of the industries that are giving America its leadership in this new world economy -- industries like pharmaceuticals, software, telecommunications, aerospace, and computers -- thrive on trade, and will continue to give us economic leadership if we follow policies that nurture trade.

The fact is, Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. And in tomorrow's world, intellectual capital will be as important as physical capital. Innovation, which is the application of intellectual capital to the process of production, will be a major source of the future's attractive, high-paying jobs.

In this we Americans are fortunate. Innovation and change are our heritage -- from that summer's day in 1776 when we established a new theory of government to the most recent flight of the space shuttle *Atlantis*. Americans are uniquely well positioned to succeed in the innovation-driven world of the 21st century.

And for that reason, the goal of the Bush Administration during the next four years will be -- as it has been -- not to evade 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. Our single-minded goal is to create high value jobs in the United States. And to accomplish that goal, President Bush will be guided -- as he has been -- by three strategic objectives. And these three objectives are at the core of the President's Agenda for American Renewal.

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. 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."

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.

Let me give you an example. BMW, the German car maker, recently decided to locate a plant in South Carolina, citing the need for representation in the "largest, most competitive and dynamic consumer market in the world." And the same ships that will bring German parts to be assembled by South Carolina workers, will take away finished cars to European markets and the Far East.

Ensure America's Economic Leadership

Second, we must ensure America's economic leadership. In the post-Cold War world this will mean opening free 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. U.S. 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 we have acted vigorously to ensure free, open and growing markets around the world. On Wednesday, President Bush, Mexico's President Salinas and Canada's Prime Minister Mulroney approved the North American Free Trade Agreement. NAFTA will link us with our neighbors to the North and South to create an historic trade partnership -- a single market of over 360 million people with a total output of $6-1/2 trillion. This newly unified market will provide an unparalleled engine for growth and jobs, and yet, if it hadn't been for President Bush's constant urging, this agreement would never have been signed. Nothing could provide a clearer example of the President's understanding of the new global economy, or of his determination to pursue effective strategies to open new markets for American products.

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. It means continuing to keep inflation and interest rates under control. Short-term interest rates are currently at their lowest in decades, and inflation is as low as it was in the mid-60s. And it means fixing our regulatory policies 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 creating a special environment in which small businesses can thrive. 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. To this end, President Bush recently announced a comprehensive program for strengthening our nation's small businesses. This five-year, $20 billion initiative includes lowering the corporate tax rate for small businesses; making up to $2500 in small business start-up costs tax deductible; increasing equipment expensing; and reducing paperwork burdens that fall heavily on small businesses.

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, as students, American workers have learned how to learn, they will have laid the foundation for a lifetime of new skills and expanding opportunities.

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 your 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. Workers who late in life lose jobs in one area must have help retraining for the new jobs created in other areas. The Administration's Worker Adjustment and Youth Skills initiatives will replace the fragmentation of current Federal programs with a coordinated, market-driven system, and triple the funding currently provided for training.

And finally, investing in America's future means providing affordable health care for all Americans, while controlling the rising costs of health care. 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. The President's plan will not lead to rationing of health care. It won't put people out of work or allow the government to make your health care decisions. Believe me, nothing is improved by putting it under the control of government bureaucrats. That's why the President's plan leaves health care choices in the hands of the people, not the bureaucrats.

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.

In short, the American people are being asked to make a fundamental choice of values in November. We believe in the people, not in bureaucracy. We believe in traditions like hard work and the entrepreneurial spirit, not government omniscience. We believe the 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 need to remember that America's success is based on the achievements of our people, not on government programs that wax and wane. The beliefs that we share -- our belief in a government that works with and for the people and our belief in the entrepreneurial spirit -- these are the principles that have stood the test of 200 years of change. These are the principles that we should choose to guide a changing America through the years ahead.

Thank you.

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TREASURY NEWS

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

FOR RELEASE AT 12:00 NOON
October 9, 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 October 22, 1992 and to mature October 21, 1993 (CUSIP No. 912794 E4 2). This issue will provide about $ 1,175 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $ 13,075 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, October 15, 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 October 22, 1992. In addition to the maturing 52-week bills, there are $ 23,364 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 $ 2,684 million as agents for foreign and international monetary authorities, and $ 8,562 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 $ 530 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-2018

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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OCTOBER 12, 1992

CONTACT: CLAIRE BUCHAN
202-622-2910

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before the
COLORADO SPRINGS CHAMBER OF COMMERCE
Colorado Springs, Colorado
October 12, 1992

Thank you, Bill [Hybl]. It is a great pleasure to be here with the Colorado Springs Chamber of Commerce.

As we look at the world at the turn of the century -- with the perspective provided by the technological advances of the last 100 years -- it is a significantly smaller place. London and Tokyo no longer seem to be faraway places. Today, you can reach either place in less than a day. While the Pony Express once took letters across our continent in eight days, entire libraries may now be transmitted around the world in seconds.

At the same time, economic and political borders have blurred with our ever expanding ability to move capital and productive capacity to wherever they may be most effectively employed. Our national economy has been transformed from a largely self-sufficient and isolated continent to an island in the world archipelago -- an island whose prosperity is affected directly and dramatically by developments across the oceans. It no longer makes sense to think of our economy as a purely domestic matter; there is no longer a clear distinction between domestic and foreign policy. We must change as the world changes.

To find our way in this new world, we must have a clear, articulated sense of where we are heading, for with change come uncertainty and opportunity. Without a sure knowledge of the economic landscape, uncertainty can paralyze and opportunity can be missed. So today I would like to set out my view of that landscape and of the route we will use to cross it.

To begin, we must understand the nature of the profound economic transition through which America and the world are passing. There are two distinct elements at work: a series of significant but temporary disruptions, and more important, a structural and permanent change in the organization of economic competition. This permanent change is greater than any we have seen since the end of the Second World War -- in some ways greater than any since the Industrial Revolution of the 19th century.

First, let me give you some examples of the significant but temporary disruptions:

- The end of the Cold War is inevitably accompanied by the wrenching transition to a peacetime economy -- a transition we have made successfully in the past and will successfully make again. Indeed, when America last went through a comparable period -- in the first Truman Administration -- gross national product actually fell 19% in a single year, which puts today's positive growth of over 2% in perspective. And we should also keep in mind that Truman's second term, after the restructuring was well in hand, saw the economy grow by almost 25% in four years. It stands to reason that once this conversion to a peace-time economy is again completed, the long-term implications for growth are positive.

- Second, businesses are strengthening their over-leveraged balance sheets and households are paying down debt. This sets the stage for renewed growth in the long term, even though it has meant slower growth in the short term.

- Third, the banking system weakened by Third World Debt, failed savings and loans, and declining real estate markets has been hesitant to provide the credit needed to fuel the economy. Many would argue that this is an understatement. But the Third World Debt crisis is now behind us, the S&L cleanup nearly complete, and real estate problems are improving. Banks are more liquid than they have been in decades, better capitalized than at any time since 1966, have the highest earnings in a decade, and are poised to finance expansion.

- Fourth, American industry has been restructuring over the last several years. Having taken steps to become more productive, American industry is now leaner, meaner, and more competitive.

- Finally, we have been in a period of restrained world growth. The fact is that we are doing better economically than Germany, Japan, the U.K. and other trading partners. That provides little satisfaction to Americans -- but it is a fact.

Each of these five conditions has formed a significant brake on economic growth in its own right, but when added together, their combined effect has been much greater than the sum of their parts. By undermining business and consumer attitudes, they have created an additional, independent restraint on growth and added to concerns about this country's prospects.

But as each of these temporary disruptions is resolved, we must still come to terms with the significant long-term transformation of economic competition that has occurred -- a transformation made possible by the explosion of technology that has changed our world. As the world contracts and economic borders become less distinct, the old industrial age is fading and being replaced by a new global economy, characterized by the mobility of capital, ideas and information.

Twenty years ago most businesses could find their customers on a road map; now they need a world map. In the modern market, businesses are not bound to a particular country by the dictates of geography; over an electronic network, separate elements of the production process can be directed from anywhere in the world. Information and technology have become increasingly important elements of production. Also, improvements in transportation and communication systems have dramatically shortened the "pipeline" for goods. Capital moves around the world at the touch of a button to wherever it will bring the highest return.

These changes have transformed the world that we have known through most of our lives. This is understandably unsettling to workers and their families -- to all of us. Vigorous international competition has caused some of our nation's largest and most well-known companies to restructure, not only General Motors, but also Xerox, IBM, AT&T and others. People wonder why. American workers go to the parts bin and see labels that raise questions about the future -- labels that list components from Hong Kong, Korea, Portugal, Singapore, Taiwan, Thailand and Mexico. Americans worry about what a label like that says about their future.

But those who try to convince Americans that they are diminished in the new economic world of free trade and mobility are wrong. The plain fact is that the new mobility will create millions of new and better jobs in the U.S. -- and these export-based jobs pay, on average, 17% more than the average wage. Other countries will also gain jobs and increase their standard of living. The result: they will buy more high-value-added products from us. That is why Michigan and Illinois have increased their exports to Mexico, and why expanded trade benefits all of our industrial states.

Those who would make political hay out of people's fears of increased trade are doing so for narrow political advantage. Truly, they are the newest members of the Flat Earth Society, failing to accept the reality of the changes in the world around them. Most of the industries in which America leads the world -- such as pharmaceuticals, software, telecommunications, aerospace, and computers -- are industries that thrive on trade. They will continue to give us economic leadership if we follow policies that nurture expanded trade.

The fact is, Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. And in tomorrow's world, innovation will be as important as physical capital. In this we Americans are fortunate. Innovation and change are our heritage -- from that summer's day in 1776 when we established a new theory of government to the most recent flight of the space shuttle *Atlantis*. Americans are uniquely well positioned to succeed in the modern world of the 21st Century.

But the challenge -- for policymakers and for private enterprise of all countries -- will be maintaining and improving the conditions for innovation and growth. This will involve strong and constant policies.

What are the policies that this country needs to succeed in the 21st Century?

o First and foremost, we need competition, unfettered by increased government regulation. America is strongest internationally in areas characterized by substantial domestic competition. For example, there are over 5,000 software companies in the United States, competing against companies in Japan, France, and elsewhere -- yet this fragmented U.S. industry has 75% of the world's market share.

- Second, investment. We must develop policies that increase the amount of investment in America and allow sensible, long-term management decisions -- policies that direct resources to entrepreneurial capitalism, not government coffers.

- Third, education. Policies that create a highly skilled, educated workforce -- not just general education, but industry-specific training -- will be critical for future gains in national productivity.

- Finally, trade. If competition is the lever with which a country will increase its productivity in the 21st Century, trade is the fulcrum. As an industry develops new products, it must be able to sell them in the widest possible market. As free trade raises the living standards of previously underdeveloped countries, it will create almost 4 1/2 billion potential new customers for the world's goods.

For the last four years President Bush has pursued exactly these policies -- which are at the heart of the specific proposals the President has laid out for a second term in his Agenda for American Renewal. Let's take competition. Believe me: conditions would be very different now if the Administration had not consistently and vigorously defended a competitive environment by fighting unnecessary government regulation and resisting calls to shield our industries from world competition. The President has used his veto pen over and over again to protect American business from the United States Congress. And we have unfailingly gone to bat for small business -- which creates two-thirds of the jobs in our country -- through tax incentives, regulatory relief, expansion of credit availability and the President's multi-billion dollar proposal to stimulate investment in this important sector of the economy.

To spur investment generally, we have reduced capital costs by achieving the lowest interest rates and lowest inflation levels in a generation. We seek to reduce costs even further through, for example, differential capital gains tax rates and the elimination of double taxation of dividends. These policies are designed to increase savings and investment, which in turn increase productivity -- the only means by which our standard of living will continue to improve.

We have proposed ambitious education reforms -- both in general schooling and specialized training. Our America 2000 program, including school choice and the creation of national testing standards, would ensure we have the best trained, most highly skilled people to do tomorrow's jobs. Workers who lose jobs in one area must have help retraining; the Administration's proposals would replace the fragmentation of current Federal programs with a coordinated, market-driven system, and triple the funding currently provided for training.

We have acted vigorously to ensure free, open and growing markets around the world. Last week, President Bush, Mexico's President Salinas, and Canada's Prime Minister Mulroney approved the North American Free Trade Agreement. NAFTA will link us with our neighbors to the North and South to create an historic trade partnership -- a single market of over 360 million people with a total output of $6-1/2 trillion.

This newly unified market will provide an unparalleled engine for growth and jobs, and yet, if it hadn't been for President Bush's constant urging, this agreement would never have been signed. Nothing could provide a clearer example of the President's understanding of the new global economy, or of his determination to pursue effective strategies to open new markets for our economy.

There are those who will say that, while this analysis is right, the prescription is wrong. Competition, they will tell you, both at home and abroad, is destructive -- trade saps jobs, choice guts schools, incentives to invest help only the rich. But it is they who are wrong. All they have to offer -- tricked up in the latest jargon -- are the tired remedies of protectionism, taxes, and government direction.

But we cannot hold on to the old world, and we should not want to. As we embark on the 21st century, we must do so with daring, foresight -- and good old American pride. We know what we must do to succeed in the new world economy -- and we are doing it. Americans have every reason to be optimistic about this new world, for the field of play is our native one: creating, risking, competing, achieving. With optimism, energy, commitment -- and the continued leadership of George Bush -- we can meet the challenges of this new century together.

Thank you.

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TREASURY NEWS

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

AS PREPARED FOR DELIVERY
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OCTOBER 13, 1992

CONTACT: CLAIRE BUCHAN
202-622-2910

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before the
COLORADO ASSOCIATION OF COMMERCE AND INDUSTRY
Denver, Colorado
October 13, 1992

Thank you, Neil [Hinchman, Incoming Chairman, CACI]. It is a great pleasure to be here this morning with the Colorado Association of Commerce and Industry.

As we look at the world at the turn of the century -- with the perspective provided by the technological advances of the last 100 years -- it is a significantly smaller place. London and Tokyo no longer seem to be faraway places. Today, you can reach either place in less than a day. While the Pony Express once took letters across our continent in eight days, entire libraries may now be transmitted around the world in seconds.

At the same time, economic and political borders have blurred with our ever expanding ability to move capital and productive capacity to wherever they may be most effectively employed. Our national economy has been transformed from a largely self-sufficient and isolated continent to an island in the world archipelago -- an island whose prosperity is affected directly and dramatically by developments across the oceans. It no longer makes sense to think of our economy as a purely domestic matter; there is no longer a clear distinction between domestic and foreign policy. We must change as the world changes.

To find our way in this new world, we must have a clear, articulated sense of where we are heading, for with change come uncertainty and opportunity. Without a sure knowledge of the economic landscape, uncertainty can paralyze and opportunity can be missed. So today I would like to set out my view of that landscape and of the route we will use to cross it.

NB - 2020

To begin, we must understand the nature of the profound economic transition through which America and the world are passing. There are two distinct elements at work: a series of significant but temporary disruptions, and more important, a structural and permanent change in the organization of economic competition. This permanent change is greater than any we have seen since the end of the Second World War -- in some ways greater than any since the Industrial Revolution of the 19th century.

First, let me give you some examples of the significant but temporary disruptions:

- The end of the Cold War is inevitably accompanied by the wrenching transition to a peacetime economy -- a transition we have made successfully in the past and will successfully make again. Indeed, when America last went through a comparable period -- in the first Truman Administration -- gross national product actually fell 19% in a single year, which puts today's positive growth of over 2% in perspective. And we should also keep in mind that Truman's second term, after the restructuring was well in hand, saw the economy grow by almost 25% in four years. It stands to reason that once this conversion to a peace-time economy is again completed, the long-term implications for growth are positive.

- Second, businesses are strengthening their over-leveraged balance sheets and households are paying down debt. This sets the stage for renewed growth in the long term, even though it has meant slower growth in the short term.

- Third, the banking system weakened by Third World Debt, failed savings and loans, and declining real estate markets has been hesitant to provide the credit needed to fuel the economy. Many would argue that this is an understatement. But the Third World Debt crisis is now behind us, the S&L cleanup nearly complete, and real estate problems are improving. Banks are more liquid than they have been in decades, better capitalized than at any time since 1966, have the highest earnings in a decade, and are poised to finance expansion.

- Fourth, American industry has been restructuring over the last several years. Having taken steps to become more productive, American industry is now leaner, meaner, and more competitive.

TREASURY NEWS

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

Finally, we have seen a period of restrained world growth. The fact is that we are doing better economically than Germany, Japan, the U.K. and other trading partners. That provides little satisfaction to Americans -- but it is a fact.

Each of these five conditions has formed a significant brake on economic growth in its own right, but when added together, their combined effect has been much greater than the sum of their parts. By undermining business and consumer attitudes, they have created an additional, independent restraint on growth and added to concerns about this country's prospects.

But as each of these temporary disruptions is resolved, we must still come to terms with the significant long-term transformation of economic competition that has occurred -- a transformation made possible by the explosion of technology that has changed our world. As the world contracts and economic borders become less distinct, the old industrial age is fading and being replaced by a new global economy, characterized by the mobility of capital, ideas and information.

Twenty years ago most businesses could find their customers on a road map; now they need a world map. In the modern market, businesses are not bound to a particular country by the dictates of geography; over an electronic network, separate elements of the production process can be directed from anywhere in the world. Information and technology have become increasingly important elements of production. Also, improvements in transportation and communication systems have dramatically shortened the "pipeline" for goods. Capital moves around the world at the touch of a button to wherever it will bring the highest return.

These changes have transformed the world that we have known through most of our lives. This is understandably unsettling to workers and their families -- to all of us. Vigorous international competition has caused some of our nation's largest and most well-known companies to restructure, not only General Motors, but also Xerox, IBM, AT&T and others. People wonder why. American workers go to the parts bin and see labels that raise questions about the future -- labels that list components from Hong Kong, Korea, Portugal, Singapore, Taiwan, Thailand and Mexico. Americans worry about what a label like that says about their future.

But those who try to convince Americans that they are diminished in the new economic world of free trade and mobility are wrong. The plain fact is that the new mobility will create millions of new and better jobs in the U.S. -- and these export-based jobs pay, on average, 17% more than the average wage. Other countries will also gain jobs and increase their standard of living. The result: they will buy more high-value-added products from us. That is why Michigan and Illinois have increased their exports to Mexico, and why expanded trade benefits all of our industrial states.

Those who would make political hay out of people's fears of increased trade are doing so for narrow political advantage. Truly, they are the newest members of the Flat Earth Society, failing to accept the reality of the changes in the world around them. Most of the industries in which America leads the world -- such as pharmaceuticals, software, telecommunications, aerospace, and computers -- are industries that thrive on trade. They will continue to give us economic leadership if we follow policies that nurture expanded trade.

The fact is, Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. And in tomorrow's world, innovation will be as important as physical capital. In this we Americans are fortunate. Innovation and change are our heritage -- from that summer's day in 1776 when we established a new theory of government to the most recent flight of the space shuttle *Atlantis*. Americans are uniquely well positioned to succeed in the modern world of the 21st Century.

But the challenge -- for policymakers and for private enterprise of all countries -- will be maintaining and improving the conditions for innovation and growth. This will involve strong and constant policies.

What are the policies that this country needs to succeed in the 21st Century?

- First and foremost, we need competition, unfettered by increased government regulation. America is strongest internationally in areas characterized by substantial domestic competition. For example, there are over 5,000 software companies in the United States, competing against companies in Japan, France, and elsewhere -- yet this fragmented U.S. industry has 75% of the world's market share.

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- o Second, investment. We must develop policies that increase the amount of investment in America and allow sensible, long-term management decisions -- policies that direct resources to entrepreneurial capitalism, not government coffers.

- o Third, education. Policies that create a highly skilled, educated workforce -- not just general education, but industry-specific training -- will be critical for future gains in national productivity.

- o Finally, trade. If competition is the lever with which a country will increase its productivity in the 21st Century, trade is the fulcrum. As an industry develops new products, it must be able to sell them in the widest possible market. As free trade raises the living standards of previously underdeveloped countries, it will create almost 4 1/2 billion potential new customers for the world's goods.

For the last four years President Bush has pursued exactly these policies -- which are at the heart of the specific proposals the President has laid out for a second term in his Agenda for American Renewal. Let's take competition. Believe me: conditions would be very different now if the Administration had not consistently and vigorously defended a competitive environment by fighting unnecessary government regulation and resisting calls to shield our industries from world competition. The President has used his veto pen over and over again to protect American business from the United States Congress. And we have unfailingly gone to bat for small business -- which creates two-thirds of the jobs in our country -- through tax incentives, regulatory relief, expansion of credit availability and the President's multi-billion dollar proposal to stimulate investment in this important sector of the economy.

To spur investment generally, we have reduced capital costs by achieving the lowest interest rates and lowest inflation levels in a generation. We seek to reduce costs even further through, for example, differential capital gains tax rates and the elimination of double taxation of dividends. These policies are designed to increase savings and investment, which in turn increase productivity -- the only means by which our standard of living will continue to improve.

We have proposed ambitious education reforms -- both in general schooling and specialized training. Our America 2000 program, including school choice and the creation of national testing standards, would ensure we have the best trained, most highly skilled people to do tomorrow's jobs. Workers who lose jobs in one area must have help retraining; the Administration's proposals would replace the fragmentation of current Federal programs with a coordinated, market-driven system, and triple the funding currently provided for training.

We have acted vigorously to ensure free, open and growing markets around the world. Last week, President Bush, Mexico's President Salinas, and Canada's Prime Minister Mulroney approved the North American Free Trade Agreement. NAFTA will link us with our neighbors to the North and South to create an historic trade partnership -- a single market of over 360 million people with a total output of $6-1/2 trillion.

This newly unified market will provide an unparalleled engine for growth and jobs, and yet, if it hadn't been for President Bush's constant urging, this agreement would never have been signed. Nothing could provide a clearer example of the President's understanding of the new global economy, or of his determination to pursue effective strategies to open new markets for our economy.

There are those who will say that, while this analysis is right, the prescription is wrong. Competition, they will tell you, both at home and abroad, is destructive -- trade saps jobs, choice guts schools, incentives to invest help only the rich. But it is they who are wrong. All they have to offer -- tricked up in the latest jargon -- are the tired remedies of protectionism, taxes, and government direction.

But we cannot hold on to the old world, and we should not want to. As we embark on the 21st century, we must do so with daring, foresight -- and good old American pride. We know what we must do to succeed in the new world economy -- and we are doing it. Americans have every reason to be optimistic about this new world, for the field of play is our native one: creating, risking, competing, achieving. With optimism, energy, commitment -- and the continued leadership of George Bush -- we can meet the challenges of this new century together.

Thank you.

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AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 13, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,043 million of 13-week bills to be issued October 15, 1992 and to mature January 14, 1993 were accepted today (CUSIP: 912794ZZ0).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.85%	2.91%	99.280
High	2.88%	2.94%	99.272
Average	2.88%	2.94%	99.272

$35,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 53%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,690	21,690
New York	32,816,005	9,193,315
Philadelphia	18,290	18,290
Cleveland	45,945	45,945
Richmond	43,945	42,065
Atlanta	33,225	27,055
Chicago	1,729,125	254,105
St. Louis	7,035	7,035
Minneapolis	11,705	11,705
Kansas City	24,080	24,080
Dallas	17,370	17,370
San Francisco	1,079,385	584,225
Treasury	796,580	796,580
TOTALS	$36,644,380	$11,043,460
Type		
Competitive	$31,882,760	$6,281,840
Noncompetitive	1,410,200	1,410,200
Subtotal, Public	$33,292,960	$7,692,040
Federal Reserve	2,517,820	2,517,820
Foreign Official Institutions	833,600	833,600
TOTALS	$36,644,380	$11,043,460

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AUCTION RESULTS

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
October 13, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,044 million of 26-week bills to be issued October 15, 1992 and to mature April 15, 1993 were accepted today (CUSIP: 912794C28).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.94%	3.03%	98.514
High	2.95%	3.04%	98.509
Average	2.95%	3.04%	98.509

Tenders at the high discount rate were allotted 97%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	19,830	19,830
New York	38,036,400	10,166,815
Philadelphia	4,415	4,415
Cleveland	19,455	19,455
Richmond	17,325	17,325
Atlanta	50,290	38,735
Chicago	2,006,495	21,465
St. Louis	11,700	11,700
Minneapolis	8,230	8,230
Kansas City	25,750	25,750
Dallas	9,640	9,640
San Francisco	581,915	101,665
Treasury	598,900	598,900
TOTALS	$41,390,345	$11,043,925
Type		
Competitive	$37,533,410	$7,186,990
Noncompetitive	933,035	933,035
Subtotal, Public	$38,466,445	$8,120,025
Federal Reserve	2,400,000	2,400,000
Foreign Official Institutions	523,900	523,900
TOTALS	$41,390,345	$11,043,925

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TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
October 13, 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 October 22, 1992. This offering will result in a paydown for the Treasury of about $175 million, as the maturing bills are outstanding in the amount of $23,364 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, October 19, 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 July 23, 1992 and to mature January 21, 1993 (CUSIP No. 912794 A3 8), currently outstanding in the amount of $ 12,001 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,600 million, to be dated October 22, 1992 and to mature April 22, 1993 (CUSIP No. 912794 C3 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 October 22, 1992. In addition to the maturing 13-week and 26-week bills, there are $13,075 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 $ 2,094 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $ 2,624 million as agents for foreign and international monetary authorities, and $8,562 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 15, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $14,274 million of 52-week bills to be issued October 22, 1992 and to mature October 21, 1993 were accepted today (CUSIP: 912794E42).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.12%	3.24%	96.845
High	3.13%	3.25%	96.835
Average	3.12%	3.24%	96.845

$10,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 81%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	8,830	8,830
New York	34,137,005	13,653,405
Philadelphia	4,905	4,905
Cleveland	34,855	34,855
Richmond	7,225	7,225
Atlanta	12,460	12,270
Chicago	1,058,830	49,330
St. Louis	3,525	3,525
Minneapolis	1,840	1,840
Kansas City	12,780	12,780
Dallas	3,120	3,120
San Francisco	687,670	263,920
Treasury	217,615	217,615
TOTALS	$36,190,660	$14,273,620
Type		
Competitive	$32,069,310	$10,152,270
Noncompetitive	356,350	356,350
Subtotal, Public	$32,425,660	$10,508,620
Federal Reserve	3,300,000	3,300,000
Foreign Official Institutions	465,000	465,000
TOTALS	$36,190,660	$14,273,620

NB-2024

TREASURY NEWS

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

AS PREPARED FOR DELIVERY
EMBARGOED UNTIL 12:45 PM (Indianapolis)
OCTOBER 16, 1992

CONTACT: DESIREE TUCKER-SORINI
202-622-2920

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before the
INDIANAPOLIS KIWANIS CLUB
Indianapolis, Indiana
October 16, 1992

Thank you, Marge [O'Laughlin, Treasurer, State of Indiana]. It is a great pleasure to be here in Indianapolis, and I appreciate you inviting me to join you for lunch. I especially want to thank Sheriff McAtee and Chief of Police Toler, who changed their schedules so I could have the podium today.

Of course, I can't visit Indianapolis without praising Indiana's favorite son. He's tough; he stands up for his team; and he never gives up. No, I'm not talking about Bobby Knight in the "final four". I'm talking about Dan Quayle -- who has shown over the last four years that he can take the heat. And he sure showed this past week that he continues to be a fighter.

As we look at the world at the turn of the 21st century, economic and political borders have blurred. Our national economy has been transformed from a self-sufficient and isolated continent to an island in the world archipelago -- an island whose prosperity is affected directly and dramatically by development across the oceans. It no longer makes sense to think in purely domestic terms; there is no longer a clear distinction between domestic and foreign 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.

We must change as the world around us changes and to do so, we must understand the nature of the profound economic transition through which America and the world are passing. There are two separate and distinct elements at work: a series of significant but **temporary** disruptions that will pass through the system, but more important, a structural and **permanent** change in the organization of world economic competition -- in some ways greater than any since the Industrial Revolution of the 19th century.

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First, let me give you some examples of the significant but temporary disruptions:

- The victory in the Cold War will bring immeasurable benefits to the world economy. But the benefits of peace did not come without cost: this country now shows the strain of having carried the burden of the free world's defense for almost 50 years. In this country alone, the Defense Department has estimated the shift to a peace-time economy has meant the loss of over 1.6 million jobs in the last three years. Without these job losses, the unemployment rate today would be more than a full percentage point lower than it is. Peace has its price.

  We have made adjustments at war's end before. Indeed, at war's end in the first Truman Administration gross national product **fell 19%** in a single year. This puts our economy's current growth rate of over 2% in perspective. During Truman's **second** term, after the restructuring was in hand, the economy grew by almost 25% in four years.

- Second, the volume of debt in every segment of American society over the last four years has been at historically high levels. Those levels, however, are at last 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 significantly slower growth in the short term.

- Third, economic growth has been hindered by a banking system weakened by Third World Debt, failed savings and loans, and declining real estate markets. But the Third World Debt crisis is now behind us, the S&L cleanup nearly complete, and real estate problems are improving. And banks are more profitable and liquid than they have been in decades.

- Fourth, American industry has been restructuring over the last several years. Having taken steps to become more productive, American industry is now more competitive. In 1988, our trade deficit in goods and services was almost $102 billion; it had declined to only $11.7 billion last year. We are winning the battle for exports.

- Fifth, the money supply -- which provides the financing for the country's growth -- has been at the bottom of the Fed's targets for most of the past three years. And in recent months, M2 growth has been negative or flat.

- Finally, we have seen restrained world growth. We are doing better economically than Germany, Japan, the U.K. and other trading partners. That provides little satisfaction to Americans -- but it is a fact.

Each of these six conditions has formed a significant brake on economic growth, but when added together, their combined effect is greater than the sum of their parts. By undermining business and consumer attitudes, they have created an additional, independent restraint on growth and added to concerns about this country's prospects.

But even as each of these temporary disruptions is resolved, we must still come to terms with the long-term transformation of economic competition that technology has made possible. Twenty years ago most businesses could find their customers on a road map; today they need a world map. This has affected our businesses and daily work. Let me give you some examples:

- In today's world, businesses are not bound to a particular country by the dictates of geography. Over an electronic network, separate elements of the production process can be directed from anywhere in the world. For example, the Hewlett Packard personal computer is designed and marketed in Palo Alto, engineered in Grenoble, France, components are made in Malaysia, assembled in Singapore, and 50% of sales are in the United States.

- What is more, information and intellectual capital have become increasingly important parts of the production process. New businesses are created that depend less on physical capital and more on skills and know-how. These new businesses are becoming leading industries of the new world: Microsoft, for example, has a total stock market value of $22 billion; Amgen, a leading biotechnology company, has a stock market value of $9 billion; and McCaw Cellular's is $5 billion. The government cannot create these new businesses, it does not have that capability.

- o Improvements in transportation combined with new information and communication systems have dramatically shortened the transportation "pipeline" for goods, allowing companies to maintain "just-in-time" inventory methods even with far flung suppliers. An aircraft factory in Central California can fax a parts order to a supplier in Leeds, England and receive the components the next day.

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These changes have transformed the economic order that has existed through most of our lives. This is understandably unsettling to us all. Vigorous international competition has caused some of our nation's most well-known companies to restructure, not only General Motors, but also Xerox, IBM, AT&T and others.

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Americans worry about what a label like that says about their own future. But those who try to convince Americans that they should fear the new economic world of free trade and change are wrong. Most of the industries that are giving America its leadership in this new world economy -- industries like pharmaceuticals, software, telecommunications, aerospace, and computers -- thrive on trade. If competition is the lever with which a country will increase its productivity in the 21st Century, trade is the fulcrum.

The fact is that in the U.S. exports will create millions of new and better jobs -- which have paid, on average, 17% more than the average wage. As other countries increase their standard of living, they will buy more high-value-added products from the U.S. That is why the U.S. has increased its exports to Mexico from $14 billion to $33 billion over the last four years.

The fact is, Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. And in tomorrow's world innovation will be a major source of the future's attractive, high-paying jobs. In this we Americans are fortunate. Innovation and change are our heritage -- from that summer's day in 1776 when we established a new theory of government to the most recent flight of the space shuttle *Atlantis.* Americans are uniquely well positioned to succeed in the modern world of the 21st century.

For that reason, the goal of the Bush Administration during the next four years will be -- as it has been -- not to evade change, but to face it; not to stand in place, but to advance. Our single-minded goal is to create high-value jobs in the United States. To achieve this goal, we should do the following things.

Exports Equal Jobs

We must continue the spectacular success we have had over the last four years in opening free 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. U.S. 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. Simple multiplication indicates that this growth in exports accounts for almost 4 million new jobs.

A week ago, President Bush approved the North American Free Trade Agreement. NAFTA will link us with our neighbors to the North and South to create a single market of over 360 million people with a total output of $6-1/2 trillion. This newly unified market will provide an unparalleled engine for growth and jobs. Yet if it hadn't been for President Bush's initiative and constant urging, this agreement would never have been signed. Noting could provide a clearer example of the President's understanding of the new global economy.

Small Business is the Key

Two-thirds of the jobs created in the United States are created by small businesses. Only 11% of the workforce works for the Fortune Five Hundred companies. We must not shackle the 4 million smaller firms that are creating the new jobs workers need during this transition. The infant industries of today will be the job generators of tomorrow.

To this end, President Bush recently announced a comprehensive five-year, $20 billion initiative which includes lowering the corporate tax rate for small businesses; making up to $2500 in small business start-up costs tax deductible; increasing equipment expensing; and reducing paperwork burdens that fall heavily on small businesses.

<u>Conditions that Attract Investment</u>

Ensuring America's economic leadership will also mean adopting policies that foster savings and reduce the cost of capital to encourage investment. It means running the government so inflation and interest rates remain low and today, short-term interest rates and inflation are at their lowest in decades. It means reducing the capital gains tax to spur investment. And it means reducing unnecessary regulatory restrictions and correcting the excesses of our legal system.

But let me give you an example of what having an attractive investment environment can mean. BMW, with the whole world to choose from, recently decided to locate its first plant outside Germany in South Carolina. In the words of BMW "the exports we plan from the U.S. factory, will strengthen BMW's global competitiveness." Imagine German car models made by Americans sold to Europeans and Japanese.

<u>Invest in America's Future</u>

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 a productive future. If, as students, American workers have learned how to learn, they will have laid the foundation for a lifetime of new skills.

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, and to encourage states to set meaningful education standards.

As we transform our economy, we will not leave out those who must retrain as they shift from one career to another late in life. The Administration's Worker Adjustment and Youth Skills initiatives will triple the funding currently provided for re-training.

And finally, investing in America's future means providing affordable health care for all Americans, while controlling its rising costs. That is why President Bush, in February, proposed a plan for comprehensive health reform, to make health care more accessible by making health insurance more affordable. The President's plan will not lead to rationing of health care and leaves health care choices in the hands of the people, not the bureaucrats.

These objectives recognize the interconnection between foreign affairs and domestic policy; they deal with the dynamic changes in the way the world does business; and they emphasize individual initiative rather than fuel the engine of big government.

Some will say that this agenda is wrong. Competition, they will tell you, both at home and abroad, is destructive -- trade saps jobs, choice guts schools, incentives to invest help only the rich. But it is they who are wrong. All they offer -- dressed up in the latest jargon -- are the tired remedies of protectionism, increased taxes, and government direction. They are the newest members of the Flat Earth Society, failing to understand the world around them.

We cannot hold on to the old world, and we should not want to. We know what we must do to succeed in the new world economy. After all, the field of play is our native one: creating, risking, competing, achieving. With optimism, energy and commitment, America can remain what it has always been: the ark of the world's liberty and the engine of its prosperity. The next American Century can be as bright and brilliant as the last.

Thank you.

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

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CONTACT: DESIREE TUCKER-SORINI
202-622-2910

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before the
AMERICAN BANKERS ASSOCIATION
Boston, Massachusetts
October 18, 1992

Thank you, Alan [Tubbs]. It is a great pleasure to be with the members of the American Bankers Association as you celebrate your 118th Annual Convention.

Successive generations of ABA members have witnessed tremendous change, not only in the way they conduct their business, but in the way they live their lives. In 1875 -- the year the ABA was established -- Mark Twain submitted to his publisher the very first book manuscript prepared on a typewriter: The Adventures of Tom Sawyer. Edmund Barbour had just invented the first effective adding machine three years earlier. Alexander Graham Bell would obtain a patent on the first telephone one year later in 1876, and the first telephone lines between New York and Boston would be strung in 1884. (Presumably, it wasn't as important then to talk to your regulators in Washington.)

As we look at the world at the turn of the 21st century, economic and political borders have blurred. Our national economy has been transformed from a self-sufficient and isolated continent to an island in the world archipelago -- an island whose prosperity is affected directly and dramatically by development across the oceans. It no longer makes sense to think in purely domestic terms; there is no longer a clear distinction between domestic and foreign 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.

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We must change as the world around us changes, and to do so, we must understand the nature of the profound economic transition through which America and the world are passing. There are two separate and distinct elements at work: a series of significant but **temporary** disruptions that will pass through the system, but more important, a structural and **permanent** change in the organization of world economic competition -- in some ways greater than any since the Industrial Revolution of the 19th century. It is this permanent change that demands the most careful policies -- and among the most important are policies to ensure a strong and vigorous banking system.

But first, let me give you some examples of the significant but temporary disruptions:

- o The victory in the Cold War will bring immeasurable benefits to the world economy. But the benefits of peace did not come without cost: this country now shows the strain of having carried the burden of the free world's defense for almost 50 years. In this country alone, the Defense Department has estimated the shift to a peace-time economy has meant the loss of over 1.6 million jobs in the last three years. Without these job losses, the unemployment rate today would be more than a full percentage point lower than it is. Peace has its price.

  We have made adjustments at war's end before. Indeed, at war's end in the first Truman Administration gross national product **fell 19%** in a single year. This puts our economy's current growth rate of over 2% in perspective. During Truman's **second** term, after the restructuring was in hand, the economy grew by almost 25% in four years.

- o Second, the volume of debt in every segment of American society over the last four years has been at historically high levels. Those levels, however, are at last 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 significantly slower growth in the short term.

- Third, economic growth has been hindered by a banking system weakened by Third World Debt, failed savings and loans, and declining real estate markets. But the Third World Debt crisis is now behind us, the S&L cleanup nearly complete, and real estate problems are improving. And banks are more profitable and liquid than they have been in decades.

- Fourth, American industry has been restructuring over the last several years. Having taken steps to become more productive, American industry is now more competitive. In 1988, our trade deficit in goods and services was almost $102 billion; it had declined to only $11.7 billion last year. We are winning the battle for exports.

- Fifth, the money supply -- which provides the financing for the country's growth -- has been at the bottom of the Fed's targets for most of the past three years. And in recent months, M2 growth has been negative or flat.

- Finally, we have seen restrained world growth. We are doing better economically than Germany, Japan, the U.K. and other trading partners. That provides little satisfaction to Americans -- but it is a fact.

Each of these six conditions has formed a significant brake on economic growth, but when added together, their combined effect is greater than the sum of their parts. By undermining business and consumer attitudes, they have created an additional, independent restraint on growth and added to concerns about this country's prospects.

But even as each of these temporary disruptions is resolved, we must still come to terms with the long-term transformation of economic competition that technology has made possible. Twenty years ago most businesses could find their customers on a road map; today they need a world map. This has affected our businesses and daily work. Let me give you some examples:

- In today's world, businesses are not bound to a particular country by the dictates of geography. Over an electronic network, separate elements of the production process can be directed from anywhere in the world. For example, the Hewlett Packard personal computer is designed and marketed in California, engineered in Grenoble, France, components are made in Malaysia, assembled in Singapore, and sold in the United States and abroad.

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Our history proves that Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. And in tomorrow's world innovation will be a major source of the future's attractive, high-paying jobs. In this we Americans are fortunate. Innovation and change are our heritage -- from that summer's day in 1776 when we established a new theory of government to the most recent flight of the space shuttle *Atlantis*. Americans are uniquely well positioned to succeed in the modern world of the 21st century.

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A Banking Industry for the 21st Century

But of course, we cannot implement this strategy if we do not have a strong, vigorous and **independent** banking system to supply credit. And the Administration and your industry share a common goal: to ensure that **you** run your business -- not the government. To this end, the President has articulated a four-part strategy to equip your industry to enter the next century and meet the competition head-to-head.

Regulatory relief will be the number one priority. The time and money that banks are forced to spend on regulatory compliance has reached a level that is intolerable to you, the Administration, and every person in the country who must pay the price of slower economic growth.

But there has been progress. In the past several weeks Congress has actually adopted a number of the Bush Administration's regulatory relief proposals. One was the Depository Institutions Disaster Relief Act, which will provide regulatory flexibility in areas devastated by the recent hurricanes and the Los Angeles riots. You may think that this is a limited provision, but let me remind you of one key fact -- this is the first banking legislation in a decade that does nothing but reduce regulatory burden.

More important, at our urging Congress also passed regulatory relief measures with the strong support of your industry. These provisions have been attached to a housing bill, and there have been some questions about whether the President will sign this legislation. Let me say right here and right now: **I will strongly recommend that the President sign this legislation.**

It's high time to start lightening your load, and with this start we can move forward next year with the Administration's even broader proposal -- the Credit Availability and Regulatory Relief Act.

Second, in addition to regulatory relief, we need to **re-establish a balanced approach to lending and risk taking.** The Democratic Congress has not only piled on new regulations -- it has second-guessed and publicly censured the regulators at every turn, creating a climate of fear that has frozen these civil servants in their tracks. Although we have consistently urged them to exercise balanced judgement, examiners watch C-Span, too. They have the same healthy sense of self-preservation that we all have, and they tell us privately of their dread of being called to testify before Congress. Obviously, this fear can't help but inspire excessive caution as they look over your shoulders when you lend. The result: an environment in which banks may not assume their natural roles in their communities, and the whole economy suffers.

We will continue to work hard to counteract this trend. We have already sponsored hundreds of meetings to build bridges among bankers, examiners, and borrowers, and we will carry on until the job is done. We have worked with the regulators to complete over 35 specific regulatory changes and clarifications that will ease your compliance burden and facilitate lending.

And through the President's ongoing regulatory review and moratorium, we will press for further reduction of unnecessary rules and paperwork requirements. Just this week, we concluded a successful collaborative effort with the regulatory agencies to implement real estate loan-to-value ratios in a reasonable and workable manner.

And perhaps most important to each and every one of you, the banking industry's significantly improved condition enabled us to convince the FDIC to hold the line on deposit insurance premiums for 76 percent of American banks, and to hold the increase to as little as possible for the rest of the banks.

Third, **we must end the public utility model of bank regulation.** In the past four years, the Administration has worked with you to prevent Congress from imposing everything from government-designed bank accounts to interest rate controls on credit card loans. As I said before, the government should not run your business; you should. But harbor no illusions: the Democratic leadership of the Congress will continue to try to move you down the public utility path. This is no exaggeration: I have heard it -- in exactly those terms -- straight from the horse's mouth. So we must continue to work together to oppose heavy-handed Congressional attempts to transform the banking industry into a government program to allocate credit and banking services.

Fourth, **we need a level playing field in financial services.** Your industry is subject to new challenges as the world changes, but the old, arbitrary legal framework that governs the banking system continues to restrict the ability of American banks to compete. The Administration continues to believe that outdated restrictions on products and geography must be eliminated. And we intend to fight for these reforms while recognizing states' rights and the legitimate demands of local communities.

But once again, if you do not believe that there are leading Members of Congress who will do everything in their power to prevent you from diversifying into new products and services, you are sadly mistaken. They see you as a convenient target for demagoguery that serves their political purposes, not as an important national asset that is vital to economic growth.

In a similar vein, take the raft of news stories we've seen recently about the so-called "December Surprise." The notion that we are hiding some kind of commercial bank bailout is utter nonsense; we have faced the problems in commercial banking squarely from the outset. And as you well know, the banking industry has had all-time record earnings in 1992. Stories of a December collapse are simply ridiculous. In fact, the Washington

Post actually ran -- under a blazing editorial page headline -- the names of ten large banks that it said are insolvent. Later, the Post had to print a retraction -- in a small box on page 32 -- upon discovering that some of the identified banks are among the very strongest in the country.

My point is simply this: you are an attractive target for many in Congress and the media. Attacking banks serves their purposes, from political gain to selling newspapers. So we must work together to ensure that the banking industry is able to fulfill its intended role in achieving the Administration's -- and the American people's -- goals of boosting exports, helping small business and facilitating investment in the future.

Some will say that this agenda is wrong. Competition, they will tell you, both at home and abroad, is destructive -- trade saps jobs, choice guts schools, incentives to invest help only the rich. But it is they who are wrong. All they offer -- dressed up in the latest jargon -- are the tired remedies of protectionism, increased taxes, and government direction. They are the newest members of the Flat Earth Society, failing to understand the world around them.

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Thank you.

# # #

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 19, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,609 million of 13-week bills to be issued October 22, 1992 and to mature January 21, 1993 were accepted today (CUSIP: 912794A38).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.92%	2.98%	99.262
High	2.95%	3.01%	99.254
Average	2.94%	3.00%	99.257

Tenders at the high discount rate were allotted 60%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	26,065	26,065
New York	28,871,450	10,166,450
Philadelphia	12,525	12,525
Cleveland	34,885	34,885
Richmond	32,555	32,555
Atlanta	28,795	24,395
Chicago	1,528,975	348,975
St. Louis	12,205	12,205
Minneapolis	5,910	5,910
Kansas City	23,045	23,045
Dallas	23,900	23,900
San Francisco	658,415	88,415
Treasury	810,000	810,000
TOTALS	$32,068,725	$11,609,325
Type		
Competitive	$27,407,400	$6,948,000
Noncompetitive	1,335,765	1,335,765
Subtotal, Public	$28,743,165	$8,283,765
Federal Reserve	2,662,060	2,662,060
Foreign Official Institutions	663,500	663,500
TOTALS	$32,068,725	$11,609,325

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AUCTION RESULTS

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RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,610 million of 26-week bills to be issued October 22, 1992 and to mature April 22, 1993 were accepted today (CUSIP: 912794C36).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.09%	3.18%	98.438
High	3.11%	3.20%	98.428
Average	3.10%	3.19%	98.433

Tenders at the high discount rate were allotted 67%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	16,475	16,475
New York	29,282,375	10,459,825
Philadelphia	6,435	6,435
Cleveland	25,710	25,710
Richmond	16,705	16,705
Atlanta	17,205	16,875
Chicago	1,616,830	234,580
St. Louis	6,520	6,520
Minneapolis	7,300	7,300
Kansas City	23,045	23,045
Dallas	11,015	11,015
San Francisco	572,640	223,140
Treasury	562,025	562,025
TOTALS	$32,164,280	$11,609,650
Type		
Competitive	$28,166,240	$7,611,610
Noncompetitive	856,040	856,040
Subtotal, Public	$29,022,280	$8,467,650
Federal Reserve	2,600,000	2,600,000
Foreign Official Institutions	542,000	542,000
TOTALS	$32,164,280	$11,609,650

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TREASURY NEWS

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

U.S. DEPARTMENT OF THE TREASURY
REGULATORY BURDEN REDUCTIONS
October 20, 1992

Fact Sheet

Regulatory reform is a key element of the economic growth package presented by President Bush during his State of the Union address on January 28, 1992. As the President has explained, "Every regulation that reduces efficiency slaps a hidden tax on the consumer."

For too long, needless regulations have burdened the American economy. Banks and thrifts are besieged by excessive applications and reporting forms, small businesses get trapped in confusing payroll tax rules, and exporters find themselves less able to manufacture and ship American goods because of costly transport requirements.

Responding to the President's initiative, the Treasury Department and its regulatory offices and bureaus have carried out a top-to-bottom review of all regulations, old and new. Treasury set ambitious reform goals, and each bureau and office took the necessary steps to tackle the job.

The results have been outstanding. So far, action has been taken on 122 specific reforms that could save our economy almost $1 billion every year, increase economic growth and competitiveness, and reduce the credit crunch.

Listed below, by Treasury bureau, are some specific actions of regulatory burden reduction that have been completed or initiated.

Internal Revenue Service

- **Simplified Federal Employment Tax Deposit Rules.** Simplifies the rules for determining when payroll tax deposits are required by businesses. A cost savings of roughly $450 million is estimated, based on reduced compliance costs for almost 4 million businesses, particularly small employers.

United States Customs Service

- **Line Release Cargo Processing.** Enables Customs to more efficiently release and track highly repetitive, low-risk imports through utilization of personal computers and bar code technology. A cost savings of $69.9 million is estimated, based on reduced importer filing burden, expedited merchandise release and facilitated trade.

- **Eliminate Certain Broker Recordkeeping Requirements.** Eliminates a near-obsolete recordkeeping requirement. A cost savings of $8 million is estimated, based on brokers not being required to maintain certain records.

Office of Thrift Supervision

- **Interstate Branching.** Permits nationwide branching by Federal Savings associations. Enables thrifts to diversify geographically and will promote cost savings and economies of scale by enabling thrifts to consolidate their operations. A short-term annual cost savings of $45.5 million is estimated for the thrift industry, based on reduced expenditures resulting from branching.

- **Residential Bridge Loans.** Revises risk-based capital regulation to include in the 50 percent risk-weight category certain prudently underwritten construction loans to finance the building of pre-sold, 1-4 unit family residences. A cost savings of $19 million is estimated, based on reduced capital requirements and costs. This amount of reduced capital would support $3 billion in additional loans.

Office of the Comptroller of the Currency

- **Real Estate Appraisals.** Exempts additional real estate-related financial transactions from the requirement to have an appraisal in certain cases. A cost savings of $23.7 million is estimated, mostly for consumers.

- **Capital Treatment of Intangible Assets.** Allows national banks to include a higher value of intangible assets in regulatory capital, thereby possibly increasing availability of loanable funds.

(more)

Financial Management Service

- **Federal Payments Through the Automated Clearing House Method --Reconcile with Private Industry Rules.** Coordinates the government Automated Clearing House rules with private industry rules for financial institutions, Federal Reserve Banks and Federal Agencies. A cost savings of $25.3 million is estimated, based mostly on savings to the Federal Government resulting from the conversion of an estimated 80 million Federal Tax Deposit paper coupons to electronic fund transfers (savings approximately 30 cents per transaction).

Bureau of Alcohol, Tobacco & Firearms

- **Can Size.** Allows distilled spirits to be marketed in 355 ml size cans, rather than previously required 375 ml can. A cost savings of $3 million is estimated, based on projected reduced manufacturing costs and improved ability to take advantage of technological advances.

- **Reduced Bottling Proof for Distilled Spirits.** Allows the bottling of distilled spirits as low as 60 proof, compared with the previous minimum of 70 proof alcohol. A cost savings of $5 million is estimated, based on projected increased sales and reduced manufacturing costs.

- **Specifically Denatured Alcohol Users.** Eliminates the need to file for approval of a formula when the product is manufactured out of tolerance. Affects approximately 2700 users and dealers in specially denatured alcohol. A cost savings of $8.5 million is estimated, based on reduced administrative costs and lost productivity while awaiting formula approvals.

Bureau of Public Debt

- **Savings Bonds - Power of Attorney.** Eases the restrictions on the use of powers of attorney and accepts those in compliance with state law. Affects bondowners who may wish to have another individual conduct their bond transactions. A cost savings of $5 million is estimated, based largely on reduced legal and court costs.

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DEPARTMENT OF THE TREASURY

President's Regulatory Initiative: January 28 - August 28, 1992

BUREAU OR OFFICE	ESTIMATED COST SAVINGS ($ MILLIONS) FOR REGULATORY INITIATIVE REFORMS COMPLETED REFORMS	INITIATED REFORMS	TOTAL
BUREAU OF ALCOHOL, TOBACCO & FIREARMS	18.94	18.25	37.19
UNITED STATES CUSTOMS SERVICE	71.93	10.24	82.17
OFFICE OF THRIFT SUPERVISION	128.90	170.8	299.70
COMPTROLLER OF THE CURRENCY	23.70	0.65	24.35
FINANCIAL MANAGEMENT SERVICE	--	2.55	2.55
INTERNAL REVENUE SERVICE	--	450.00	450.00
BUREAU OF THE PUBLIC DEBT	5.25	--	5.25
OFFICE OF FOREIGN ASSETS CONTROL	0.27	--	0.27
TOTAL DEPARTMENT OF THE TREASURY	248.99	652.49	901.48

Notes: Estimated cost savings provided only for reforms where data can reasonably be quantified; actual cost savings will be higher.

Reforms with a range of estimated cost savings are included at midpoint range values.

Initiated reforms are advance notices of proposed rulemaking or proposed rules approved for issuance for which final rules have not been published.

TREASURY NEWS

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

AS PREPARED FOR DELIVERY

Contact: Rich Myers
202-622-2930

Secretary Nicholas F. Brady
Regulatory Reform Awards
October 20, 1992
Cash Room

As I start, I'd like to recognize the contributions that Deputy Secretary Robson has made to this effort. John, your commitment to regulatory reform is steadfast. For almost four years, you have been a leading voice not just for Treasury, but for the entire Administration, in our fight against unnecessary regulation. On behalf of all of us, thanks for all you've done.

This morning, we are here to recognize and congratulate the men and women who joined in that fight -- the dedicated few who know what it takes to wield the cleaver and cut the fat.

For too long, needless regulations have burdened our economy. Banks and thrifts are besieged by myriad applications and reporting forms -- meaning they have less time and money to make the loans our economy needs to grow. Small businesses get trapped in the costly quicksand of semi-monthly and weekly tax forms. Exporters find themselves less able to manufacture and ship their goods, because they are forced to spend so much on costly and confusing transport requirements.

Earlier this year, in his State of the Union address, President Bush took a bold and unprecedented step in the fight against the muck and mud of regulatory overkill. The President called for a 90-day moratorium on new regulations that inhibit economic growth, and he directed all departments to "carry out a top-to-bottom review of all regulations, old and new."

That was January 28. On January 29, the federal government began to tackle the assignment head-on, and Treasury took action. Our objective was clear: cut the red tape that strangles our economy.

Treasury set ambitious goals for this initiative. After combing through the Code of Federal Regulations, we identified 175 regulatory initiative reforms to be made. Then, each bureau defined its mission and took the necessary steps to get the job done. Notices of proposed rule makings were published; comments were evaluated; and other agencies were consulted.

NB-2030

The result? So far, we've taken action on 122 specific reforms that could save our economy at least $979 million every year -- and that does not include the savings in time and paperwork that we could not quantify. Clearly, every Treasury bureau is serious about cutting regulatory excess and strengthening economic growth. Here are a few examples:

-- The Office of the Comptroller of the Currency reformed regulations for real estate appraisals. The new rule will save consumers over $20 million by lowering the cost of financing.

-- Regulatory reform by the Financial Management Service will coordinate federal government payments with the private sector -- translating into a savings of 30 cents for every financial transaction. That doesn't sound like much, until you realize there are 80 million of these transactions every year -- which means $24 million in savings for U.S. taxpayers.

-- The Bureau of Public Debt reformed regulations regarding power of attorney for Savings Bond holders. Because of the improved rule, bond holders will now save $5 million in legal costs formerly paid for complying with overly strict regulations.

It is a true service to excel by ensuring the prudent and efficient use of the taxpayers' money in the name of our nation's economic strength. That's what the regulatory reform initiative is all about.

Treasury has been tested and has met the test. The dedicated men and women here today worked tirelessly. The results are exceptional. That is the mark of teamwork in action, and I am proud to congratulate you all.

Thank you.

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TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
October 20, 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 $ 23,600 million, to be issued October 29, 1992. This offering will provide about $ 375 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 23,216 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, October 26, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated July 30, 1992 and to mature January 28, 1993 (CUSIP No. 912794 A4 6), currently outstanding in the amount of $ 11,627 million, the additional and original bills to be freely interchangeable.

182 -day bills for approximately $ 11,800 million, to be dated October 29, 1992 and to mature April 29, 1993 (CUSIP No. 912794 C4 4).

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

The bills will be issued for cash and in exchange for Treasury bills maturing October 29, 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 $ 2,327 million as agents for foreign and international monetary authorities, and $ 4,997 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-2031

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.

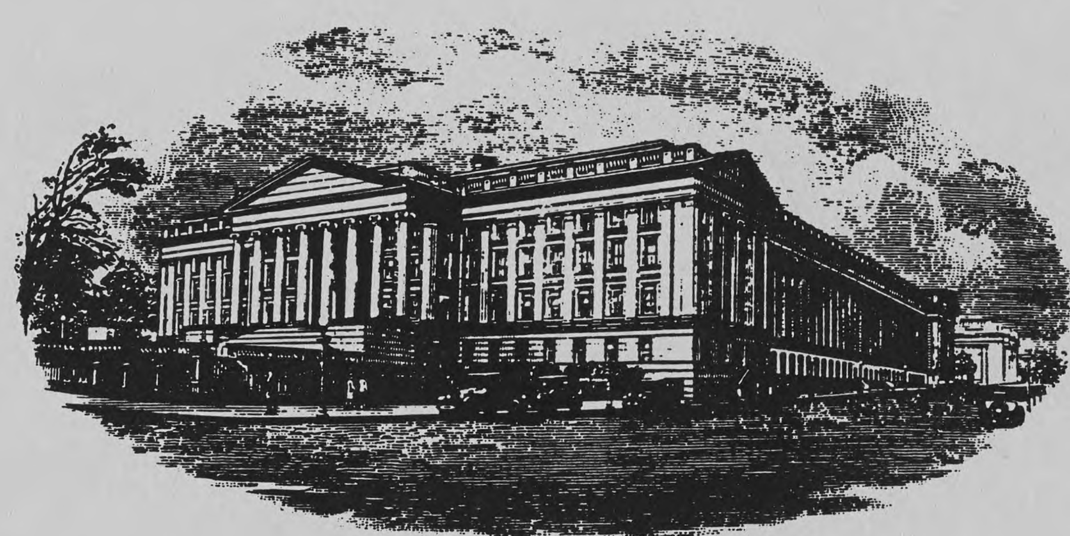
Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other 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

U.S. DEPARTMENT OF THE TREASURY

EXCHANGE STABILIZATION FUND ANNUAL REPORT



FOR THE YEAR ENDED SEPTEMBER 30, 1991

Prepared for submission to the President and to the Congress pursuant to Section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 5302).

TABLE OF CONTENTS

POLICY OPERATIONS STATEMENT

Exchange Stabilization Fund
Policy and Operations Statements
Fiscal Year 1991

1. <u>The Nature and Functions of the ESF</u>

The Gold Reserve Act of 1934 established a fund to be operated by the Secretary of the Treasury, with the approval of the President. Section 10 of the Act provided that "For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section."

Reflecting termination of the fixed exchange rate system, the 1978 amendments to the IMF Articles of Agreement revised the obligations of IMF members. Legislation enacted in 1976 (P.L. 94-564, effective April 1, 1978, the date of entry into force of the Second Amendment of the IMF Articles of Agreement) amended the language of Section 10 of the Act to specify that the ESF is to be utilized as the Secretary "may deem necessary to and consistent with the United States obligations in the International Monetary Fund." In 1977, P.L. 95-147 further amended Section 10 of the Gold Reserve Act by substituting "necessary, consistent" for "necessary to and consistent," inserting the phrase "regarding orderly exchange arrangements and a stable system of exchange rates," and specifying that "no loan or credit to a foreign government or entity shall be extended by or through such Fund for more than six months in any twelve-month period unless the President provides a written determination to the Congress that unique or exigent circumstances make such loan or credit necessary for a term greater than six months."

Following its recodification, the statute now provides as follows: "Consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary. However, a loan or credit to a foreign entity or government of a foreign country may be made for more than 6 months in a 12-month period only if the President gives Congress a written statement that unique or emergency circumstances require the loan or credit be for more than 6 months." (31 U.S.C. 5302 (b))

To enable the Secretary of the Treasury to carry out the provisions of Section 10, the Congress, in 1934, appropriated to the ESF the sum of $2 billion out of the increment resulting from the reduction in the "weight of the gold dollar." This amount was deposited with the Treasurer of the United States, and the ESF began operations in April 1934. Operation of the ESF was authorized for a period of two years, and the President, by proclamation, extended the period for one additional year. Subsequently, amendments to the Gold Reserve Act approved the continued operation of the ESF through June 30, 1945, and Section 7 of the Bretton Woods Agreements Act, approved July 31, 1945, continued its operations permanently. The Bretton Woods Agreements Act also directed the Secretary of the Treasury to pay $1.8 billion from the ESF to the International Monetary Fund (IMF), for the initial U.S. quota subscription in the IMF, thereby reducing the ESF's appropriated capital to $200 million.

Pursuant to the Special Drawing Rights Act of 1968 (P.L.90-349 and P.L. 94-564 approved October 18, 1976 and effective April 1, 1978), Special Drawing Rights (SDRs) allocated by the IMF to the United States or otherwise acquired by the United States are resources of the ESF. As of September 30, 1991, cumulative allocations to (liabilities of) 1/ the United States totalled SDR 4,900 million ($6,703 million), and U.S. holdings (assets) of SDRs totalled SDR 7,838 million ($10,722 million). 2/ SDRs can be monetized through the issuance by the Secretary of the Treasury of Special Drawing Right certificates to the Federal Reserve Banks. The total amount of SDR certificates outstanding cannot exceed the dollar equivalent of U.S./ESF holdings of SDRs; such certificates are a liability of the ESF. As of September 30, 1991, $10,018 million of Special Drawing Right certificates were outstanding.

On November 8, 1978, P.L. 95-612 was enacted: "To provide that the ESF shall not be available for the payment of administrative expenses and for other purposes." No administrative expenses associated with the international affairs functions of the Treasury Department were paid by the ESF in fiscal year 1991.

1/ These liabilities must be discharged only in the event of liquidation of or U.S. withdrawal from the SDR Department of the IMF or cancellation of SDRs.

2/ The dollar value of the SDR changes daily with movements in exchange rates. These figures are calculated on the basis of the dollar/SDR rate as of September 30, 1991 ($1.36800 per SDR).

2. Foreign Exchange Market

Overview. During fiscal year 1991, the dollar declined by 4.0 percent vs. the yen and rose by 6.2 percent vs. the DM. Exchange rate movements primarily reflected changes in prospects for the U.S. and other major countries' economies and for yields on U.S. assets relative to yields on foreign assets. Developments in the Gulf War and in the USSR at times prompted temporary surges in demand for dollars.

In mid-February of 1991, the dollar reached historical lows vs. the DM and some European currencies on pessimism about the U.S. economy and a widening of interest rate differentials in favor of foreign currency placements. It subsequently appreciated amid a resurgence of confidence in the U.S. economy during spring 1991, after the quick conclusion of the Gulf War, and amid a fading of the optimism unleashed earlier by German unification. But around mid-summer, unexpected weak data on the U.S. economy undermined earlier confidence, and the dollar declined over the rest of the fiscal year.

Developments. In late 1990, market concerns over worsening U.S. economic fundamentals gradually asserted themselves, despite occasional limited increases in dollar demand for safe haven reasons related to the Gulf War. After the turn of the year, the dollar came under selling pressure because of a belief in the market that a potentially lengthy war would drag heavily on the U.S. economy.

Amid military action in the Gulf, the G-7 Finance Ministers and Central Bank Governors agreed at their January 21 meeting to strengthen cooperation and to monitor developments in exchange markets, stating that they were "prepared to respond as appropriate to maintain stability in international financial markets." The dollar reached an historical low of DM 1.4430 after the Bundesbank raised interest rates on January 31 and the Federal Reserve lowered interest rates on February 1. Subsequently, limited concerted dollar purchases by G-7 monetary authorities helped crystallize market thinking that the dollar's decline had gone too far.

After the Gulf War ended quickly, the dollar rose rapidly. In March, many market participants decided that the dollar had bottomed out and made previously deferred dollar purchases. The U.S. economy was seen as likely to begin recovery around mid-year. Also, demand for DM slackened as investor interest in the reunified Germany proved cooler than expected and as deteriorating political and economic conditions in the then USSR raised concern about Germany's eastward exposure.

As spring began, market perceptions were that there was little prospect of further Fed easing, even though price indicators showed lessening inflation risks. Dollar demand was not significantly deterred by concerted intervention sales of dollars during the week leading up to the April 28 G-7 meeting. In the event, the meeting disappointed many market participants, who had anticipated that the G-7 would call for appreciation of the mark.

Exchange rates showed no lasting response to an unexpected reduction in the Federal Reserve's discount rate to 5-1/2 percent from 6 percent and in the Fed funds rate to 5-3/4 percent from 6 percent at the end of April. Market attention turned instead to the possibility of interest rate cuts overseas. In the following weeks, interest rates were lowered in several European countries, and expectations of monetary easing in Japan increased.

A surge in dollar demand ensued. In early June, U.S. employment data for May registered the first rise in non-farm payroll in almost a year and the first rise in employment in the manufacturing sector in fifteen months. Chairman Greenspan noted an increase, though slight, in the likelihood of a stronger U.S. recovery than had been expected previously. Secretary Brady said that indicators suggested that the downturn was over.

Against many European currencies, the dollar appreciated to levels not seen since the autumn of 1989. It also appreciated against the yen, which required some intervention support. The yen began a rebound after mid-June following the release of data showing an 11.2 percent annualized rate of growth in the Japanese economy in the first quarter of 1991. But, the mark remained soft into early July, amid uncertainties surrounding the Russian Federation elections and a German court decision raising the possibility that a withholding tax might be reimposed on interest earnings on German assets.

Confidence in the dollar diminished in advance of the June 23 G-7 meeting, as the market grew cautious about the possibility that the G-7 would decide to curb the dollar's rise. The G-7 reaffirmed its "commitment to cooperate closely, taking account of the need for orderly markets, if necessary through appropriately concerted action in exchange markets." In retrospect, the G-7 meeting can be seen as setting the stage for the dollar's decline from mid-summer onward.

In following days, the Bundesbank made a symbolic sale of dollars at the Frankfurt fixing. Also, the German and the U.S. monetary authorities indicated that they had agreed to reduce their foreign exchange reserves in off-market dollar/mark transactions with each other, and market participants erroneously inferred that the authorities were preparing to intervene to support the DM.

In early July, the report of June employment data showed an unexpected drop in non-farm payroll, which was seen in the market as indicating that further dollar appreciation was unwarranted. However, the dollar quickly jumped higher when the Bundesbank did not raise German interest rates before its summer recess, despite emerging indications of accelerating inflation in Germany. In response, the Bundesbank led a round of coordinated intervention in Europe, which was followed by the U.S. and other monetary authorities.

Market caution about intervention persisted after the London economic summit in mid-July, and the dollar settled into a lower trading range. The July 17 communique from the summit reiterated support for close cooperation in foreign exchange markets, monetary and fiscal policies to foster low real interest rates, and economic and political transformation of the Soviet Union. Over the following months, comments by various U.S., Japanese, and German monetary officials strongly suggested to the market that none of the major G-7 countries was dissatisfied with the easing of the dollar. The European currencies appreciated; the yen was temporarily weighed on by concerns about Japanese securities firms' compensation of their clients' losses and fraudulent loan practices by some banks in Japan.

Thereafter, interest rate considerations increasingly governed exchange rate trends. Uncertainty about the pace of the U.S. recovery fostered a view among many market participants that the Federal Reserve could ease its monetary stance, particularly as Administration officials voiced concern about the "credit crunch" and slow money growth. In early August, after July employment data showed a second unexpected payroll decline, the Fed guided the Fed funds rate to 5-1/2 percent from 5-3/4 percent. Other indicators were seen as suggesting scope for further easing, and there were indications of a shift in policy in favor of easing.

At mid-month, the Bundesbank Council met after its summer recess and raised its Lombard rate by a smaller than expected 1/4 percentage point to 9.25 percent. Some other European central banks also raised rates. Meanwhile, the yen was supported by emerging repatriation of funds ahead of the end of Japan's fiscal half year on September 30. Also seen as supporting the yen was the growth of Japan's trade surplus.

The dollar temporarily spiked upward, mainly vs. the DM, in a flight to quality in response to the short-lived August coup attempt in the then-USSR. But the dollar's downtrend steepened thereafter. In early September, the dollar settled into lower trading ranges against the mark and the yen on market anticipation of further U.S. monetary easing. At mid-month, the Federal Reserve cut the discount rate to 5 percent from 5-1/2 percent and guided the Fed funds rate another 1/4 percentage point lower to 5-1/4 percent, amid indications of decreasing price gains, weak demand, and slowing money growth.

As the fiscal year ended, interest rate considerations pre-occupied the market. Attention focussed on Administration concerns about the slow pace of the U.S. recovery and the possible need for further monetary easing and on reports that U.S. monetary policy had tilted even more toward easing. Meanwhile, the yen rose ahead of the October 12 G-7 meeting on market perceptions that the G-7 would tolerate substantial appreciation of the yen.

3. Foreign Currency Operations

During fiscal year (FY) 1991, the ESF engaged in market and non-market transactions involving German marks and Japanese yen. Also, ESF resources were used, on a case-by-case basis, to provide short-term liquidity to foreign monetary authorities in connection with their efforts to develop and implement economic adjustment programs supported by the International Monetary Fund and by the International Bank for Reconstruction and Development. During FY 1991, in accordance with this policy, the ESF entered into a short-term swap agreement with Romania and also received final repayment by Honduras of drawings under a swap agreement entered into in FY 1990.

a) German marks

In cooperation with other monetary authorities, the ESF made net sales of $1,992.6 million equivalent of German marks in market and non-market operations during FY 1991. This net amount does not include the net repurchase, during the fiscal year, of $5,000 million equivalent of German marks which had been warehoused with the Federal Reserve System. (At the end of the fiscal year, $2,000 million equivalent of German marks remained warehoused.) It also does not include the sale of $317.0 million equivalent of German marks against SDRs noted in Section 4 below.

The ESF had valuation losses of $370.5 million on German mark balances. Under ESF accounting practices, this loss on valuation includes realized gains of $261.0 million on sales of German marks in conjunction with warehousing operations but excludes any prospective gain or loss on those German marks which had not been repurchased from the Federal Reserve as of the end of the fiscal year. The ESF had net interest earnings of $676.3 million on investment of German mark assets.

b) Japanese yen

In cooperation with other monetary authorities, the ESF made net sales of $1,485.0 million equivalent of yen in market and non-market operations during FY 1991.

The ESF had valuation gains of $356.8 million on yen balances and interest earnings of $753.3 million on investment of yen assets.

c) Sterling

The ESF conducted no operations in sterling during FY 1991. The ESF had valuation losses of $1.7 million on sterling balances and earned interest of $2.9 million on sterling assets.

d) Swiss francs

The ESF conducted no operations in Swiss francs during FY 1991. The ESF had valuation losses of $3.4 million on Swiss franc balances and earned interest of $2.5 million on Swiss franc assets.

e) Romania

In March 1991, the ESF participated in a multinational financing arrangement for Romania. The ESF's share was $40 million. The other official creditor was the Bank for International Settlements, acting for certain member central banks. Drawings under this facility were made available in light of scheduled disbursements under an IMF stand-by agreement and under the oil import element of the IMF's Compensatory and Contingency Financing Facility. Romania drew $40 million from the ESF in that same month and repaid this amount in two parts during April. The ESF received $0.1 million in interest.

f) Honduras

Prior to the start of FY 1991, in June 1990, the ESF took part in a $147.3 million multilateral financing arrangement for Honduras, of which the ESF's share was $82.3 million, made available in light of scheduled disbursements under an IMF Stand-by Arrangement and various IBRD and Inter-American Development Bank loans. Honduras drew within the same month and made partial repayments in July and August. Final repayments totalling $34.8 million were made during FY 1991, in November. Interest totalling $1.1 million was paid to the ESF in that month.

g) Germany

In January 1991, the ESF renewed its $1 billion swap line with the German Bundesbank for another year, to expire in January 1992.

h) Mexico

A 1990 Stabilization Agreement with Mexico, providing a reciprocal swap line of up to $300 million, remained in place. No drawings were made during FY 1991.

4. SDR Operations

ESF holdings of SDRs increased by SDR 178.5 million during FY 1991. The ESF reimbursed the Treasury's General Fund for SDR 341.9

million received from the IMF as remuneration on the U.S. reserve position in the IMF. Through the IMF, the ESF made net sales of SDR 403.0 million in transactions involving sales of SDR 641.5 million against dollars and purchases of SDR 238.5 million against German marks. The ESF earned net interest of SDR 240.4 million on its SDR holdings and was assessed SDR 0.8 million for operating expenses of the IMF's SDR Department.

5. Income and Expense

During FY 1991, the ESF had net income of $1,764.2 million, according to generally accepted accounting principles. Income from interest totalled $1,851.2 million, consisting of $95.6 million in interest on dollar holdings in U.S. Treasury obligations and $1,755.6 million equivalent in interest on SDR holdings and foreign currency investments, and interest on swap arrangements. A net loss of $87.0 million on SDR and foreign currency holdings occurred. This includes realized gains of $261.0 million on sales of DM in conjunction with warehousing operations, $185.6 million on other sales of foreign currency, and a realized loss of $68.1 million on SDRs; it also includes unrealized losses of $465.5 million on valuation of foreign currency holdings.

Taking into account the net income of $1,764.2 million, the capital position of the ESF increased from $12,522.4 million at the end of FY 1990 to $14,286.6 million at the end of FY 1991. (Totals may not add due to rounding.)

REPORT OF AUDIT COMMITTEE

DEPARTMENT OF THE TREASURY

WASHINGTON

INSPECTOR GENERAL

OIG-92-050

A-WA-92-017

To the Secretary of the Treasury

We have audited the accompanying statements of financial condition of the Exchange Stabilization Fund as of September 30, 1991 and 1990, and the related statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Department of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Exchange Stabilization Fund as of September 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Donald E. Kirkendall

Donald E. Kirkendall
Inspector General

April 23, 1992

THE SECRETARY OF THE TREASURY
WASHINGTON

September 24, 1992

Mr. Donald E. Kirkendall
Inspector General
Treasury Department
Washington, D.C. 20220

Dear Mr. Kirkendall:

Thank you for your audit report dated July 21, 1992 on the Exchange Stabilization Fund for the fiscal year October 1, 1990 through September 30, 1991.

The operations of the Exchange Stabilization Fund, which was established pursuant to Section 10 of the Gold Reserve Act of 1934, are an important part of Treasury business and confidential by nature. Your availability to perform this audit is appreciated.

Sincerely,

Nicholas F. Brady

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENT OF FINANCIAL CONDITION
AS OF SEPTEMBER 30, 1991 AND SEPTEMBER 30, 1990
(In Thousands)
(Note 1)

ASSETS	1991		1990	
Cash and Cash Equivalents (Note 2)				
Cash	$1,067,000		$1,067,000	
U.S. Government Securities (Note 3)	2,377,850		1,862,636	
Foreign Currency-Denominated Assets (Note 4)	17,711,347		15,130,263	
Total Cash and Cash Equivalents		21,156,197		18,059,899
Special Drawing Rights		10,721,922		10,665,870
Other Foreign Currency-Denominated Assets (Note 4)		2,930		37,930
Accrued Interest Receivable:				
Interest Receivable on U.S. Government Securities	8,344		10,829	
Interest Receivable on Foreign Currency-Denominated Assets	135,079		94,827	
Interest Receivable on Special Drawing Rights	133,354		166,181	
Total Accrued Interest Receivable		276,777		271,837
Total Assets		$32,157,826		$29,035,536
LIABILITIES AND CAPITAL				
Accrued Charges Payable on Special Drawing Rights Allocations	$83,178		$104,643	
Accrued Charges Assessed for International Monetary Fund Administrative Expenses	482		570	
Advance Payable to the U.S. Treasury (Note 5)	1,067,000		1,067,000	
Special Drawing Rights Allocations (Note 6)	6,702,549		6,822,908	
Special Drawing Rights Certificates (Note 6)	10,018,000		8,518,000	
Total Liabilities		17,871,209		16,513,121
Appropriated Capital	200,000		200,000	
Retained Earnings	14,086,617		12,322,415	
Total Capital		14,286,617		12,522,415
Total Liabilities and Capital		$32,157,826		$29,035,536

The accompanying footnotes are an integral part of the financial statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1991 AND 1990
(In Thousands)
(Note 1)

	1991		1990	
INCOME FROM OPERATIONS				
U.S. Government Securities:				
Interest Earned on U.S. Government Securities		$95,616		$84,482
Foreign Currency Denominated Assets:				
Interest Earned on Foreign Currency-Denominated Assets	1,434,975		890,333	
Interest Earned on Foreign Currency Agreements (Note 7):				
Romania	90		0	
Bolivia	0		1,692	
Guyana	0		399	
Honduras	354		929	
Hungary	0		223	
Mexico	0		22,630	
Poland	0		815	
Venezuela	0		91	
Net Gain (Loss) on Foreign Currency Revaluation and Transactions	(18,896)		2,300,604	
Net Income on Foreign Currency Denominated Assets		1,416,523		3,217,716
Special Drawing Rights:				
Interest Earned	871,365		923,370	
Interest Charges	(550,167)		(585,402)	
Charges for International Monetary Fund Administrative Expenses	(1,046)		(1,399)	
Gain (Loss) on Special Drawing Rights Revaluation	(68,089)		325,146	
Net Income on Special Drawing Rights		252,063		661,715
Net Income		1,764,202		3,963,913
RETAINED EARNINGS, BEGINNING OF THE FISCAL YEAR		12,322,415		8,358,502
RETAINED EARNINGS, END OF THE FISCAL YEAR		$14,086,617		$12,322,415

The accompanying footnotes are an integral part of the financial statements.

DEPARTMENT OF THE TREASURY
EXCHANGE STABILIZATION FUND
STATEMENT OF CASH FLOWS
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1991 AND 1990
(Notes 1 and 2)
(In Thousands)

	1991		1990	
Cash Flows from Operations:				
Monetization of Special Drawing Rights Certificates (Note 6)	$1,500,000		$0	
Payments for Special Drawing Rights Received by the U.S. Treasury as Interest on and Repayment of U.S. Loans (Note 3)	0		(32,768)	
Payments for Special Drawing Rights Received as Remuneration by the U.S. Treasury (Note 3)	(476,328)		(548,068)	
Receipts on Sale of Special Drawing Rights	878,350		596,747	
Special Drawing Rights Purchased with German Marks	(316,671)		0	
Drawings on Foreign Currency Agreements (Note 7)	(40,000)		(947,462)	
Repayments of Foreign Currency Agreements (Note 7)	74,762		1,371,772	
Interest Received on Foreign Currency Agreements (Note 7)	1,164		26,605	
Interest Received on Foreign Currency-Denominated Assets Treated as Cash Equivalents	1,396,211		871,061	
Revaluation of Foreign Currency-Denominated Assets Treated as Cash Equivalents	(20,825)		2,292,383	
Net Redemption of Foreign Currency-Denominated Assets Not Treated as Cash Equivalents (Exclusive of Foreign Currency Agreements)	(42)		223	
Interest Received on U.S. Government Securities	99,677		81,787	
Net Increase in Cash and Cash Equivalents		3,096,298		3,712,280
Cash and Cash Equivalents at the Beginning of the Fiscal Year		18,059,899		14,347,594
Cash and Cash Equivalents at the End of the Fiscal Year		$21,156,197		$18,059,874

The accompanying footnotes are an integral part of the financial statements.

SUPPLEMENTAL SCHEDULE TO RECONCILE NET INCOME TO NET CASH FLOWS FROM OPERATIONS FOR FISCAL YEARS ENDED SEPTEMBER 30, 1991 AND 1990

(Note 1)

(In Thousands)

	1991		1990	
Net Income		$1,764,202		$3,963,913
Adjustments to Reconcile Net Income to Net Cash Flows from Operations:				
Items Affecting Net Income and not Cash Flows from Operations:				
Interest Earned on Foreign Currency-Denominated Assets in Excess of Interest Received	(38,508)		(19,104)	
Interest Received on Foreign Currency Agreements in Excess of Interest Earned	721		(175)	
Interest Received on Foreign Currency-Denominated Assets Not Treated as Cash Equivalents	(256)		(167)	
Revaluation of Interest Earned on Foreign Currency-Denominated Assets	(2,440)		(7,906)	
Net Loss on Revaluation of Foreign Currency-Denominated Assets Not Treated as Cash Equivalents	511		(315)	
Net Income on Special Drawing Rights	(252,063)	(292,035)	(661,715)	(689,382)
Items Affecting Cash Flows from Operations and not Net Income:				
Monetization of Special Drawing Rights Certificates (Note 6)	1,500,000		0	
Payment for Special Drawing Rights Received by the U.S. Treasury as Interest on and Repayment of U.S. Loans (Note 3)	0		(32,768)	
Payment for Special Drawing Rights Received as Remuneration by the U.S. Treasury (Note 3)	(476,328)		(548,068)	
Receipts on Sale of Special Drawings Rights	878,350		596,747	
Special Drawing Rights Purchased with German Marks	(316,671)		0	
Drawings on Foreign Currency Agreements (Note 7)	(40,000)		(947,462)	
Repayments on Foreign Currency Agreements (Note 7)	74,762		1,371,772	
Net Redemption of Foreign Currency-Denominated Assets Not Treated as Cash Equivalents (Exclusive of Foreign Currency Agreements)	(42)		223	
Interest Received on U.S. Government Securities in Excess of Interest Earned	4,060	1,624,131	(2,695)	437,749
Net Cash Flows from Operations		$3,096,298		$3,712,280

The accompanying footnotes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. The accounting policies applied by the Exchange Stabilization Fund (ESF) conform with generally accepted accounting principles and practices.

(1) Assets, liabilities, income, and expenses are recognized on the accrual basis of accounting.

(2) In accordance with the statement of Financial Accounting Standards Board (FASB) No. 52, "Foreign Currency Translation," foreign currency denominated assets and liabilities are revalued monthly to reflect fluctuations in market exchange rates. These fluctuations in foreign currency market exchange rates are reported in the Statement of Income and Retained Earnings as "Net Gain (Loss) on Foreign Currency Revaluation and Transactions." This account includes gains and losses on sales of foreign currencies in addition to revaluation gains and losses on forward contract commitments and foreign currency holdings and liabilities. However, any foreign currency balance held under a short-term swap agreement between the ESF and a foreign government or monetary authority is carried at a valuation determined by the exchange rate specified in the agreement.

b. The Special Drawing Right (SDR) is an official reserve asset and a unit of account composed of a "basket" of the currencies of the five International Monetary Fund (IMF) members having the largest exports of goods and services. These currencies are the U.S. dollar, Japanese yen, German mark, French franc and United Kingdom pound. The valuation rate for SDR holdings and allocations is computed by the IMF based on the exchange rates of these currencies. The SDR holdings and allocations are revalued monthly based on the SDR valuation rate, and a gain/loss on that revaluation is recognized.

c. Investments in U.S. Government securities are in non-marketable instruments and are valued at cost. These securities have short-term maturities. The rate of interest paid on the securities is fixed at the time of issue and is then redetermined on the first of each month. The rate is based on the average investment rate equivalent determined at the last auction of 91-

day or 92-day Treasury bills conducted in the previous month.

d. In Fiscal Year 1988, ESF began to apply the standards contained in FASB No. 95, Statement of Cash Flows. The Statement of Cash Flows replaces the older Statement of Changes in Financial Position for private enterprises, although the Comptroller General has made its use optional in federal government reporting. FASB No. 95 requires, and ESF has provided in its financial statements, the following:

(1) a Statement of Cash Flows for Fiscal Year 1991 and Fiscal Year 1990 explaining the changes during the periods in cash and cash equivalents;

(2) a determination of the investments which qualify as cash equivalents; (See Note 2) and

(3) a reconciliation of net income and net cash flow from operating activities for Fiscal Year 1991 and Fiscal Year 1990.

Other financial statements of the ESF have been prepared for Government budget and accounting purposes. Such statements have been prepared to conform with Office of Management and Budget (OMB) guidelines and therefore may not correspond with the financial statements contained herein.

2. Cash and Cash Equivalents

In applying FASB No. 95, ESF is required to disclose its policy for determining which items are treated as cash equivalents. According to FASB No. 95, cash equivalents are short-term, highly liquid investments that are both:

(a) Readily convertible to known amounts of cash, and

(b) So near their maturity that they present insignificant risk of changes in value due to changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Accordingly, ESF's U.S. Government Securities and foreign currency denominated assets with original maturities of three months or less, except for foreign currencies acquired under swap agreements with developing countries, will be treated as cash equivalents.

3. Related Party Transactions

a. During Fiscal Year 1991, the ESF purchased $476.3 million equivalent of Special Drawing Rights (SDRs) from the Treasury General Fund, at rates calculated by the IMF. The purchased amount reflects SDRs received from the IMF by the Treasury as remuneration on the U.S. reserve position in the IMF.

b. The ESF invested dollars which were in excess of its immediate needs in Bureau of Public Debt Special Issues and United Stated Treasury Certificates of Indebtedness. These securities, which are considered cash equivalents for financial statement purposes, were purchased at cost and earned interest at a rate of interest based on the average investment rate equivalent determined at the last auction of 91-day or 92-day Treasury bills conducted in the previous month. Purchases and redemptions of the securities during Fiscal Year 1991 were as follows (in thousands):

	Public Debt Issues	U.S. Certificates	Total
Balance at 10/1/90	$ 4,104	$ 1,858,532	$ 1,862,636
Add Investments	9,134,845	25,735,156	34,870,001
Less Redemptions	(8,783,719)	(25,571,068)	(34,354,787)
Balance at 9/30/91	$ 355,230	$ 2,022,620	$ 2,377,850

c. During Fiscal Year 1991, the ESF made net repurchases of $5.0 billion equivalent of German marks which had previously been sold to the Federal Reserve System under a standing commitment by the System to warehouse foreign currency balances of the Treasury. The maximum level for warehousing authorized by the Federal Reserve was $10 billion during Fiscal Year 1991, but this maximum has subsequently been lowered to $5 billion. Under the terms applicable to warehousing up to and including Fiscal Year 1991, warehousing is a swap transaction in which the Treasury sells foreign currencies to the Federal Reserve System for dollars, with the agreement to repurchase the foreign currencies at a later date, using the original rate of exchange. Such a transaction could result in a realized gain or loss to the ESF being recorded at the time the transaction is initiated, depending on the relation of the exchange rate used in the swap transaction to the cost of acquisition to the ESF of the foreign currency being warehoused. Also, an unrealized gain or loss could be recorded at the time of repurchase as a result of a change in the market exchange rate over the period that the Federal Reserve System holds the foreign currency.

As of September 30, 1991, $2.0 billion equivalent of German marks were warehoused with the Federal Reserve. ESF's warehousing of German marks had resulted in an unrealized gain of $148.0 million as of that date, due to the change in the exchange rate.

4. Foreign Currency Denominated Assets

Operations of the ESF result in the fund's holding of various foreign currencies. The ESF normally invests its foreign currency holdings in interest bearing assets issued by or held through foreign governments or monetary authorities. These assets, except for $2.9 million and $37.9 million equivalent in foreign currencies held at the end of Fiscal Years 1991 and 1990 respectively, are short-term and highly liquid investments that will be treated as cash equivalents. At September 30, 1991 and 1990, the ESF held the following dollar equivalents (in thousands):

	1991	1990
Foreign Currency Denominated Assets:		
German Mark	$ 8,504,085	$ 5,548,586
Japanese Yen	9,152,225	9,527,316
Swiss Franc	31,322	32,020
English Pound Sterling	26,645	25,509
Honduran Lempiras	-0-	34,762
Total	17,714,277	15,168,193
Less: Non-Cash Equivalents	(2,930)	(37,930)
Cash Equivalent Portion	$17,711,347	$15,130,263

5. Advance Payable to the U.S. Treasury

In November 1978, the U.S. Treasury Department drew the equivalent of $3 billion in foreign currencies on the United States reserve position in the IMF. Simultaneously, the General Fund of the Treasury transferred the $3 billion in foreign currencies to ESF, whereby the ESF established a liability in an equal dollar amount in the form of a non-interest bearing advance. This transfer was made pursuant to the Bretton Woods Agreement Act. During Fiscal Years 1980, 1981 and 1982 the ESF repaid $1.933 billion of the outstanding advance.

The remaining advance, totaling $1.067 billion, would normally have been repaid in Fiscal Year 1983. In order to avoid depletion of ESF resources during the international monetary situation which existed at the time, the Secretary approved the indefinite deferral of this payment to the General Fund of the Treasury.

6. <u>Special Drawing Rights Allocations and Certificates</u>

Pursuant to the Special Drawing Rights Act of 1968, SDRs allocated to or otherwise acquired by the United States are resources of the ESF. SDRs, once allocated, are permanent resources unless:

(a) they are cancelled by an 85 percent majority decision of the total voting power of the Board of Governors of the IMF;

(b) the Special Drawing Rights Department of the IMF is liquidated;

(c) the IMF is liquidated; or

(d) the United States chooses to withdraw from the IMF or terminate its participation in the Special Drawing Rights Department.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the ESF liability related to SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981 the IMF has made no further allocations of SDRs.

The Special Drawing Rights Act also authorized the Secretary of the Treasury to issue SDR certificates to the Federal Reserve Banks in return for dollar deposits in amounts equal to the face value of the SDR certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other ESF operations. The amount of SDR certificates outstanding cannot exceed the value of SDR holdings. Moreover, SDR certificates are to be redeemed by the ESF at such times and in such amounts as the Secretary of the Treasury may determine.

In October 1990 the U.S. Treasury issued SDR certificates to the Federal Reserve System in return for $1.5 billion. As of September 30, 1991, the amount of SDR certificates outstanding was $10.018 billion, while the value of SDR holdings was $10.722 billion, a difference of $704 million.

7. Foreign Currency Agreements

Foreign Currency Agreements represent swap agreements between the U.S. Treasury and various countries that provide for drawings of dollars by those countries and/or drawings of foreign currencies by the U.S. Treasury. Specifically, during Fiscal Year 1991:

a. A 1967 Exchange Stabilization Agreement with Mexico, providing a reciprocal swap line of up to $300 million, remained in effect. No drawings were made under this agreement during the fiscal year. (The agreement was renewed in January 1992 for two more years.)

b. A 1978 $1 billion swap arrangement with Germany was renewed in January 1991. No drawings were made under this agreement during Fiscal Year 1991. (The arrangement was renewed in December 1991 for one more year.)

c. The U.S. Treasury received final payment of principal and interest on a multilateral short-term financing agreement with Honduras which had come into effect during fiscal year 1990. The agreement provided for financing totaling $147.3 million of which the U.S. portion was $82.3 million. The full amount of the agreement was drawn in Fiscal Year 1990. Honduras repaid $47.6 million of the financing in Fiscal Year 1990 and repaid the balance of $34.7 million in November 1990, at which time the agreement expired. Interest totaling $1,074,200 was paid to the Treasury by Honduras in Fiscal Year 1991, of which $720,600 was earned during Fiscal Year 1990.

d. In March 1991, the U.S. Treasury and the Bank for International Settlements entered into a short-term financing agreement with Romania. The agreement provided for financing totaling $300 million of which the U.S. portion was $40 million. In the same month, Romania drew and repaid the full amount of the agreement. Interest totaling $90,000 was paid to the Treasury by Romania.

8. Subsequent Events

a. During the period October 1, 1991 through April 23, 1992 the U.S. Treasury repurchased $2 billion equivalent of German marks previously warehoused with the Federal Reserve System in accordance with the warehousing agreement between itself and the Federal Reserve System, described previously in Note 3. In conjunction with the repurchase of warehoused German marks, the Treasury Department and the Federal Reserve agreed, on March 20, 1992, upon new terms with respect to the pricing of any warehousing transactions. Under the new terms, the warehousing sales and repurchases of foreign currency will no longer be conducted at a single exchange rate established at the time of sale. Instead, the sale rate will be the prevailing spot exchange rate, and the repurchase rate will be the prevailing three-month forward rate at the time of sale. Also, during the same period, the Federal Open Market Committee reduced the maximum level for warehousing from $10 billion to $5 billion.

b. During the period October 1, 1991 through April 23, 1992, the ESF made purchases of $150 million equivalent of Japanese Yen. During the same period the ESF had sales of $1.003 billion equivalent of German marks, of which $342 million represented the purchase of SDRs against German marks in an arrangement through the IMF. As of April 23, 1992, ESF had a net realized loss of $6.2 million on its German mark holdings.

c. As of April 23, 1992, SDR certificates outstanding were $10.0 billion while the value of SDR holdings was $10.9 billion, a difference of $900 million. As mentioned in Note 6, the Special Drawing Rights Act states that the amount of SDR certificates outstanding cannot exceed the value of SDR holdings.

d. During the period October 1, 1991 through April 23, 1992, the ESF sold $494 million equivalent of SDRs and had purchases of $543 million equivalent of SDRs at rates calculated by the IMF. Included in the SDR purchase amount are (a) purchases of SDRs against German marks of $342 million (Note 8b); and (b) payments for SDRs received from the IMF by the Treasury as remuneration on the U.S. reserve position in the IMF ($201 million).

e. In January 1992, the U.S. Treasury entered into a short-term financing agreement with Panama. The agreement provided for financing totaling $143 million. The full amount of the agreement was drawn in the same month. Panama repaid $85 million of the financing in February 1992 and the balance of $58 million in March 1992, at which time the agreement expired. Interest totaling $498 thousand was paid to the U.S. Treasury by Panama.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Exchange Stabilization Fund (ESF) for the years ended September 30, 1991 and 1990, and issued our opinion thereon dated April 23, 1992. We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the ESF is the responsibility of Treasury's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ESF's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, ESF complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that ESF had not complied, in all material respects with those provisions.

This report is intended for the information and use of Treasury management officials and others authorized to receive the report. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Donald E. Kirkendall

Donald E. Kirkendall
Inspector General

April 23, 1992

REPORT ON INTERNAL ACCOUNTING CONTROLS

We have audited the financial statements of the Exchange Stabilization Fund (ESF) for the years ended September 30, 1991 and 1990, and issued our opinion thereon dated April 23, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of ESF for the year ended September 30, 1991, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Treasury management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal accounting control structure policies and procedures in the following categories.

- o Cash,
- o Foreign currency denominated assets,
- o Special Drawing Rights,
- o United States Government securities,

- o Income from interest bearing assets,

- o Gain or loss on foreign currency and Special Drawing Rights revaluation, and

- o Foreign currency agreements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses as defined above.

This report is intended for the information and use of Treasury management officials and others authorized to receive the report. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Donald E. Kirkendall

Donald E. Kirkendall
Inspector General

April 23, 1992

FRAMEWORK FOR THE FUTURE

THE DEPARTMENT OF THE TREASURY
1789

"Corporate executives and investors alike need to adopt a long-term view in their economic thinking. And frankly, the government needs to do the same." (Secretary Brady)

September 1992

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MESSAGE FROM THE SECRETARY

In these times of unprecedented global and domestic change, it is crucial that we articulate our long-range policies in order to effectively deal with the issues facing our Nation. This new document, "Framework for the Future," is intended to help the Treasury Department focus on issues of critical importance.

Our Department serves literally each and every American, and we have the responsibility to meet the challenges of the future, just as we have met the challenges of the past two hundred years — with determination and excellence. It has always been Treasury's goal to provide our customers and clients with the best possible service. Meeting that goal will depend upon communication, which must flow throughout the Treasury organization, as well as to and from our customers, other interested parties, and the public as a whole.

The discussions fostered by this presentation of ideas should help ensure that we are addressing the issues which the American people think we should address. Let us use the "Framework for the Future" to continue to present ideas that are innovative, realistic, achievable and above all, a service to our Nation.

Nicholas F. Brady
Secretary of the Treasury

FOREWORD

The "Framework for the Future" has been designed to enhance the Department's planning, budgeting and decision making activities. The "Framework for the Future" presents Treasury's priorities for a two to five year period, and will be updated annually. It is not intended to cover every single issue confronting the Treasury.

This document presents several specific policies designed to:

- set priorities and focus the organization on key initiatives to make the best use of its limited resources;

- direct and guide the budget process; and

- provide bureaus with a point of reference in their planning efforts.

Each policy is followed by proposed means of implementation. The Treasury Department is a very large and diverse organization, so each policy or approach may not necessarily apply to each bureau. This document has been designed to allow practical ways to assess our achievements, without becoming an administrative burden.

John E. Robson

John E. Robson
Deputy Secretary of the Treasury

VISION STATEMENT

We will sustain and strengthen our country's position as a leading world economic power; we will maintain worldwide confidence in the soundness of the United States Government's financial condition; and we will provide for the safety of our citizens through the elimination of illegal drug problems, money laundering and violent crime.

MISSION

The mission of the Treasury Department is to formulate and recommend economic, fiscal and tax policies; serve as the financial agent of the U. S. Government; enforce the law; protect the President and other officials; and manufacture coins and currency.

Treasury's functions are broad and critical to the nation's well-being and include:

- serving as the President's principal advisor in formulating international monetary, financial and trade policies;
- developing policies that consider economic effects of tax and budget policy;
- regulating national banks, the government securities markets and Federal and State chartered thrifts;
- selling securities needed to finance the Federal Government, and reporting on the government's financial condition;
- collecting the proper amount of income tax revenue, at the least cost to the public and with the highest degree of public confidence;
- collecting revenue from imports, and excise taxes on alcoholic beverages and tobacco products;
- improving government-wide financial management;
- disbursing payments to over 100 million citizens annually;
- enforcing laws related to:
    - smuggling drugs and contraband;
    - trade, tax, and financial institution and telecommunications fraud;
    - exports of high technology and munitions;
    - counterfeiting and money laundering;
    - alcohol, tobacco, firearms, explosives and violent crimes; and
    - the protection of the President, Vice-President and others;
- training law enforcement officers; and
- manufacturing currency, coins and stamps for the nation's commerce.

POLICIES AND APPROACHES

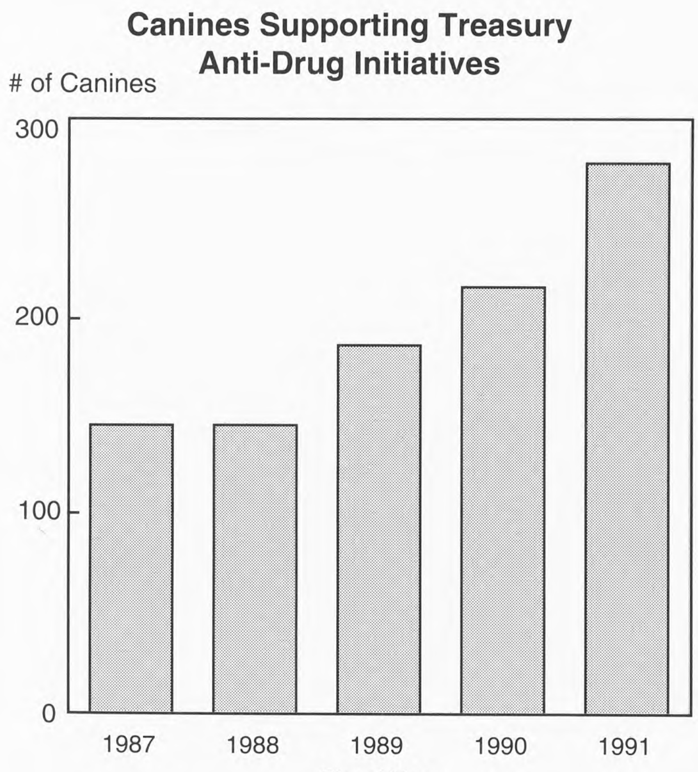
POLICY #1: Focus on anti-drug initiatives as a major priority for the Department

- Gather intelligence information and provide training for domestic and foreign law enforcement agencies involved in drug suppression

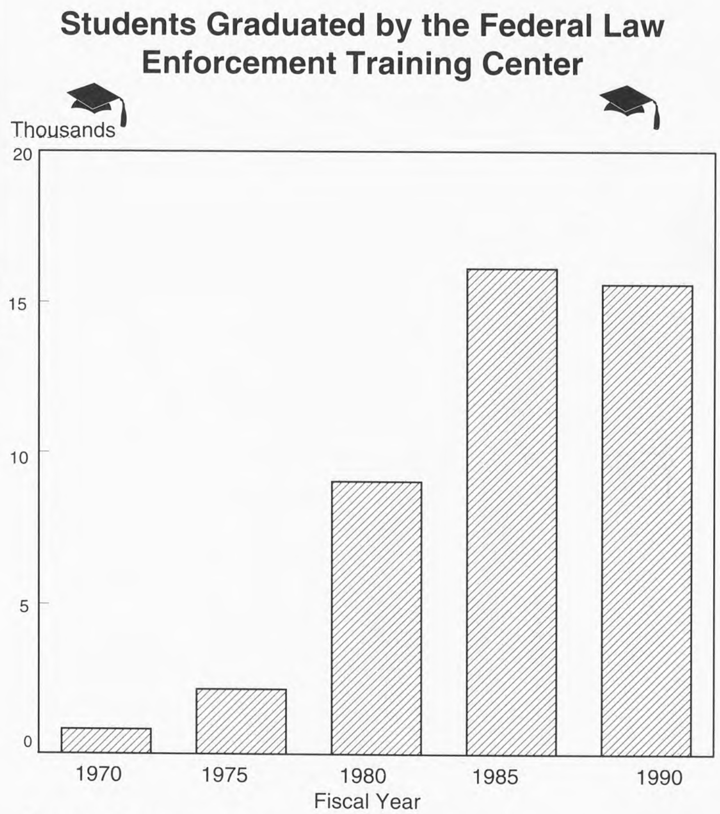
- Amplify interdiction efforts by improving air, sea and land port of entry processing and inspection systems

- Expand investigations, participate in task forces, and enlist industry cooperation to disrupt illegal drug and firearms transportation systems and routes

> *"There is only one answer to the drug problem in this hemisphere and that is to defeat these narco traffickers who prey on our children, once and for all." (President Bush, December 3, 1990)*



Source: U.S. Customs Service



Source: Federal Law Enforcement Training Center

POLICY #2: Strengthen the nation's financial system to promote economic growth and to meet the credit needs of the country by ensuring bank and thrift financial integrity and the early detection of systemic risks, and by removing unnecessary restrictions on efficiency, profitability and competition

> "There can be no doubt that fundamental reform is needed. The banking system is safe, but it is not as efficient and competitive as it ought to be. If we expect to exert world economic leadership in the 21st century, we must have a modern, world-class financial services system in the U.S." (Secretary Brady, February 5, 1991)

- Seek legislation and ensure the appropriateness of bank and thrift regulations through regular reviews to increase opportunities for banks and thrifts to strengthen earnings, attract capital investment and allow the industry to be more competitive

- Ensure resources are available and efficiently deployed to reduce systemic risks to the safety and soundness of banks and thrifts by continuing to form and apply differential regulation to healthy versus troubled banks and thrifts

- Implement the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 for more effective examination and supervision of banks and thrifts while avoiding unnecessary regulatory burden

- Pursue cost effective enforcement methods to resolve nonviable bank and thrift problems quickly while providing the maximum protection of assets

- Increase interaction among Treasury's regulatory and law enforcement bureaus to combat financial institution fraud

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Net Income and Number of Thrifts

Quarter Ending	Net Income in Millions of $	Number of Thrifts
Jun. 30, 1990	$(302)	2,453
Sep. 30, 1990	$(774)	2,388
Dec. 31, 1990	$(1,488)	2,342
Mar. 31, 1991	$610	2,283
Jun. 30, 1991	$275	2,216
Sep. 30, 1991	$188	2,148
Dec. 31, 1991	$753	2,096
Mar. 31, 1992	$1,589	2,064

Covers all Thrifts insured by the Savings Association Insurance Fund.

Source: Office of Thrift Supervision

POLICY #3: Promote a strong world economy and stable international financial system to ensure the health of the U.S. economy

- Coordinate macroeconomic policies among major industrial and other nations to provide for an expanding U.S. export market

- Foster cooperation with the monetary authorities of other nations to ensure stability of exchange rates

- Promote U.S. and world economic interests through our leadership role in the international financial institutions, including the International Monetary Fund, the World Bank Group, and the multilateral development banks

- Reduce overseas barriers to international capital movements, trade, and the provision of financial services

- Promote economic cooperation and tax treaties with developing countries, newly emerging democracies, and other nations to further mutual economic, financial and security interests

- Generate effective enforcement and audit strategies to: curtail illegal trade practices; regulate foreign commerce (including the protection of intellectual property rights and the importation of consumer and environmentally safe products); regulate interstate commerce; and improve tax collection efforts

"...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...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." (Secretary Brady, July 23, 1992)

Excludes services and military goods

Source: Department of Commerce

POLICY #4: Deter and detect money laundering conducted through businesses and financial institutions

- Identify and disrupt illegal cash flows through increased interdictory and investigative efforts and by financial institution oversight to detect illegal financial infrastructures

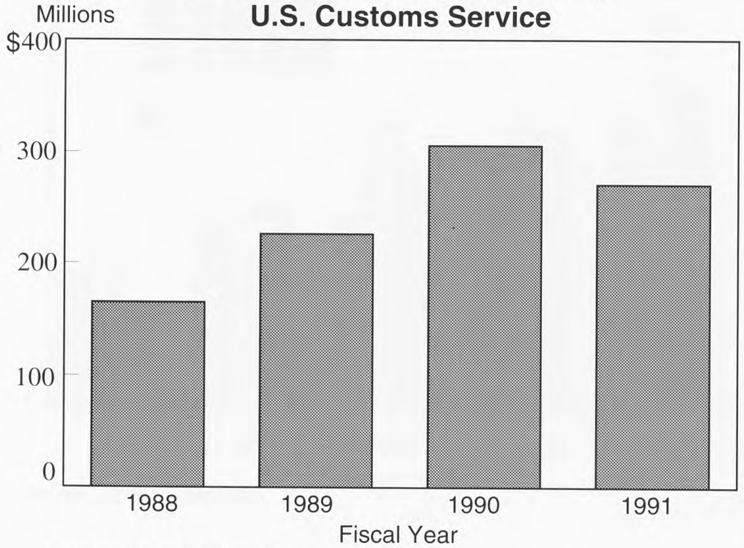
- Encourage foreign countries to adopt anti-money laundering initiatives and to enter into reciprocal agreements with the United States to share this financial information

- Devise regulatory changes and propose legislative changes to eliminate loopholes used for money laundering in areas such as wire transfers and non-bank financial institutions

- Perform centralized analysis of financial intelligence information and increase interaction among Treasury's regulatory and law enforcement bureaus to combat money laundering and to ensure compliance with the Bank Secrecy Act

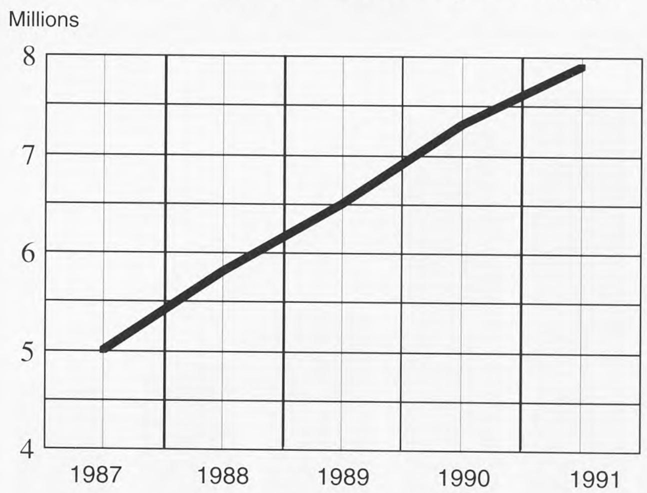
> *"Money is the lifeblood of criminal organizations. If we are ever going to halt the flow of ill-gotten gains through our financial system and across our borders we must hit the business-side by taking the profit out of criminal activity." (Secretary Brady, October 4, 1990)*

Money Laundering Seizures by U.S. Customs Service



Source: U.S. Customs Service

Currency Transaction Report Filings



Required reports to Internal Revenue Service on cash transfers over $10,000. The data is often helpful in the detection of money laundering operations.

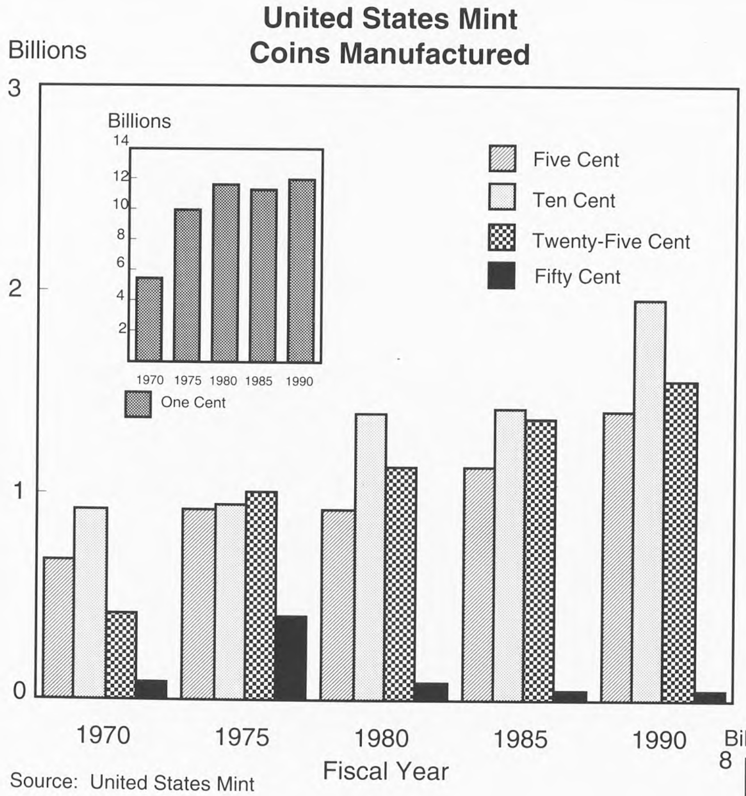
Source: Internal Revenue Service

POLICY #5: Modernize facilities and equipment, and develop new and pioneering automation systems to more efficiently handle current and future demands

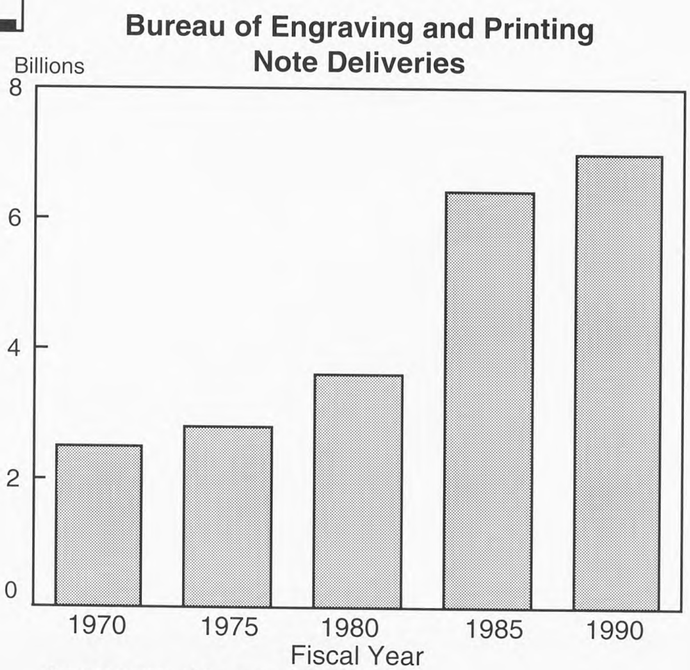
- Modernize facilities and equipment to plan for: increased demand on coin, currency and stamp production; enhanced passenger and cargo facilitation at our borders; increased demand for financial and electronic data processing expertise; and more efficient payment and collection systems

- Develop modern financial, tax administration, intelligence and management information systems consistent with the 5-year Information Systems Plan, and eliminate unnecessary systems

> "One of the best ways to preserve America's economic leadership and our standard of living is to create incentives for investment in the long-term productive capacity of American industry..." (Secretary Brady, August 23, 1989)



Source: United States Mint



Source: Bureau of Engraving and Printing

POLICY #6: Strengthen the financial integrity and financial security of the Treasury and the Federal Government as a whole, via training, early detection, economic analysis and oversight in order to limit and reduce the growth of federal outlays

- Improve cash management, internal controls and financial oversight within the Department

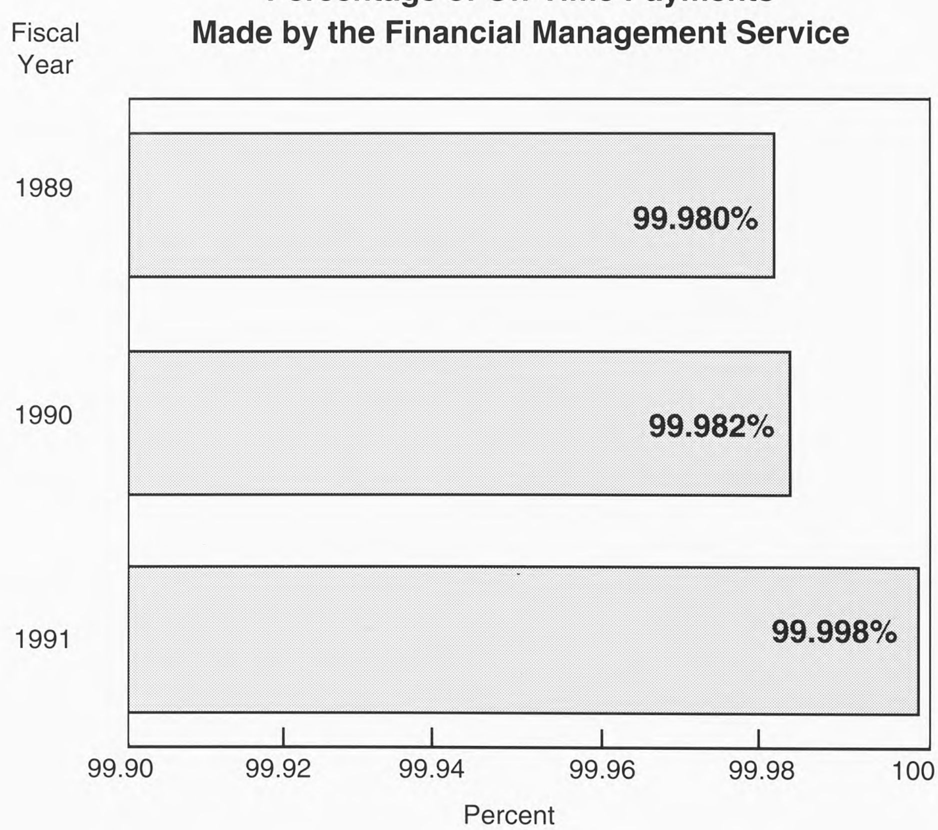
- Take the lead in providing financial training and consulting to other agencies and in standardizing accounting systems government-wide

- Establish an early warning system to detect irregularities in operating programs at Treasury and present solutions at the earliest stage possible

- Revise economic analysis techniques to continually improve government economic policy

> *"There has been strong interest within the Administration in creating a mechanism to alert managers to emerging financial issues...[As a result, the Treasury Department] created the Early Warning System Task Force to produce an immediate, viable early warning tool for the Department of the Treasury." (Early Warning System Task Force Report, October, 1990)*

Percentage of On-Time Payments Made by the Financial Management Service



Source: Financial Management Service

POLICY #7: Simplify and clarify regulation of both the government and the private sector to enhance compliance with laws, and to more effectively and efficiently implement laws

- Reduce the regulatory and paperwork burden on our customers

- Increase reviews of targeted areas that have the potential for a large return on our investment of resources

- Support legislative and regulatory changes to close tax loopholes, simplify tax laws to reduce taxpayer burden, and respond to changes in the government securities markets

- Emphasize the use of non-prescriptive regulations

> *"The Administration will continue its search-and-destroy mission against the labyrinth of applications, monthly forms, and federal regulations that unnecessarily harass business and draw a bull's-eye on the taxpayers' wallet." (Deputy Secretary Robson, June 8, 1992)*

$ Revenue Collected $
in billions of dollars

BUREAUS	1986	1987	1988	1989	1990	1991
Internal Revenue Service	$725	$809	$863	$942	$978	$1,002
Customs	$13	$15	$16	$16	$17	$16
Bureau of Alcohol, Tobacco & Firearms	$10	$10	$10	$10	$10	$13
TOTAL	$748	$834	$889	$968	$1,005	$1,031

Source: Financial Management Service and Bureau of Alcohol, Tobacco and Firearms

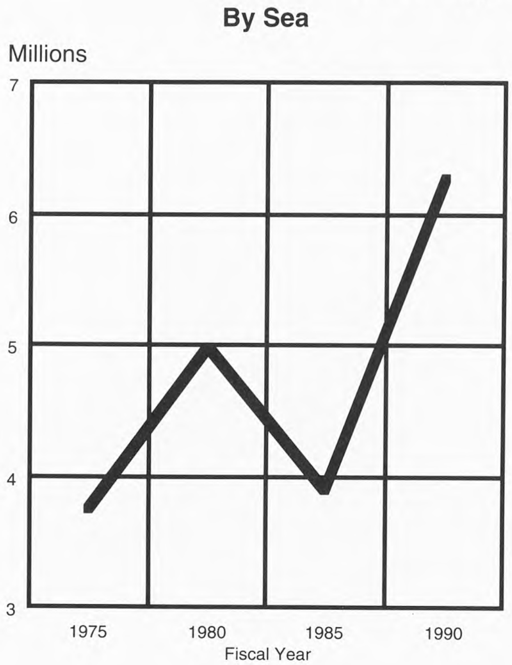
POLICY #8: Form strategies for processing people, cargo and transactions more efficiently

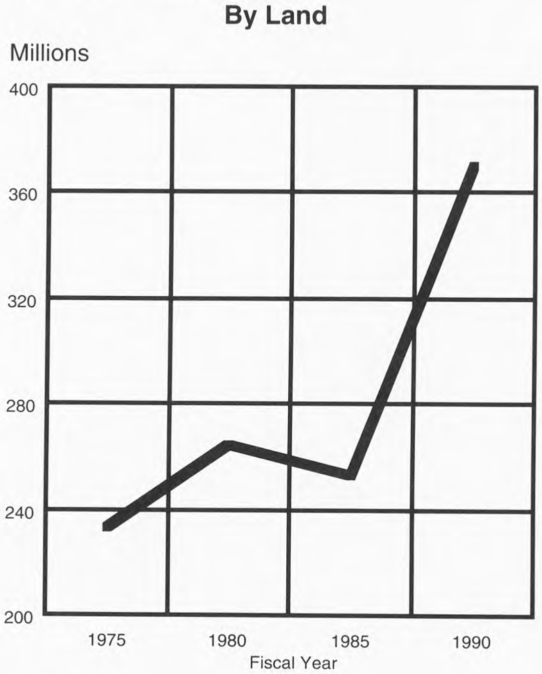
- Consolidate data bases and develop automated data processing systems, financial models and book entry and delivery systems to obtain quicker access to information and to replace paper processing

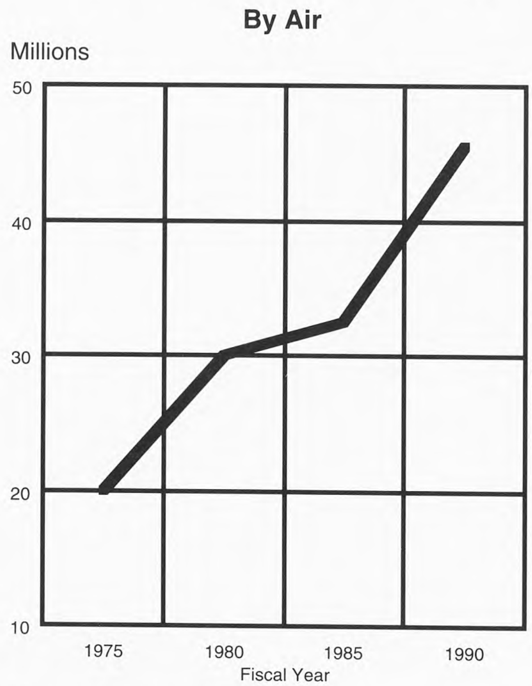
- Improve methods to selectively process cargo, conveyances, and people more expeditiously and at a lower cost at ports of entry

> "But even some of the agency's most persistent critics say that day-to-day operations [referring to the IRS 1991 tax filing season] are generally the smoothest in a long time." (The New York Times, April 10, 1991)

Passengers Entering the United States







Source: U.S. Customs Service

POLICY #9: Emphasize quality of service and customer satisfaction in all Treasury activities

> *"The improvement of quality in products and the improvement of quality in service — these are national priorities as never before." (President Bush, November 2, 1989)*

- Promote a quality team approach that respects the contributions of all employees and delivers prompt, reliable service to our customers

- Establish evaluation systems to monitor and ensure the appropriate provision of services

- Strengthen voluntary tax compliance by focusing on assistance, education and outreach programs

- Develop methods to answer tax related questions and other inquiries more quickly and accurately

- Initiate recruitment and training programs that maintain a high quality work force

- Continually improve domestic and international law enforcement training techniques and programs

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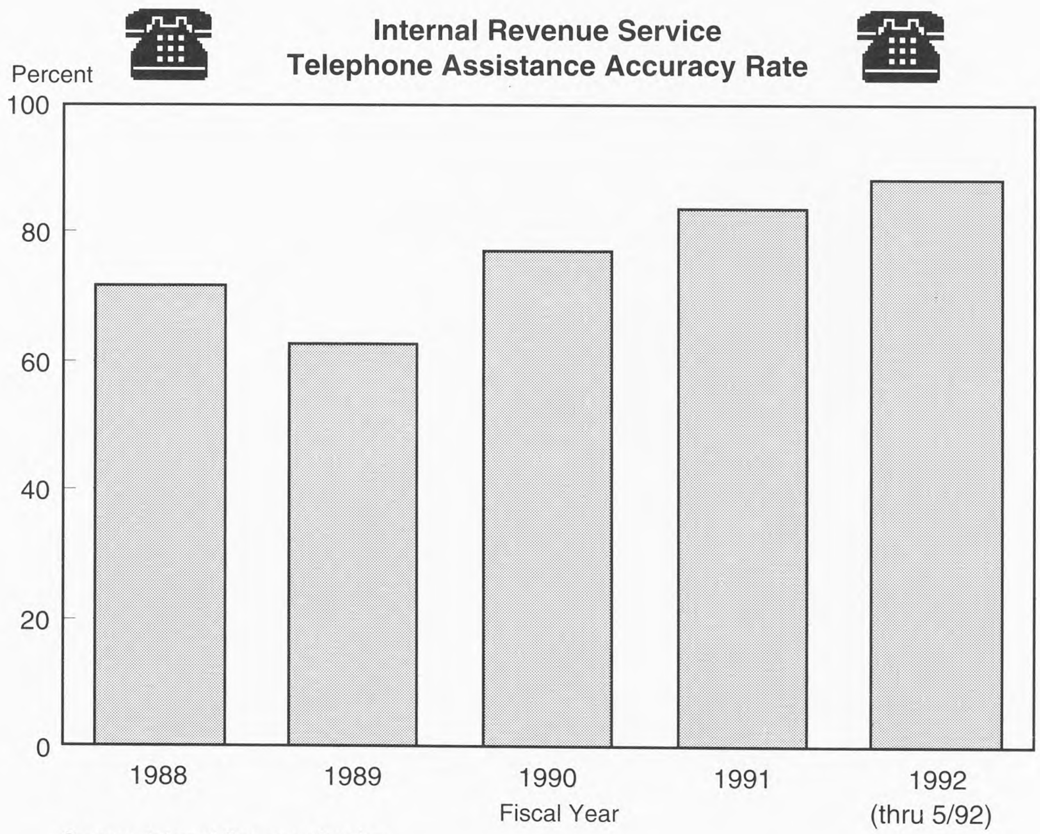


Source: Internal Revenue Service

POLICY #10: Improve the marketing of Treasury products and services, and increase Treasury's ability to respond to changing customer needs

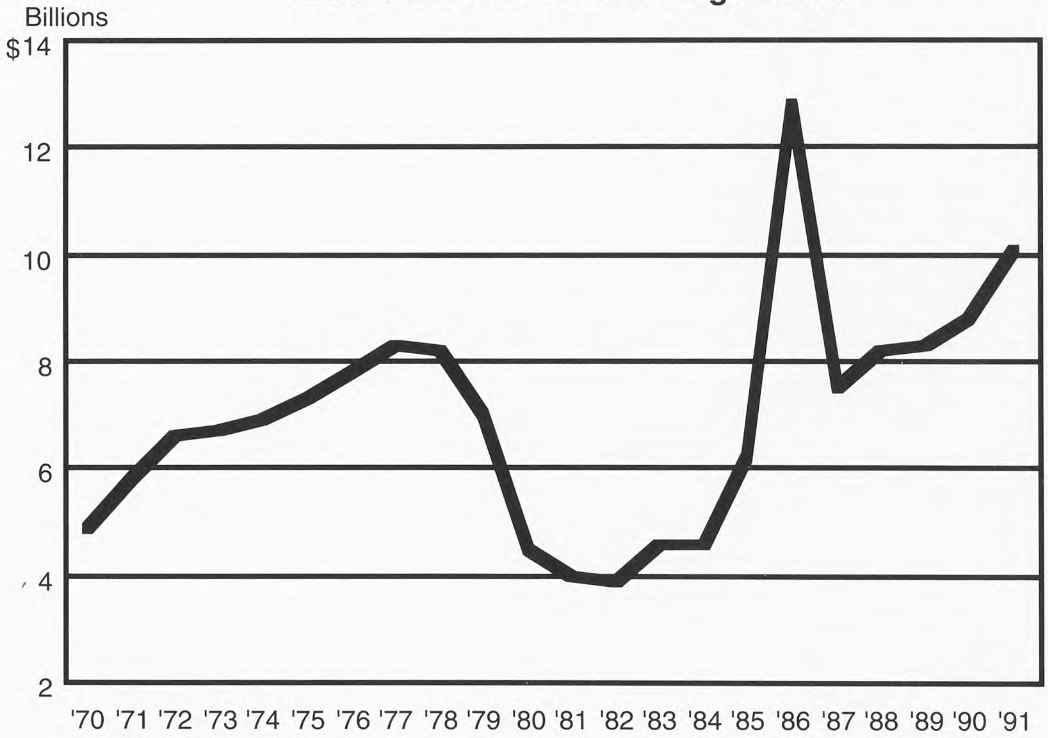
- Conduct market research to optimize revenue collection and regulatory program effectiveness

- Explore alternative methods of selling marketable securities and promote Savings Bond sales using cost-effective marketing techniques to render the lowest cost to the taxpayer

- Design better marketing strategies for domestic and international law enforcement training, and for coins, currency, stamps, and financial consulting services

"U.S. Savings Bonds are now the most widely-held government security in history, and they remain a basic way for all Americans to save and invest." (Secretary Brady, April 30, 1991)

Sales of United States Savings Bonds



Source: Bureau of the Public Debt

POLICY #11: Intensify the security of Treasury's assets, and provide for public safety and a reduction of violent crime through strengthened enforcement programs

- Strengthen firearms, explosives and alcohol enforcement programs with emphasis on interagency initiatives

- Improve methods of monitoring and preventing violent crime, especially gang related incidents

- Research and develop effective security systems and facilities to protect Treasury's physical assets and data bases

- Train personnel and develop security systems and methods to ensure optimal protection for Secret Service protectees

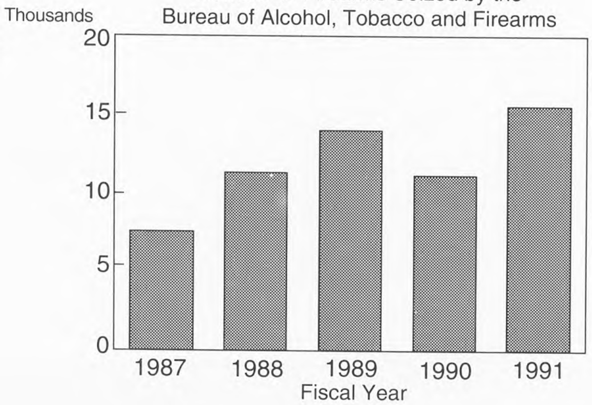
- Provide a safe work environment for all Treasury employees

> *"(The Bureau of Alcohol, Tobacco and Firearms developed) specialized response teams that respond within 24 hours to any scene of a major explosion or a suspected arson. ...Team members determined the cause and origin of the incident in 91% of the cases."(Explosives Incidents Report 1989)*

Bombing and Incendiary Incidents Reported to the Bureau of Alcohol, Tobacco and Firearms in 1991

Source: Bureau of Alcohol, Tobacco and Firearms

Number of Firearms Seized by the Bureau of Alcohol, Tobacco and Firearms



HISTORY OF THE TREASURY DEPARTMENT

In April 1776, prior to the Declaration of Independence, the Continental Congress laid the foundation for today's Treasury Department by providing for a "Treasury Office" to administer public finance. The Department of the Treasury was formally established in 1789, with 32 year old Alexander Hamilton chosen as the first Secretary of the Treasury.

Two immediate needs were addressed: a source of income for the Federal Government and a respected monetary system. In 1789, the United States Customs Service was established and for the next 125 years, Customs' import revenues were the main source of income to the government. Revenues from Customs made possible a period of unprecedented growth including the opening of the West, the Louisiana purchase, the purchase of Florida and Alaska, and the transcontinental railroad.

In 1792, the United States Mint was established. Harnessed horses were used to drive the crude machinery in the production of the early coins. Gold was used to produce $10, $5, and $2.50 coins. Other coins were made of silver or copper. Gold coins for general circulation continued to be produced until 1933.

In the late 1700s, the first Bank of the United States was established. The National Banking Act of 1863 empowered Treasury to charter National Banks. The Office of the Comptroller of the Currency (OCC) now oversees national banks.

Securities have been sold by the government throughout the history of the United States. The Bureau of the Public Debt (BPD) is responsible for borrowing the money necessary to operate the government and for accurately accounting for the public debt. It was officially designated as a bureau in 1940, although its authority to borrow money on the credit of the United States was a part of the Constitution.

In 1789, Congress empowered the Treasury to maintain a system that would account for government collections and disbursements. This responsibility fell upon the Register of the Treasury. The accounting function had to address the challenges of the enormous growth of the government, as well as fires in 1801, 1814, and 1833 which destroyed financial records. Today, the Financial Management Service (FMS) manages the government disbursement and collection systems and provides accounting and financial consulting services government-wide.

A number of Treasury bureaus had their origins in the mid 1800s. The Nation's primary source of revenue, customs fees, became insufficient to meet the Nation's expenditures during the Civil War. This led to the creation of what is now the Internal Revenue Service (IRS) in 1862. Income tax was declared unconstitutional in 1895, but was reinstated in 1913.

In 1941, the first series E Savings Bond was issued to help finance an intense military buildup in anticipation of war, thus forming the organization which later became the United States Savings Bonds Division (SBD). Bonds were also sold door-to-door in 1862 to help finance the Civil War. Later, small denominations bonds were used to finance the Spanish American War, and movie stars helped advertise bonds during World War I.

The Bureau of Engraving and Printing (BEP) was established in 1862 to produce paper currency. Four women and two men, housed in the basement of the Treasury building, separated and sealed U.S. notes which had been printed by private bank note companies. By 1877, all U.S. currency was printed by the Bureau. Today, the production process involves over 65 separate steps and is regarded as one of the best in the world.

In 1865, the United States Secret Service was established for the sole purpose of suppressing counterfeiting. They arrested over 200 counterfeiters in the first year, and saved the currency system from possible collapse. Following the assassination of President McKinley in 1901, the Secret Service was assigned the duty of protecting the President and his family. Their role has expanded greatly since then to include protecting the Vice-President, foreign Heads of State and major presidential candidates. The Secret Service's uniformed division was created by Congress in 1922 when it was known as the White House Police.

Although the Bureau of Alcohol, Tobacco and Firearms (ATF) had its origins in 1791 when Congress first taxed distilled spirits, it was not until 1862 that Congress authorized the hiring of three detectives to aid in the apprehension of tax evaders. During the twenties and thirties, the forerunners of today's ATF agents, the "untouchables," were a part of the IRS and were highly visible in their fight to control alcohol and "gangster type weapons." In 1951, tobacco tax collection was assigned to a section of the IRS. During the 1960s, emphasis returned to firearms control after the assassinations of President John F. Kennedy, Senator Robert F. Kennedy and the Rev. Dr. Martin Luther King, Jr. In 1972, these responsibilities were consolidated and ATF was created. ATF now has significant responsibilities in the fight against illegal drug trafficking and violent crime.

Another result of these assassinations was the formation of several commissions to study crime in America. One proposal was that better law enforcement training be provided. This led to the formation of the Federal Law Enforcement Training Center (FLETC), which now provides training to over 70 law enforcement agencies.

The Office of Thrift Supervision (OTS) was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The Act fundamentally changed the regulatory and supervisory structure of the thrift industry to prevent further thrift industry crises.

An important part of Treasury's evolving law enforcement efforts is the Financial Crimes Enforcement Network (FinCEN), created within headquarters in April 1990. This vast computer operation enriches coordination among law enforcement agencies by providing multi-source intelligence and analytical information on money laundering and other financial crimes.

Treasury's Headquarters operations, known as Departmental Offices, oversees and coordinates the work of all Treasury bureaus and plays a supporting role for the Secretary in domestic finance, economic policy, tax policy, intelligence, and international affairs.

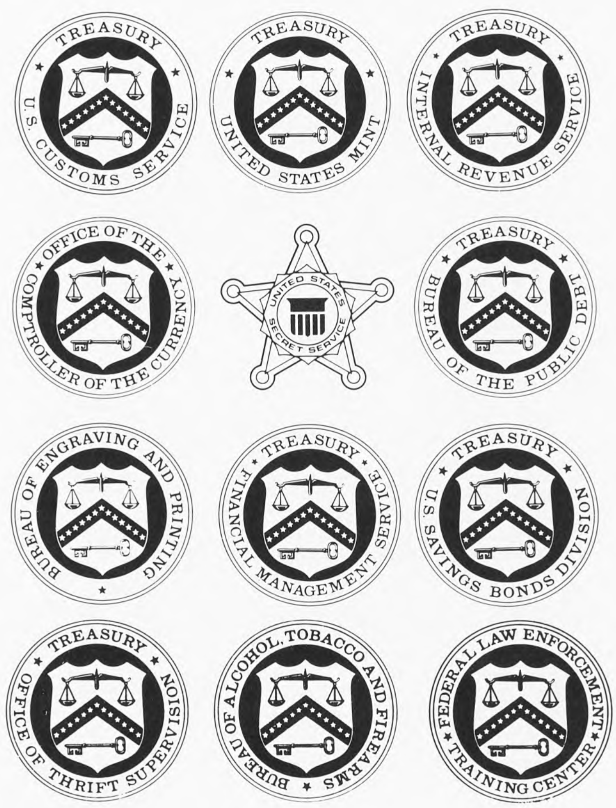
TREASURY ORGANIZATION

The Treasury Department is divided into twelve bureaus and the Departmental Offices.

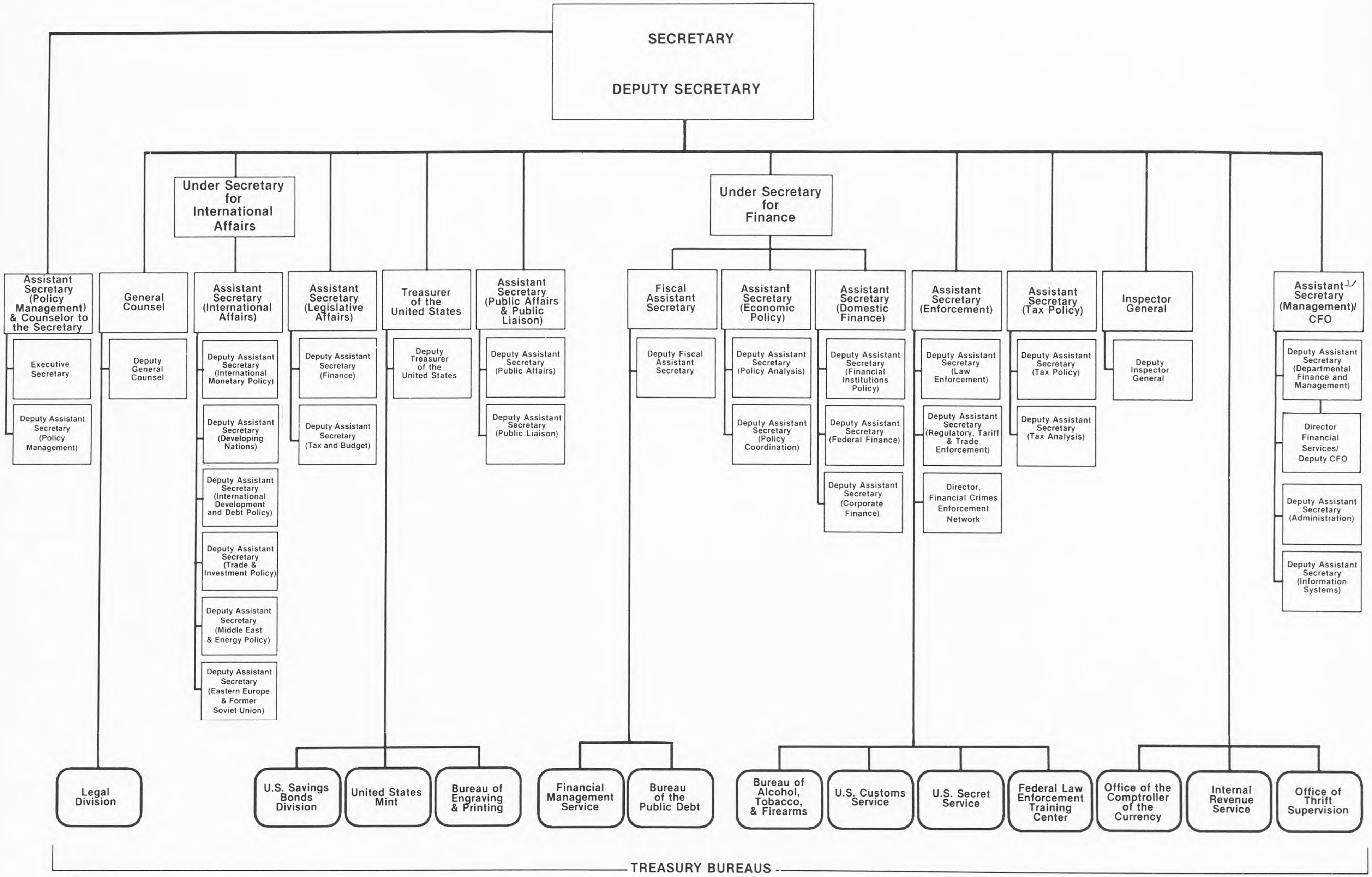
- Bureau of Alcohol, Tobacco and Firearms
- Bureau of Engraving and Printing
- Bureau of the Public Debt
- Federal Law Enforcement Training Center
- Financial Management Service
- Internal Revenue Service
- Office of the Comptroller of the Currency
- Office of Thrift Supervision
- United States Customs Service
- United States Mint
- United States Savings Bonds Division
- United States Secret Service
- Departmental Offices

Treasury's headquarters operation (Departmental Offices) serves as a holding company for the Treasury and includes thirteen major components; some oversee individual bureaus, and others perform department-wide or non-bureau-specific functions.

TREASURY BUREAU SEALS



THE DEPARTMENT OF THE TREASURY



[1] Assistant Secretary (Management) is the Chief Financial Officer (CFO).

The Department of the Treasury

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
October 21, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $25,750 MILLION

The Treasury will auction $15,000 million of 2-year notes and $10,750 million of 5-year notes to refund $12,730 million of securities maturing October 31, 1992, and to raise about $13,025 million new cash. The $12,730 million of maturing securities are those held by the public, including $665 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders.

The $25,750 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $884 million of the maturing securities that may be refunded by issuing additional amounts of the new securities.

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

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Attachment

NB-2032

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC

OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED NOVEMBER 2, 1992

October 21, 1992

<u>Amount Offered to the Public</u> ...	$15,000 million	$10,750 million
<u>Description of Security</u>:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series AF-1994 (CUSIP No. 912827 H3 9)	Series S-1997 (CUSIP No. 912827 H4 7)
Maturity date	October 31, 1994	October 31, 1997
Interest rate	To be determined based on the highest accepted bid	To be determined based on the highest accepted bid
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	April 30 and October 31	April 30 and October 31
Minimum denomination available .	$5,000	$1,000
<u>Terms of Sale</u>:		
Method of sale	Yield auction	Yield auction
Competitive tenders	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders	Accepted in full up to $5,000,000	Accepted in full up to $5,000,000
Accrued interest payable by investor	None	None
<u>Key Dates</u>:		
Receipt of tenders	Tuesday, October 27, 1992	Wednesday, October 28, 1992
a) noncompetitive	prior to 12:00 noon, EST	prior to 12:00 noon, EST
b) competitive	prior to 1:00 p.m., EST	prior to 1:00 p.m., EST
Settlement (final payment due from institutions):		
a) funds immediately available to the Treasury ...	Monday, November 2, 1992	Monday, November 2, 1992
b) readily-collectible check ...	Thursday, October 29, 1992	Thursday, October 29, 1992

TREASURY NEWS

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

For Immediate Release

October 22, 1992

Monthly Release of U.S. Reserve Assets

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

As indicated in this table, U.S. reserve assets amounted to 78,527 million at the end of September 1992, up from 78,474 million in August 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					
August	78,474	11,059	12,193	45,460	9,762
September	78,527	11,059	12,111	45,579	9,778

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-2033

TREASURY NEWS

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

AS PREPARED FOR DELIVERY
EMBARGOED UNTIL 12:10 PM CDT
OCTOBER 23, 1992

CONTACT: DESIREE TUCKER-SORINI
202-622-2910

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before the
ECONOMIC OUTLOOK CONFERENCE
MIDDLE TENNESSEE STATE UNIVERSITY
Murfreesboro, Tennessee
October 23, 1992

Thank you, Joe [Rodgers]. It is a great pleasure to be here in Murfreesboro, and I appreciate you inviting me to join you for this conference.

As we look at the world at the turn of the 21st century, economic and political borders have blurred. Our national economy has been transformed from a self-sufficient and isolated continent to an island in the world archipelago -- an island whose prosperity is affected directly and dramatically by developments across the oceans. It no longer makes sense to think in purely domestic terms; there is no longer a clear distinction between domestic and foreign 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.

We must change as the world around us changes and to do so, we must understand the nature of the profound economic transition through which America and the world are passing. There are two separate and distinct elements at work: a series of significant but **temporary** disruptions that will pass through the system, but more important, a structural and **permanent** change in the organization of world economic competition -- in some ways greater than any since the Industrial Revolution of the 19th century.

First, let me give you some examples of the significant but temporary disruptions:

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- The victory in the Cold War will bring immeasurable benefits to the world economy. But the benefits of peace did not come without cost: this country now shows the strain of having carried the burden of the free world's defense for almost 50 years. In this country alone, the Defense Department has estimated the shift to a peace-time economy has meant the loss of over 1.6 million jobs in the last three years. Without these job losses, the unemployment rate today would be more than a full percentage point lower than it is. Peace has its price.

  We have made adjustments at war's end before. Indeed, at war's end in the first Truman Administration gross national product **fell 19%** in a single year. This puts our economy's current growth rate of over 2% in perspective. The good news is that during Truman's **second** term, after the restructuring was in hand, the economy grew by almost 25% in four years.

- Second, the volume of debt in every segment of American society over the last four years has been at historically high levels. Those levels, however, are at last 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 significantly slower growth in the short term.

- Third, economic growth has been hindered by a banking system weakened by Third World Debt, failed savings and loans, and tax law changes in the '80s that first caused overbuilding and then a decline in real estate values. But the Third World Debt crisis is now behind us, the S&L cleanup nearly complete, and real estate markets are improving. And banks are more profitable and liquid than they have been in decades.

- Fourth, American industry has been restructuring over the last several years. Having taken steps to become more productive, American industry is now more competitive. As evidence, in 1988, our trade deficit in goods and services was almost $102 billion; it had declined to only $11.7 billion last year. We are winning the battle for exports.

- Fifth, the money supply -- which provides the financing for the country's growth -- has been at the bottom of the Fed's targets for most of the past three years. And in recent months, M2 growth has been negative or flat.

- Finally, we have seen restrained world growth. We are doing better economically than Germany, Japan, the U.K. and other trading partners. That may provide little satisfaction to Americans -- but it is a fact.

Each of these six conditions has formed a significant brake on economic growth, but when added together, their combined effect is greater than the sum of their parts. By undermining business and consumer attitudes, they have created an additional, independent restraint on growth and added to concerns about this country's prospects.

But even as each of these temporary disruptions is resolved, we must still come to terms with the long-term transformation of economic competition that technology has made possible. Twenty years ago most businesses could find their customers on a road map; today they need a world map. This has affected our businesses and daily work. Let me give you some examples:

- In today's world, where goods flow freely across national borders, businesses are not bound to a particular country by the dictates of geography. Increasingly, companies seek to source their components and locate their factories wherever production needs can be met most efficiently. For example, the Hewlett Packard personal computer is designed and marketed in Palo Alto, and engineered in Grenoble, France. Components are made in Malaysia; it is assembled in Singapore, and 50% of sales are in the United States.

- What is more, information and intellectual capital have become increasingly important parts of the production process. New businesses are created that depend less on tangible physical capital and more on skills and know-how. These new businesses are becoming leading industries of the new world: Microsoft, for example, has a total stock market value of $22 billion; Amgen, a leading biotechnology company, has a stock market value of $9 billion; and McCaw Cellular's is $5 billion. The government cannot create these new businesses, it does not have that capability.

- Improvements in transportation combined with new information and communication systems have dramatically shortened the transportation "pipeline" for goods, allowing companies to maintain "just-in-time" inventory methods even with far flung suppliers. An aircraft factory in Central California can fax a parts order to a supplier in Leeds, England and receive the components the next day.

- Capital moves around the world at the touch of a keyboard -- without government approval -- to wherever it will bring the highest return, whether that is Athens, Tennessee, or Athens, Greece. To put the mobility in perspective, each day in excess of $1.5 trillion of transactions are settled through the New York Federal Reserve Bank.

These changes have transformed the economic order that has existed through most of our lives. This is understandably unsettling to us all. Vigorous international competition has caused some of our nation's most well-known companies to restructure, not only General Motors, but also Xerox, IBM, AT&T and others.

American workers go to the parts shelf and see labels that concern them. As George Shultz recently remarked:

> I saw a snapshot of a shipping label for some integrated circuits produced by an American firm. It said, "Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, Mexico, Philippines. The exact country of origin is unknown."

Americans worry about what a label like that says about their own future. But those who try to convince Americans that they should fear the new economic world of free trade and change are wrong. Most of the industries that are giving America its leadership in this new world economy -- industries like pharmaceuticals, software, telecommunications, aerospace, and computers -- thrive on trade. If competition is the lever with which a country will increase its productivity in the 21st Century, trade is the fulcrum.

The fact is that in the U.S. exports will create millions of new and better jobs -- which have paid, on average, 17% more than the average wage. As other countries increase their standard of living, they will buy more high-value-added products from the U.S. For example, that is why the U.S. has increased its exports to Mexico from $14 billion to $33 billion over the last four years.

The fact is, Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. And in tomorrow's world innovation will be a major source of the future's attractive, high-paying jobs. In this we Americans are fortunate. Innovation and change -- that's our heritage -- from that summer's day in 1776 when we established a new theory of government to the most recent flight of the space shuttle *Atlantis*. Americans are uniquely well positioned to succeed in the modern world of the 21st century.

For that reason, the goal of the Bush Administration during the next four years will be -- as it has been -- not to evade change, but to face it; not to stand in place, but to advance. Our single-minded goal is to create high-value jobs in the United States. To achieve this goal, we should do the following things.

First, we must continue the spectacular success we have had over the last four years in opening free 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. U.S. 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. Simple math indicates that this growth in exports accounts for almost 4 million new jobs.

A week ago, President Bush approved the North American Free Trade Agreement. NAFTA will link us with our neighbors to the North and South to create a single market of over 360 million people with a total output of $6-1/2 trillion. This newly unified market will provide an unparalleled engine for growth and jobs. Yet if it hadn't been for President Bush's initiative and constant urging, this agreement would never have been signed. Nothing could provide a clearer example of the President's understanding of the new global economy.

Second, two-thirds of the jobs created in the United States are created by small businesses. Only 11% of the workforce works for the Fortune Five Hundred companies. We must not shackle the 4 million smaller firms that are creating the new jobs workers need during this transition. The infant industries of today will be the job generators of tomorrow.

To this end, President Bush recently announced a comprehensive five-year, $20 billion initiative which includes lowering the corporate tax rate for small businesses; making up to $2500 in small business start-up costs tax deductible; increasing equipment expensing; and reducing paperwork burdens that fall heavily on small businesses.

Ensuring America's economic leadership will also mean adopting policies that foster savings and reduce the cost of capital to encourage investment. It means running the government so inflation and interest rates remain low and today, short-term interest rates and inflation are at their lowest in decades. It means reducing the capital gains tax to spur investment. And it means reducing unnecessary regulatory restrictions and correcting the excesses of our legal system.

But let me give you an example of what having an attractive investment environment can mean. BMW, with the whole world to choose from, recently decided to locate its first plant outside Germany in South Carolina. In the words of BMW "the exports we plan from the U.S. factory, will strengthen BMW's global competitiveness." Imagine German car models made by Americans sold to Europeans and Japanese.

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 a productive future. If, as students, American workers have learned how to learn, they will have laid the foundation for a lifetime of new skills.

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, and to encourage states to set meaningful education standards.

As we transform our economy, we will not leave out those who must retrain as they shift from one career to another late in life. The Administration's Worker Adjustment and Youth Skills initiatives will triple the funding currently provided for re-training.

And finally, investing in America's future means providing affordable health care for all Americans, while controlling its rising costs. That is why President Bush, in February, proposed a plan for comprehensive health reform, to make health care more accessible by making health insurance more affordable. The President's plan will not lead to rationing of health care and leaves health care choices in the hands of the people, not the bureaucrats.

These objectives recognize the interconnection between foreign affairs and domestic policy; they deal with the dynamic changes in the way the world does business; and they emphasize individual initiative rather than fuel the engine of big government.

Some will say that this agenda is wrong. Competition, they will tell you, both at home and abroad, is destructive -- trade saps jobs, choice guts schools, incentives to invest help only the rich. But it is they who are wrong. All they offer -- dressed up in the latest jargon -- are the tired remedies of protectionism, increased taxes, and government direction. They are the newest members of the Flat Earth Society, failing to understand the world around them.

We cannot hold on to the old world, and we should not want to. We know what we must do to succeed in the new world economy. After all, the field of play is our native one: creating, risking, competing, achieving. With optimism, energy and commitment, America can remain what it has always been: the ark of the world's liberty and the engine of its prosperity. The next American Century can be as bright and brilliant as the last.

Thank you.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 26, 1992

Contact: Anne Kelly Williams
(202) 622-2960

Statement by
Secretary of the Treasury
Nicholas F. Brady

We find it amazing that the Chairman of the Senate Banking Committee has chosen to schedule a hearing a week before election day to discuss the condition of the banking industry. This hearing is remarkable in several respects.

If the senator were seriously concerned about the health of the industry, he has had countless opportunities to provide genuine reform instead of holding a vacuous hearing the week prior to a presidential election. Instead, he has now scheduled it after the Senate has adjourned when he could have done some genuine good by addressing fundamental reform during the legislative session.

Perhaps the senator finds it politically opportune to jump on the bandwagon of the fearmongers and doomsayers who are using old data and flawed analysis as an election year gimmick to claim our nation's banking system is in trouble. But the facts are clear -- the commercial banking system has raised bank capital to the highest level since 1966, has enjoyed two straight quarters of record profits, and the Bank Insurance Fund is replenished.

The banking industry and the country would be better served if the leadership of the Senate Banking Committee spent less time on counterproductive political posturing and more time on enacting financial services reform.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 26, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,881 million of 13-week bills to be issued October 29, 1992 and to mature January 28, 1993 were accepted today (CUSIP: 912794A46).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.95%	3.01%	99.254
High	2.97%	3.04%	99.249
Average	2.97%	3.04%	99.249

Tenders at the high discount rate were allotted 71%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	33,910	33,910
New York	36,047,715	10,389,530
Philadelphia	13,380	13,380
Cleveland	44,490	44,490
Richmond	102,745	88,245
Atlanta	34,585	26,845
Chicago	1,809,720	193,600
St. Louis	11,260	11,260
Minneapolis	11,860	11,860
Kansas City	36,500	36,500
Dallas	19,835	19,835
San Francisco	895,540	473,040
Treasury	538,785	538,785
TOTALS	$39,600,325	$11,881,280
Type		
Competitive	$35,231,145	$7,512,100
Noncompetitive	1,137,880	1,137,880
Subtotal, Public	$36,369,025	$8,649,980
Federal Reserve	2,497,100	2,497,100
Foreign Official Institutions	734,200	734,200
TOTALS	$39,600,325	$11,881,280

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 26, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,849 million of 26-week bills to be issued October 29, 1992 and to mature April 29, 1993 were accepted today (CUSIP: 912794C44).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.21%	3.31%	98.377
High	3.23%	3.33%	98.367
Average	3.22%	3.32%	98.372

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	22,335	22,335
New York	32,375,780	10,908,310
Philadelphia	12,670	12,670
Cleveland	29,825	29,325
Richmond	31,195	27,295
Atlanta	33,330	25,990
Chicago	1,724,075	157,425
St. Louis	23,785	18,785
Minneapolis	5,590	5,590
Kansas City	29,135	29,135
Dallas	7,025	7,025
San Francisco	807,435	268,435
Treasury	337,020	337,020
TOTALS	$35,439,200	$11,849,340
Type		
Competitive	$31,397,265	$7,807,405
Noncompetitive	689,635	689,635
Subtotal, Public	$32,086,900	$8,497,040
Federal Reserve	2,500,000	2,500,000
Foreign Official Institutions	852,300	852,300
TOTALS	$35,439,200	$11,849,340

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
OCTOBER 27, 1992

CONTACT: Keith Carroll
202-622-2930

TREASURY DEPARTMENT ASSESSES STRUCTURING PENALTY

The Department of the Treasury announced today that it has assessed a civil penalty of $26,430 against George T. Underhill, III of Louisville, Kentucky for a violation of the Bank Secrecy Act (BSA) anti-structuring provision. This is the first structuring civil penalty assessed by Treasury.

This provision of the BSA was enacted to prevent individuals from evading currency transaction reporting (CTR) by prescribing penalties for those who break down amounts greater than $10,000 in currency into multiple transactions, each less than the $10,000 threshold. The amount of the penalty reflects the total of the currency involved in the structured transactions and as required by statute was offset by a civil forfeiture.

In 1991, Mr. Underhill negotiated three cashier's checks for currency, each under $10,000, at two branches of the same bank during one business day in an attempt to evade the filing of a CTR. The bank reported the transactions to the Government.

In announcing the penalty, Peter K. Nunez, Assistant Secretary of the Treasury said, "Treasury is continuing its enforcement of the Bank Secrecy Act by assessing civil penalties against non-compliant financial institutions and individuals." He praised the bank for reporting the transactions stating, "This penalty reflects the continued cooperative relationship between the banking community and Treasury." He also thanked United States Attorney Joseph M. Whittle of the Western District of Kentucky and his assistant, E. Brian Davis for their cooperation.

The BSA requires banks and other financial institutions to keep certain records, file reports on currency transactions in excess of $10,000 and file reports on the international transportation of currency, travelers checks and other monetary instruments in bearer form. The purpose of these records is to assist the government in combatting money laundering as well as for use in civil, criminal, tax and regulatory investigations.

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TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M. CONTACT: Office of Financing 202-219-3350

October 27, 1992

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 23,600 million, to be issued November 5, 1992. This offering will provide about $ 25 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 23,586 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, November 2, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91 -day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated August 6, 1992 and to mature February 4, 1993 (CUSIP No. 912794 A5 3), currently outstanding in the amount of $ 11,722 million, the additional and original bills to be freely interchangeable.

182 -day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated May 7, 1992 and to mature May 6, 1993 (CUSIP No. 912794 C5 1), currently outstanding in the amount of $ 14,451 million, the additional and original bills to be freely interchangeable.

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

The bills will be issued for cash and in exchange for Treasury bills maturing November 5, 1992. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold $ 1,917 million as agents for foreign and international monetary authorities, and $ 5,467 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

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Each 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 guide lines, 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 27, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $15,087 million of 2-year notes, Series AF-1994, to be issued November 2, 1992 and to mature October 31, 1994 were accepted today (CUSIP: 912827H39).

The interest rate on the notes will be 4-1/4%. All competitive tenders at yields lower than 4.37% were accepted in full. Tenders at 4.37% were allotted 12%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 4.37%, with an equivalent price of 99.773. The median yield was 4.35%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 4.30%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	32,605	32,605
New York	46,759,030	14,177,870
Philadelphia	18,315	18,315
Cleveland	176,195	41,195
Richmond	194,740	73,060
Atlanta	54,685	31,685
Chicago	1,647,505	182,495
St. Louis	54,375	52,375
Minneapolis	28,940	28,940
Kansas City	67,405	66,965
Dallas	14,530	14,530
San Francisco	562,540	107,540
Treasury	259,585	259,585
TOTALS	$49,870,450	$15,087,160

The $15,087 million of accepted tenders includes $870 million of noncompetitive tenders and $14,217 million of competitive tenders from the public.

In addition, $523 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $634 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2040

TREASURY NEWS

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

TEXT AS PREPARED FOR DELIVERY

Contact: Scott Dykema
(202) 622-2960

U.S. GLOBAL ECONOMIC LEADERSHIP IN THE POST-COLD WAR WORLD

Remarks by
The Honorable Olin L. Wethington
Assistant Secretary of the Treasury for International Affairs
at the
John F. Kennedy School of Government
Harvard University
October 27, 1992

Americans have had the opportunity to remake the world twice before in this century alone. At the close of the First World War, we chose unwisely to shrink from this task. We abdicated the mantle of global responsibility that was so new and unfamiliar to us. We allowed others to construct a world order that led to a second conflagration.

Fortunately, we learned from this tragic experience. At the close of the Second World War -- a war for which American industrial strength determined the outcome -- we accepted responsibility. We worked with our allies to build institutions like the UN, NATO and the Bretton Woods institutions to promote world peace and prosperity. Unfortunately, the Soviet Union forced confrontation in the post-war period.

The Cold War was, in a sense, a third world war. The various armed conflicts of the last four decades were the individual battles of the Cold War. Who among us does not wonder what greater economic and social achievement the world could have made had this 45 year struggle not been necessary.

Centuries from now, when the history book writers condense past eras into short paragraphs, schoolchildren will remember the triumph of democracy and market principles as <u>the</u> political achievement of the 20th century.

We are at the moment we have awaited for 45 years. While we seek a world safer, richer, freer and cleaner than the world of yesterday, it will not automatically come to pass. The next era will not spring forth fully formed, Athena-like. Rather, the order is ours to create, but only if we have the imagination to conceive it and the will to sustain it. If the great struggle between the world's communist and capitalist camps no longer provides the driving force for international developments, what will replace it?

Characteristics of the Emerging World Order

Before seeking to sum up this Administration's response to that question in the international economic field, I'd like first -- from the perspective of one involved in international economics policy decision-making -- to characterize the emerging world order.

Let me begin by reviewing five elements that I believe characterize the emerging world order:

One: The increasing primacy of economic factors in the exercise of power;

Two: Despite the emergence of new economic powers, the U.S. retains the capacity for decisive leadership in our increasingly interdependent world economy;

Three: Although there is a global shift to market approaches, the success of this transformation is not guaranteed and sharp differences remain over the appropriate degree of government involvement in the economy;

Four: The integration of global capital markets limits the capacity of governments to pursue economic policies in isolation of development in the rest of the world and to ignore the judgment of the market; and

Five: Multilateralism is under pressure, but the world is not moving inexorably toward three exclusive economic blocs.

Let me discuss each of these points in greater detail:

The Primacy of Economics

The first characteristic may be conventional wisdom, but is nonetheless true: a nation's position and influence in the emerging world order will be defined principally in economic, rather than in military, terms. Although economic matters may not completely supplant military considerations, they at least rival them in importance. As one involved in economic policy-making, I nonetheless recognize threats to our military security. Yet today, after 45 years of sacrifice and struggle, we are entering an era for which we have been waiting for decades -- one where we can shift the focus of our talents and resources towards economic advancement and human well-being.

A corollary, however, to the rise in importance of economic factors is that yesterday's military allies have become today's principal economic competitors. Our relationship with many of our closest partners takes on a complex mixture of cooperation and competition. A second corollary is that the key to a nation's global position will be its domestic economic strength -- a subject that I'll return to in a moment.

<u>The U.S. Position in the Emerging World Order</u>

A second feature of the new environment is that Cold War descriptions of the global distribution of power no longer hold. The world is neither bipolar, nor would I add, unipolar; nor is it multipolar in the sense of a number of competing camps. The concept of polarity has lost its meaning in an interdependent world. The United States is now the world's only remaining military superpower, and is its largest and most powerful economy. This awesome power still does not imply a unipolar world where the U.S. single-handedly determines the direction of events across all dimensions. Nor have we become a multipolar world in the sense of a number of co-equal competing powers. We find in today's world that coalitions among major powers shift with regularity.

America's influence remains global. It is in many instances decisive. But increasingly we lead by developing consensus, rather than by command.

Three points may help put in perspective the U.S. economic position in the emerging world order:

1) Since World War II, our primary foreign partners have closed the gap with us -- but the United States is still the world's dominant economy.

2) <u>Recent</u> U.S. performance has been stronger than that of our major industrial competitors.

3) The United States is well positioned to sustain its leadership position in the global economy provided we remain engaged internationally and further enhance our domestic economic performance.

<u>U.S. As the World's Dominant Economy</u>

Many political pundits have taken to the fashionable position that other industrialized countries, mainly Japan and Germany, have surged forward and are on the verge of surpassing us in the global economic competition. Some have heralded the 21st century as the "Pacific Century" portraying Japan, in particular, as a highly disciplined society on an inexorable march toward global preeminence. Others have asserted that the 21st century belongs to a reunited and reinvigorated Europe. These forecasts are, in my judgment, much too premature.

It is true that Japan, Germany, and other industrialized countries in the past several decades have made great strides in closing the economic gap with the United States. Our 50% share of the world economy immediately after World War II has declined to a still remarkable 20% share today. Prosperity in other industrialized countries has been both expected and encouraged by successive U.S. Administrations. It is also the case that a number of industrialized countries over the last several decades have had much higher savings and investment rates and, because they have not borne the burden of large defense expenditures, have been able to concentrate their energy on certain civilian technologies.

Nevertheless, although the gap has closed, the United States remains the world's strongest economy and, I believe, is capable of meeting the challenges necessary to maintain, and even strengthen, its position well into the foreseeable years of the 21st century.

In 1991, U.S. economic output on a purchasing power basis was 2 1/2 times Japan's and five times Germany's. In fact, U.S. output is still larger than the <u>entire</u> European Community. Last year, our gross domestic product ("GDP") per capita was 18% higher than Japan's and 15% greater than Germany's. Output per worker adjusted for purchasing power was 30% greater than in Japan and 11% greater than in Germany. The U.S. is the world's largest exporter -- larger than Japan or Germany. We shipped $422 billion of merchandise in 1991, or 12.3% of the world's total. U.S. export growth is outpacing growth in world trade generally and, over the last five years, our exports have grown 40% faster than Germany's and 75% faster than Japan's.

U.S. spending on research and development -- the key to competitive success in the high-tech industries of the 21st century -- dwarfs the combined spending of Germany and Japan. In 1990, on a constant dollar basis adjusted for purchasing power parity, U.S. spending on R & D was 47% greater than the <u>combined</u> spending of Germany and Japan.

<u>Recent Economic Performance</u>

Not only does the United States continue to occupy a dominant position, but during these early years of the post-Cold War era, U.S. economic performance is outpacing that of Japan, Germany, and most other industrialized countries. In Europe, the cost of German reunification -- resulting in high interest rates -- has dampened growth throughout the continent. In Asia, the end of Japan's so-called "bubble economy" has resulted in significant retrenchment. In the United States, we are going through an adjustment, a significant part of which is related to our conversion to a truly "peacetime" economy. Over the last several years, a substantial part of the job loss in our manufacturing sector has been in defense-related industries.

In 1991 the United States began a steady, albeit slow, recovery and is now leading the world out of this economic downturn. U.S. third quarter growth -- announced today -- rose at an annual rate of 2.7%. The United States is the only one of the "Big Three" to have experienced six consecutive quarters of positive growth. Both the OECD and the IMF forecast that in 1992 growth in the United States will be higher than in either Japan or Germany, and will be greater than the average for the entire OECD industrialized world. In addition, for 1993 the forecasts by the IMF and the OECD are for stronger U.S. growth than in either Europe or Japan.

Forecasts for growth in Japan have weakened as the year has progressed. The root cause of slowing growth in Japan is very weak domestic demand. Consumer demand is dampened because of the decline in real personal income growth and decline in asset values (for example, in land and equities). Japan is in the midst of a three year decline in corporate profits. Inventories remain high. Incentives for businesses to increase investment are limited. The year-long decline in industrial production has steepened. One bright spot in Japan's economy, the growth of its external sector, has negative implications for world growth as a whole. Because of the composition of Japan's August fiscal stimulus package and delays in implementation, the package has not had the projected effect of strengthening domestic demand.

In Germany, forecasts are also being revised downward for the second half of 1992. Retail sales and industrial orders are down and unemployment is rising in Germany. Private consumption, which had been expected to recover by mid-year, is increasingly seen as weak. Weaker than expected growth will hurt government revenues and make Germany's ambitious budget deficit targets harder to achieve.

<u>Positioning for the Future</u>

The U.S., in contrast, has laid the economic groundwork for a more solid recovery over the next several years, than have most other industrial nations. U.S. short-term interest rates are the lowest among the G-7 industrialized nations. Inflation here is down in the 3% range, compared with Germany in the 4-5% range and Japan at about 2%.

Part of the reason the U.S. recovery is sluggish is the actions being taken by U.S. businesses and consumers to reduce their debt burdens -- thus placing them in a stronger, more competitive position in the future. In 1991, U.S. household liabilities, as a percentage of disposable income, were 13% lower than Japanese household indebtedness. (Comparable German figures are not available.) U.S. consumer installment credit is falling at a rate of 4.0% annually, as the baby-boomers shift from high consumption in their early years to the higher savings patterns typically associated with older groups. U.S. business is also highly competitive with regard to the debt burden it must carry: in 1990, U.S. non-financial firms' debt as a percentage of total assets stood at 45% -- compared with 62% in Germany and a whopping 80% in Japan.

According to a 1992 OECD study, the overall cost of capital that businesses have to pay for the money they put to productive uses is lower in the U.S. than in Japan and about even with Germany. Healthy U.S. equity markets reflect this same trend: while the Dow hits new highs above 3300 points and Wall Street's new equity issues rebound, comparable markets abroad are sluggish. Reflecting the bursting Japanese "bubble," Tokyo's Nikkei stock average has lost almost 60% of its value since December 29, 1989. In the same period, the West German index lost approximately 12 percent of its value -- while the Dow rose almost 23 percent.

These economic indicators still do not tell the whole story. In Japan, many characteristics that worked well during the industrial rebuilding and export-led growth stages of post-war development may hinder its future performance. Japan has an under-developed financial services sector, a system of dominant major company groups (called "keiretsu") that fosters oligopolistic practices and limits new entrants, an inefficient distribution system resulting in higher prices for the same goods than elsewhere, high costs of land, and inadequate roads, seaports and airports. Japan's homogeneity, which some count as a strength, could become a weakness if it prevents Japan from opening its borders to needed foreign labor or from tapping the creative skills and ideas necessary in a global economy that rewards innovation. Even Japan's export strength may prove a weakness if it drives up protectionist pressures in overseas markets.

In Germany, the costs of reunification have proven unexpectedly high. The German government recognizes the problem, but is only now moving to solve it. It is thus apparent that these costs will persist for some time -- imposing a burden on European growth as high interest rates in Germany are transmitted through the ERM to the rest of Europe. In addition, as the OECD has also observed, German labor policies inflate labor costs hurting the competitiveness of German industry. This may drive

German manufacturers into the newly emerging economies of Eastern Europe or even the United States -- witness BMW's recent decision to build its only major plant outside Germany in South Carolina.

To sum up on our position in the emerging world order: We are still the strongest economy, but our competitors have been closing the gap since World War II. However, despite contrary conventional wisdom, the U.S. is now outperforming its major rivals and may be poised for stronger economic performance over the medium term. The long-term future depends on how we tackle important domestic challenges -- such as encouraging private initiative, improving education, and raising our savings and investment rate. Many of the strengths that underlie the impressive post war economic performance of our major competitors remain and will serve them well in the future. Our future position will have to be earned.

The Difficult Transition to the Market

The third element of the emerging order is the general consensus that free market economics is the route to prosperity. With the collapse of communism and centrally planned economies worldwide, we can lay claim to the historical superiority of market-based economies. It is our hope that free markets will lead to freer and more democratic societies.

However, the process of reorienting economies which previously were heavily dependent on state planning and regulation will take considerable time. This will be the case, most particularly, in the states of the former Soviet Union and Eastern Europe. The transition to market economies will be painful, frustrating, and in many cases prolonged, with the process moving in fits and starts.

Moreover, while we should take satisfaction in the general ascendancy of democratic capitalism, this does not mean there are no longer substantial differences in approach among those claiming a market orientation. Capitalism in the late 20th century comes in many diverse forms. Debates are raging from Prague to Brasilia about which of the various capitalistic models can best serve the interests of societies that generally want to move away from the failed policies of the past towards market reforms. We witness varying levels of government intervention within economies. How active governments should be will continue as a central line of debate. Some, for example, call for a so-called "strategic trade policy" or an "industrial policy." Both are efforts through government intervention to provide an artificial advantage in global competition. The debate becomes even more complex when one factors in certain cultural modes of operation and business practices not directly managed by government, but rather tolerated as part of the country's "way of doing business." The debate over how to neutralize or discipline these "artificial" advantages in competition will be a central ideological fault line in the emerging world order.

Capital Market Integration and Market Discipline

The fourth significant characteristic of the emerging world order is that the integration of global capital markets limits the capacity of governments to pursue economic policies in isolation of developments in the rest of the world. The global financial markets now constitute a virtual 24-hour a day judgment on the economic policies of governments. The judgments of markets regarding currency values impose varying degrees of discipline on a nation's economic policies. As we have recently witnessed in Europe, ignoring the discipline of such markets is not cost-free.

The integration of markets is made possible by the speed of communication. Markets are connected by the instantaneous communication between trading rooms around the world. The power of markets to overwhelm governments with tremendous speed has recently been seen in Europe. The substantial intervention in currency markets by European governments -- which some European press estimate to be as high as 130 billion dollars during August and September -- is the latest dramatic example.

Multilateralism and Regionalism

My fifth and final point concerns the conflicting tendencies toward multilateralism and regionalism in the world trading system. Although the multilateral system is under pressure, I do not accept the fashionable view that the world is breaking into three competing regional economic blocs -- a Western Hemispheric bloc dominated by the United States, a Pacific yen bloc led by Japan, and a unified Europe dominated by a unified Germany. Without completely discounting the "three bloc world" as a long-term possibility, I believe the scenario misses the mark in a number of ways:

Diversification of Power and Interests in Asia

Although Japan does have a strong economic position in Asia, a "yen bloc" in which Japan exercises dominant influence is not emerging. The share of intra-regional trade in East Asia increased from 33 percent in 1980 to 37 percent in 1989, but this total level of intra-regional trade is still quite low in comparison with the EC's 60 percent. This increase in trade within Asia can be attributed to the strong growth in the Asian economies, rather than to a deliberate policy of those in the region to focus on developing trading relationships within their own "bloc."

Invoicing of Japanese trade in Asia in yen is increasing on a long term basis, but still lags far behind comparable figures for use of the dollar by the U.S. and the deutschemark by Germany. Most Asian countries set their exchange rate using a basket of currencies, with generally heavier weight assigned to the U.S. dollar. The share of yen in official reserve holdings in Asian countries grew substantially in the mid-1980s, due primarily to the appreciation of the yen, but fell back in the late 1980s to under 20%. There is increasing evidence that Japanese interest rates influence those in certain other Asian countries, but interest rates in most of Asia tend to be affected more by a combination of a country's own macroeconomic policies and broader global interest rates, including those of the United States.

Commercial and financial links between Japan and Asian countries have strengthened in recent years -- witness the rise in Japanese direct investment in the region, the resulting production linkages between Japanese companies and their local affiliates in the region, and the influence of Japanese export credits and development assistance on trade flows. However, the most striking point regarding the distribution of economic power within Asia has been its diversification. Trade among the developing countries of Asia has grown faster than with either Japan or the United States. Singapore, Taiwan, Korea and Hong Kong have become major investors in the region, with in 1991 outward foreign direct investment by these countries surpassing that of Japan in several significant Asian countries, including Malaysia and Indonesia. Taiwan alone was the largest single foreign investor in Malaysia and Vietnam in 1991. China is now also beginning show economic strength on the world stage. It is demonstrating a strong export capacity. The IMF estimates China's reserves will total approximately $55 billion by the end of this year.

While these other centers of economic influence in Asia are developing, Japan has entered a period of domestic slowdown and retrenchment. New Japanese investment in Asia has actually declined the past several years, as has Japanese bank lending to the region. If Japan's economic slowdown continues, it will constrain the extension of Japanese economic influence in Asia.

Economic cooperation among countries in Asia will grow, but we should not confuse strengthened regional economic ties with exclusionary trading blocs. Asia will continue to be one of the most diverse regions of the world and one closely tied into global patterns of trade and investment.

<u>The Maastricht Debate</u>

With regard to Europe, economic and monetary integration is undergoing political examination. We are witnessing not simply adjustments to the path and timing of the integration process, but a deepened reexamination of the fundamental issue of how much authority should be yielded by sovereign states to central European institutions -- the so-called question of "subsidiarity." Europe is sharply divided on this question as recent referenda on the Maastricht treaty indicate. The recent tensions in the European Exchange Rate Mechanism reflect the difficulties of taking the policy decisions necessary to converge economic performance. Furthermore, with the disappearance of the Soviet threat to the East, nationalistic tendencies within the various states of Europe are reemerging. Moreover, the complexity of the decision-making process within the Community is affecting the ability of Europe to take collective action.

If Europe turns inward on its own intra-European political and economic problems, the risk would increase that European trading practices would emerge in a way that might tend to exclude non-European states. The domestic economic difficulties of certain individual European countries have, for example, limited their ability and willingness to take risks in favoring of concluding the trade liberalization process in the Uruguay Round. This risk becomes more pronounced if economic growth within Europe remains slow. Many private forecasters are now making downward growth revisions for 1993. Although the Bundesbank has indicated more flexibility recently and has allowed some market interest rates to fall a bit, monetary policy within Germany reflects concerns about the inflationary pressures generated by the burden of reunification. Tight spending limits and ambitious deficit targets set in the 1993 budget and the medium-term fiscal program must still be implemented, but weaker-than-expected growth will hurt revenues and make it even more difficult to reduce subsidies to the East.

Although the political leadership of Europe is seeking to find ways to keep the process of economic integration moving forward, it is apparent that is will be a more complicated and elongated process than foreseen as recently as a year ago.

<u>Economic Integration and Market Reform in the Western Hemisphere</u>

In contrast to the conflicting tendencies within Europe and Asia, there is now strong political momentum for regional economic integration in the Western Hemisphere reflected both in the NAFTA and the President's Enterprise for the Americas Initiative. Although the existing level of economic integration within the Western Hemisphere is less than in Europe, the drive among both the public and its leaders in this Hemisphere is strong and is growing. And this goal is not being pursued in an exclusive, beggar-thy-neighbor kind of way that will dampen the growth of world trade. On the contrary, the North American Free Trade Agreement which has just been negotiated will serve as the catalyst for a network of open market arrangements across this Hemisphere, and perhaps with other regions. Others in this Hemisphere already appear more than willing to join with us.

At the same time, some Latin American and Caribbean countries are establishing agreements among themselves to reduce barriers to trade and investment--within the Southern Cone countries, the Andean Pact, Central America, and the CARICOM group of countries. The President's goal of hemisphere free trade, and the regional growth and prosperity that accompany it, is within our grasp within a matter of years rather than decades -- if we persevere.

To gauge how far we have come in the last few years, reflect for a moment on the dramatic change that has taken place in Latin America in the past few years. A decade ago, this region was the front line of the Third World debt crisis; exports plummeted; interest charges on the region's debt soared; new loans and investment dried up; capital fled in massive amounts. The international banking and financial system was threatened as the difficulties of debt service spread from country to country. The Latin American people suffered deeply as their incomes declined and inflation skyrocketed.

Now, however, the United States and Latin America are working together in a partnership based on mutual respect, rather than dependency. This is accompanied by the realization that real economic growth and higher standards of living will come through trade, not aid. In the 1990s, a new Latin America has emerged from the crisis of the 1980s. The revolution has been quiet, but dramatic. Real growth--negative in the 1980s-- now averages approximately 3 percent in the region. Inflation has been sharply reduced; reserves have doubled. Some $40 billion in private capital flowed into the region last year--eight times the flow in 1989. Democratic governments throughout the region are committed to market reform.

These developments serve as the underpinnings for an open economic integration in this region from which other countries outside the region will benefit. The character of integration within this Hemisphere will help catalyze multilateral trade liberalization rather than reinforce movement toward exclusive blocs.

Implications for U.S. International Economic Policy

I'd now like to move to the second part of my remarks, the implications for U.S. international economic policy. Five elements capture the Administration's policy response.

Strength Abroad Begins at Home

First, the Administration's international economic policy starts with the premise that the global influence of the United States is a function of our domestic economic strength. Views differ sharply across the spectrum of American politics as to how domestic economic strength can be enhanced, but the central proposition appears self-evident: With the relative decline of military factors as elements of influence in world affairs, the economic dimension of international position is more important. Our global task begins at home. Domestic policy is foreign policy. We stay strong in the world only to the extent we stay strong at home. The President's Agenda for American Renewal is the basis for enhancing our domestic performance long term. It properly focuses on stimulating private savings and investment, on entrepreneurial capitalism, on constraining government spending, on education and worker training, and on removing government barriers to the efficient functioning of the market-- both domestically and internationally.

Developing a Domestic Constituency for Engagement

Second, we must maintain a strong domestic political consensus for remaining engaged internationally. This consensus appears to have weakened as the Soviet threat has disappeared and concerns over U.S. domestic economic problems have deepened. Although this desire to turn inward may simply be temporary, our interconnectedness with the rest of the world is, I believe, self-evident to most Americans. This Administration will continue demonstrating to the public that domestic and foreign policies are inextricably linked and that domestic policies are responding to the new international realities. Effective communication with the public can sustain a domestic mandate for international leadership. This is the point diplomacy, politics, and statecraft merge.

Effective Macro-Economic Coordination

Third, we must maintain effective coordination of macro-economic policy with other governments, particularly with the G-7 group of the world's largest industrialized democracies.

The G-7, which represents roughly 60% of the world's GNP, remains committed to addressing the most serious systemic issues facing the world economy. Its success over the past several years in developing the international debt strategy, responding to the historic changes underway in Eastern Europe and in the former Soviet Union and in achieving this year the consensus on strengthening world growth demonstrates the kind of positive impact it can have.

The most pressing short- and medium-term agenda for the G-7 is continued implementation of policies to strengthen world economic growth. The G-7 should continue to search for ways to strengthen the policy coordination process and to encourage countries to share the burden of adjustment. This search will involve an assessment -- which Secretary Brady recently initiated in his capacity as Chairman of the G-10 -- of the implications of recent developments in global capital markets for exchange markets and the international monetary system. Our efforts to strengthen the G-7 process are, in my view, unlikely to require in the short term the creation of grand new structures or major institutional reforms. Rather, what is required is commitment to use the existing G-7 process to coordinate domestic economic policies around common objectives. Institutional innovations cannot substitute for policy commitments. Effective macroeconomic coordination will require each party at one time or another to bring to the table commitments to discipline their domestic economic policies to ensure that the burden for adjustment is shared among the leading countries of the world.

Supporting Market Reform

Fourth, the Administration is committed to supporting market reform throughout the world. The revolution in Latin America, the demise of command economies in Eastern Europe and in the Soviet Union, as well as the continuing structural reform in Africa and various parts of Asia, provides an historic opportunity to shape the structure and policies of a large number of economies and to consolidate their recent achievements by facilitating their integration into the world economy. There is a willingness on the part of many of the governments of these reform-minded countries to involve outside participants. Moreover, to the extent that the international community is prepared to provide financial support for the reform process, it can, to some extent, directly influence economic reforms which a government undertakes.

The manner in which we support the reform process is critical. There is a preference among many reforming economies for multilateral over bilateral assistance. From the U.S. perspective, this coincides with recognized budget constraints and enables us to leverage our participation in the various multilateral financial institutions, such as the IMF, the World Bank, and various regional multilateral development banks. The IMF and World Bank have proved their usefulness in assisting the reform process in Latin America, Asia, and the nascent democracies of the former Soviet bloc. It is in the U.S.'s interest to continue to support these institutions. The recent approval by the Congress of the U.S. of its 12 billion dollar share of the IMF quota increase demonstrates the U.S. continued commitment to that institution. With an approximate 20% share in each of the various multilateral institutions, every dollar of U.S. money can be leveraged with four dollars from other donors. As in other areas, we cannot act alone to force these institutions down a particular path. But working in concert with our allies, we can persuade the institutions to continue to implement development through the market-based policies reflective of today's emerging consensus. In this process, the United States and the other G-7 countries should not permit the permanent staff of these institutions to substitute their judgments for those of the major shareholders.

A key goal of our support for the reform efforts of the international financial institutions is to encourage as rapidly as possible reliance on private flows of capital, rather than on official aid flows for development. By adopting policies that stress market reform, open trade, and protect investments, both foreign and domestic capital can be enlisted in the development effort. These flows can dwarf official assistance. The United States should continue, as it has been, to work with the multilateral lending institutions to direct an increasing part of their program to support the development of the private sector.

Opening World Markets

Finally, the United States should maintain its intense commitment to market opening around the world. The continued effort to conclude the GATT/Uruguay Round reflects the high priority the United States places on strengthening the multilateral trading system. Despite the difficulties of certain elements of the Round, such as agriculture, the leadership of the G-7 recognizes the importance of the multilateral market opening process to expanding global prosperity.

At the same time, the United States should continue to pursue liberalization of markets at various levels -- multilateral, regional and bilateral. The Treasury's particular interest in financial market liberalization is being pursued at each of these levels. These multi-tiered efforts reinforce each other. The regional market opening effort that the United States has pursued in the Western Hemisphere is a natural byproduct of the commitment to market reform that is taking place in this region. The NAFTA does not raise additional barriers at the border to trade and investment; instead, it lowers them and is another step on the road toward global free trade.

Although, to some, NAFTA is seen as a first step in this hemisphere to an exclusive regional trading bloc, the opposite is in fact true. The NAFTA is consistent with GATT norms and disciplines and in many areas actually provides greater liberalization than the GATT has been able to achieve so far. The countries of this Hemisphere have recognized that they need the kind of free trade and open investment reforms which the NAFTA requires in order to win in the global competition for goods, capital and technology. Our approach toward integration will enable other countries to share in the benefits of liberalization.

Our regional and bilateral efforts can move forward as the multilateral process unfolds. The President in his Agenda for American Renewal proposes that, beyond the GATT/Uruguay Round process, the United States should develop a "strategic network of free trade agreements across the Atlantic and the Pacific and in our own hemisphere."

Conclusions

The emerging post-war era is an era of opportunity. We should not succumb to the pessimism of those that tear down America's capacity for leadership and the promise for the future -- nor should we assume America's future position in the world does not have to be earned; on the contrary, it can only be sustained with great effort. We must continue to develop conscious policies supported by strong domestic economic performance and public consensus which acknowledges the interconnectedness of our domestic and international interests.

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
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JOINT STATEMENT OF
NICHOLAS F. BRADY,
SECRETARY OF THE TREASURY,
AND
RICHARD G. DARMAN,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET,
ON
BUDGET RESULTS FOR FISCAL YEAR 1992

SUMMARY

The Administration is today releasing the September Monthly Treasury Statement of Receipts and Outlays of the United States Government. The statement shows the actual financial totals for the fiscal year ended September 30, 1992, as follows:

- -- a deficit of $290.2 billion (4.9 percent of Gross Domestic Product (GDP));
- -- total receipts of $1,091.7 billion (18.6 percent of GDP); and
- -- total outlays of $1,381.9 billion (23.6 percent of GDP).

Chart 1 illustrates the trends in outlays, receipts and the deficit as a percentage of GDP between 1980 and 1992.

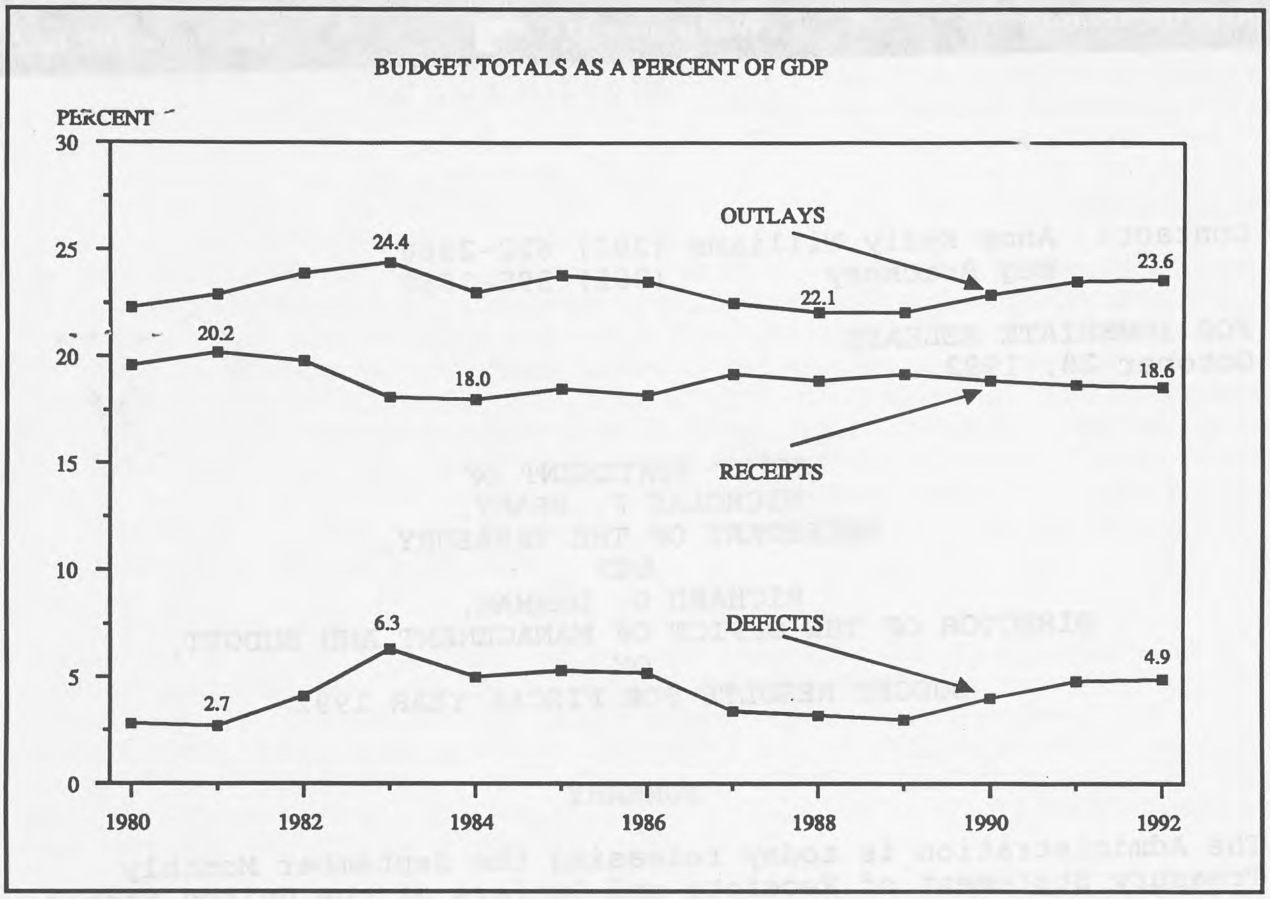

Table 1. TOTAL RECEIPTS, OUTLAYS AND DEFICITS
(in billions of dollars)

	Receipts	Outlays	Deficits
1991 Actual........................	1,054.3	1,323.8	-269.5
1992:			
FY 1993 Budget Estimate.........	1,075.7	1,475.4	-399.7
Mid-Session Review Estimate......	1,073.6	1,407.1	-333.5
Actual..........................	1,091.7	1,381.9	-290.2

DEFICIT

The actual FY 1992 deficit, $290.2 billion, is $109.5 billion lower than the deficit estimated in the budget. The changes from the budget deficit estimate reflect the impact of:

-- a $77.5 billion decrease in deposit insurance outlays;

-- a $16.0 billion decrease in other outlays; and

-- a $16.0 billion increase in receipts.

Compared to the deficit estimated in the Mid-Session Review (MSR), the actual FY 1992 deficit, $290.2 billion, is $43.3 billion lower. The changes from the MSR deficit estimate reflect the impact of:

-- an $8.4 billion decrease in deposit insurance outlays;

-- a $16.8 billion decrease in other outlays; and

-- an $18.1 billion increase in receipts.

RECEIPTS

Actual FY 1992 receipts were $1,091.7 billion, $16.0 billion higher than the budget estimate and $18.1 billion higher than the MSR estimate. Actual collections, the implementation of regulatory changes and a delay in the effective dates in legislative proposals were in large part responsible for the $2.1 billion reduction in receipts between the budget and MSR. Failure to adopt legislative proposals increased actual receipts by $6.2 billion relative to the MSR. Withholding of income and payroll taxes on wages and salaries and deposits of earnings by the Federal Reserve were all higher than anticipated, and accounted for most of the remaining increase in receipts relative to the MSR. Table 2 displays actual receipts and estimates from the budget and MSR, by source.

Changes in Receipts According to Source

-- Individual income taxes were $476.5 billion, $2.3 billion lower than the budget estimate and $4.3 billion higher than the MSR estimate. Lower projections of nominal income, reflecting a slowing in inflation, and lower-than-estimated final payments of 1991 liability were in large part responsible for the $6.6 billion reduction in this source of receipts between the budget and MSR estimates. Higher-than-estimated withheld and non-withheld taxes, and lower-than-estimated refunds, which were partially offset by lower-than-expected net transfers from the social security trust funds, were primarily responsible for the increase in collections relative to the MSR estimate.

-- Corporation income taxes were $100.3 billion, $11.2 billion higher than the budget estimate and $6.1 billion higher than the MSR estimate. Higher projections of corporate profits increased the estimate of this source of receipts by $5.2 billion between the budget and MSR. Failure to adopt legislative proposals increased this source of receipts relative to the MSR estimate by $6.2 billion.

-- Social insurance taxes and contributions were $2.8 billion higher than the budget estimate of $410.9 billion and $3.3 billion higher than the MSR estimate of $410.4 billion. The MSR estimate of this source of receipts was $0.4 billion less than the budget estimate, reflecting lower projections of nominal income. Lower-than-expected net transfers from the social security trust funds to individual income taxes, and higher-than-estimated railroad retirement taxes accounted for $2.2 billion of the $3.3 billion increase in this source of receipts relative to the MSR estimate. Unemployment insurance taxes and other retirement contributions were also higher than anticipated, and accounted for $0.9 billion and $0.1 billion, respectively, of the remaining difference relative to the MSR.

-- Miscellaneous receipts were $5.6 billion higher than the budget estimate and $4.9 billion higher than the MSR estimate. Deposits of earnings by the Federal Reserve System accounted for most of the increase in this source of receipts between the budget and MSR. Additional increases in deposits of earnings by the Federal Reserve System, reflecting higher-than-expected asset values on securities denominated in foreign currencies, accounted for $3.8 billion of the increase in this source of receipts relative to the MSR.

-- Other receipts, which include customs duties, excise taxes, and estate and gift taxes, were $74.1 billion, $1.3 billion below the budget estimate and $0.5 billion below the MSR estimate.

OUTLAYS

Total outlays were $1,381.9 billion, $93.5 billion lower than the budget estimate and $25.2 billion lower than the outlays estimated in the MSR. Deposit insurance was $77.5 billion lower than the budget estimate and $8.4 billion below the MSR estimate. Other outlays were $16.0 billion below the budget and $16.8 billion below the MSR.

The major differences in outlays between the budget and MSR estimates and the FY 1992 actuals are described below. Table 3 displays actual outlays and estimates from the budget and MSR by agency and major program.

Deposit Insurance. Total outlays for deposit insurance were $2.9 billion, $77.5 billion below the budget estimate of $80.4 billion and $8.4 billion below the forecast in the MSR of $11.3 billion.

-- Resolution Trust Corporation. Outlays for the Resolution Trust Corporation were $49.4 billion lower than the budget estimate of $40.5 billion and $2.6 lower than the MSR estimate of -$6.4 billion. The decline in the estimate from the budget to the MSR was due to Congress' failure to enact additional funding for the RTC. The difference from the MSR to the actual outcome is attributable to higher sales of acquired assets. The MSR estimate assumed $9 billion in recoveries over the July to September period; actual recoveries totalled $11.7 billion.

-- Bank Insurance Fund. Outlays for the Bank Insurance Fund were $29.3 billion lower than the budget estimate of $33.0 billion and $7.1 billion lower than the MSR estimate of $10.8 billion. The difference from the budget to the MSR is attributable to technical reestimates of the resolution costs of failed banks. The change from the MSR to the actual represents even fewer bank resolutions combined with an increase in the sale of assets under FDIC control.

-- FSLIC Resolution Fund. Outlays for the FSLIC Resolution Fund were $1.4 billion higher than the budget estimate of $7.0 billion and $1.3 billion higher than the MSR estimate of $7.1 billion. Assistance agreement payments and audit adjustments increasing the principal on notes issued in conjunction with the resolution of thrift failures in 1988 added $2 billion to the MSR estimates. This was partially offset by $0.7 billion in additional liquidation collections.

Other Outlay Changes

Department of Agriculture. Actual outlays for the Department of Agriculture were $56.4 billion, $5.4 billion below the budget and $2.9 billion below the MSR estimate. Outlays for the Food and Nutrition Service were $1.0 billion below the budget and $0.9 billion below the MSR estimate due mostly to lower-than-forecast participation and spending in food stamps.

Outlays for Commodity Credit Corporation (CCC) were $9.7 billion, $2.2 billion below the budget and $0.8 billion below the MSR estimate. The decrease in the estimate between the budget and the MSR reflected more current crop forecasts than were available in January. The decrease from the MSR estimate is largely attributable to a decrease in funds required for the CCC working capital fund and to lower-than-expected payments on export guarantee program defaults.

Net outlays for the Rural Electrification Administration were down $1.6 billion from the budget and $0.6 billion from the MSR estimate due largely to increases in offsetting receipts resulting from increased refinancings of loans at lower interest rates.

Outlays for Farmer's Home Administration were $0.5 billion lower than the budget and MSR estimates due to increases in offsetting receipts. The additional receipts are a result of prepayments on housing loans resulting from favorable market interest rates. In addition, loan disbursements for long-term construction loan programs were less than anticipated, and major automatic data processing expenditures were delayed.

Department of Defense - Military. Outlays of the Department of Defense - Military were $286.6 billion, $7.8 billion lower than the budget estimate and $4.7 billion lower than the MSR estimate. The MSR estimate was lower than the budget due to delayed obligations in research and development programs, real property maintenance, and certain operating accounts. The lower MSR estimate also reflected delayed action on the environmental supplemental. Actual outlays were lower than the MSR due to slower than planned replacement of supply inventories and further delays in obligations for the accounts mentioned above. The decreases were partially offset by higher than anticipated military personnel outlays, particularly for separation pay and benefits.

Department of Education. Department of Education outlays were $26.0 billion, $0.5 billion below the budget and $0.7 billion below the MSR estimate. Outlays were lower than earlier estimates due to a delay of obligations into FY 1993 pending implementation by the States of recent legislative changes and slower-than-anticipated State drawdowns in large State formula grant programs.

<u>Department of Health and Human Services</u>. Actual outlays of the Department of Health and Human Services were $539.4 billion, $4.7 billion below the budget and $4.8 billion below the MSR estimate. The major components of this decrease were in Medicare and Medicaid. Outlays for Medicaid were $4.7 billion below the budget and $3.1 billion below the MSR estimate. Updated State estimates of spending on Medicaid decreased the budget estimate by $1.6 billion for the MSR. The difference between the MSR estimate and the FY 1992 actual is largely because State payments to hospitals with a disproportionate share of Medicaid patients were lower than anticipated. Several States have decided not to pay these adjustments until the State plan amendments are approved by HHS.

Medicare outlays for FY 1992 were $132.3 billion, $0.5 billion above the budget estimate and $1.0 billion below the MSR estimate. The MSR Medicare estimate was increased from the budget based on greater projected use of reimbursements to skilled nursing facilities, home health agencies and other factors. The difference between the MSR estimate and the actual reflects the net impact of a $2.8 billion decrease in supplementary medical insurance (SMI) outlays partially offset by a $1.8 billion increase in hospital insurance (HI) outlays. Outlays for physician expenditures under SMI were lower than estimated due to delays caused by the new method of payment introduced in FY 1992, which is unfamiliar to payors and providers. The increase in hospital insurance outlays is due to higher-than-anticipated inpatient hospital utilization over the last six months. Increased utilization of the home health and skilled nursing facility benefit also contributed to some of the increase.

Outlays for supplemental security income and family support payments to States were slightly lower than projected. Slower spending was partly offset by higher-than-expected outlays for the disability insurance portion of social security.

<u>Department of Housing and Urban Development</u>. Outlays were $24.5 billion, $0.3 billion above the budget estimate but $0.7 billion below the MSR estimate. The outlay estimate increased from the budget to the MSR for the Federal Housing Administration (FHA) to adjust for higher-than-anticipated costs for property disposition, and in anticipation of a surge in FHA refinancings. Outlays were lower than estimated in the MSR because several public housing modernization and other projects were not completed by the end of the year.

Department of the Interior. Actual outlays were $6.6 billion, $0.5 billion less than the budget and the MSR estimates. Spending by the Bureaus of Reclamation and Indian Affairs was lower than anticipated. Receipts from timber harvests in the Pacific Northwest were lower than estimated, primarily due to reduced cutting in order to protect the spotted owl.

Department of Labor. The Department of Labor's actual outlays for FY 1992 were $2.8 billion above the budget estimate and $1.0 billion above the MSR estimate. Most of the increase occurred in the Department's benefits programs and is attributable to higher numbers of unemployed workers and longer benefit durations than estimated in the budget and MSR.

Department of Transportation. The Department of Transportation's actual outlays were $0.8 billion below the budget estimate and $0.9 billion below the MSR projection. Federal Highway Administration outlays were $0.6 billion lower than projected. Highway spending was slower than anticipated, due to late enactment of new, comprehensive legislation (the Intermodal Surface Transportation Efficiency Act), that delayed by nearly one quarter the availability of new funds. Outlays for transit programs and the Coast Guard were also slightly below the budget and MSR estimates.

Department of the Treasury. The Department of the Treasury's outlays were higher than the budget estimate by $1.5 billion and $0.5 billion higher than the MSR estimate. Internal Revenue Service outlays were $1.0 billion higher than the budget estimate and $0.8 billion higher than the MSR estimate. The difference between the MSR and the FY 1992 actual is due partially to higher interest on refunds of corporate and windfall profit taxes. Also contributing was the increased use of the earned income tax credit which was partially a result of IRS efforts to qualify entitled recipients. Outlays for interest on the public debt were $0.7 billion lower than the budget estimates and $0.4 billion higher than the MSR estimate. These changes in interest on the public debt reflect the net impact of lower interest rates and deficits, partly offset by technical factors that increased interest. These increases were partially offset in the exchange stabilization fund (ESF). Net outlays were $0.7 billion below the budget and the MSR estimates because of changes in interest rates and capital gains and losses.

Export-Import Bank. Export-Import Bank outlays were $0.7 billion lower than the budget and MSR estimates, primarily because loan repayments were higher than estimated.

Table 2.—–1992 BUDGET RECEIPTS BY SOURCE
(fiscal years; in millions of dollars)

Receipts by Source	1991 Actual	1992 Estimate Budget	1992 Estimate Mid–Session	1992 Actual	Change Budget	Change Mid–Session
Individual income taxes	467,827	478,749	472,129	476,465	–2,284	4,336
Corporation income taxes	98,086	89,031	94,189	100,270	11,239	6,081
Social insurance taxes and contributions:						
Employment taxes and contributions:						
On–budget	76,641	82,741	82,348	83,065	324	717
Off–budget	293,885	300,922	300,923	302,426	1,504	1,503
Subtotal, Employment taxes and contributions	370,526	383,663	383,271	385,491	1,828	2,220
Unemployment insurance	20,922	22,547	22,480	23,410	863	930
Other retirement contributions	4,568	4,653	4,671	4,788	135	117
Subtotal, Social insurance taxes and contributions	396,016	410,863	410,422	413,689	2,826	3,267
Excise taxes	42,402	46,098	45,983	45,570	–528	–413
Estate and gift taxes	11,138	12,063	11,521	11,143	–920	–378
Customs duties	15,949	17,260	17,074	17,359	99	285
Miscellaneous receipts	22,847	21,643	22,303	27,195	5,552	4,892
Total, Receipts	1,054,265	1,075,706	1,073,620	1,091,692	15,986	18,072
On–budget	760,380	774,784	772,697	789,266	14,482	16,569
Off–budget	293,885	300,922	300,923	302,426	1,504	1,503

Table 3.--1992 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1991 Actual	1992 Estimate Budget	1992 Estimate Mid-Session	1992 Actual	Change Budget	Change Mid-Session
Legislative branch and the Judiciary	4,285	5,131	5,095	4,976	-155	-119
Executive Office of the President	193	199	198	190	-9	-8
Funds Appropriated to the President:						
International Security Assistance:						
Foreign Military Financing	5,567	4,107	4,094	4,399	292	305
Economic Support Fund	4,321	3,282	3,262	2,938	-345	-324
Other	-357	-82	-296	-134	-52	162
International development assistance	3,444	4,027	3,670	4,029	2	359
International monetary programs	179	8	8	-686	-694	-694
Military sales programs	-1,438	118	283	305	187	22
Other	8	22	42	258	236	216
Subtotal, Funds Appropriated to the President	11,724	11,482	11,063	11,108	-374	45
Agriculture:						
Commodity Credit Corporation	10,110	11,961	10,564	9,738	-2,223	-826
Foreign assistance – P.L. 480	753	1,234	1,234	971	-264	-264
Federal Crop Insurance Corporation	770	936	936	954	18	18
Rural Electrification Administration	100	627	-308	-934	-1,561	-626
Farmers Home Administration	6,629	4,971	4,975	4,455	-516	-520
Food and Nutrition Service	28,065	33,095	32,985	32,096	-999	-888
Forest Service	3,001	3,122	3,108	3,293	172	185
Other	4,691	5,848	5,848	5,862	14	14
Subtotal, Agriculture	54,119	61,794	59,343	56,436	-5,358	-2,907
Commerce	2,585	2,867	2,869	2,567	-300	-303
Defense-Military:						
Military Personnel	83,439	79,289	79,834	81,171	1,882	1,336
Operation and Maintenance	101,769	97,887	95,670	92,042	-5,845	-3,627
Procurement	82,028	73,952	74,068	74,881	929	813
Research, Development, Test and Evaluation	34,589	36,145	35,943	34,632	-1,513	-1,311
Other	-39,901	7,147	5,795	3,906	-3,241	-1,889
Subtotal, Defense-Military	261,925	294,420	291,310	286,632	-7,789	-4,678
Defense-Civil	26,543	27,890	28,014	28,265	375	251

Table 3.--1992 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1991 Actual	1992 Estimate Budget	1992 Estimate Mid-Session	1992 Actual	Change Budget	Change Mid-Session
Education	25,339	26,528	26,712	26,047	-480	-665
Energy	12,459	15,719	15,711	15,439	-280	-272
Health and Human Services -- except Social Security:						
Medicare	117,763	131,781	133,278	132,256	475	-1,022
Medicaid	52,533	72,503	70,930	67,827	-4,675	-3,103
Public Health Service	15,348	17,661	17,663	17,447	-214	-215
Family Support Payments to States	13,520	15,114	15,506	15,103	-10	-402
Supplemental Security Income	15,926	19,794	19,794	19,445	-348	-348
Other	2,880	6,544	5,936	5,882	-662	-54
Subtotal, Health and Human Services -- except Social Security	217,969	263,397	263,107	257,961	-5,435	-5,145
Health and Human Services -- Social Security	266,395	280,654	281,111	281,418	765	308
Subtotal, Health and Human Services	484,364	544,051	544,218	539,379	-4,672	-4,840
Housing and Urban Development.						
Housing payments	14,310	15,044	14,980	14,389	-655	-591
Federal Housing Administration funds	1,892	1,196	2,260	2,456	1,260	195
Government National Mortgage Association	-280	-279	-294	-352	-73	-58
Community development grants	2,941	3,125	3,125	3,158	32	32
Other	3,889	5,073	5,127	4,820	-253	-307
Subtotal, Housing and Urban Development	22,751	24,159	25,200	24,470	311	-730
Interior	6,096	7,094	7,095	6,555	-539	-541
Justice	8,244	9,367	9,583	9,826	459	242
Labor:						
Training and employment services	3,808	4,083	4,333	4,281	198	-52
Unemployment trust fund	28,434	38,210	39,900	41,294	3,084	1,394
Other	1,798	2,091	1,971	1,589	-502	-382
Subtotal, Labor	34,040	44,384	46,204	47,163	2,780	959
State	4,252	4,539	4,919	5,007	468	88

Table 3.--1992 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1991 Actual	1992 Estimate Budget	1992 Estimate Mid-Session	1992 Actual	Change Budget	Change Mid-Session
Transportation:						
Federal Highway Administration	14,539	16,149	16,149	15,511	-638	-638
Federal Transit Administration	3,857	3,747	3,746	3,614	-133	-132
Federal Aviation Administration	7,241	7,944	8,077	8,155	211	78
Other	4,866	5,526	5,530	5,279	-247	-250
Subtotal, Transportation	30,503	33,367	33,503	32,560	-807	-943
Treasury:						
Exchange Stabilization Fund	-2,206	-1,600	-1,600	-2,345	-745	-745
Interest on the public debt	285,472	292,992	291,894	292,330	-661	436
IRS	13,689	16,868	17,143	17,904	1,035	760
Other	-20,604	-16,378	-14,513	-14,461	1,917	53
Subtotal, Treasury	276,352	291,882	292,924	293,428	1,546	504
Department of Veterans Affairs	31,214	33,603	33,923	33,737	134	-186
Environmental Protection Agency	5,770	5,948	6,042	5,932	-17	-111
General Services Administration	487	444	613	469	25	-144
National Aeronautics and Space Administration	13,878	13,819	13,817	13,961	142	144
Office of Personnel Management	34,808	36,141	35,885	35,596	-545	-289
Small Business Administration	613	502	610	394	-108	-216
Other independent agencies:						
District of Columbia	636	653	653	367	-286	-286
Export-Import Bank	-88	543	559	-119	-662	-678
Federal Deposit Insurance Corporation:						
Bank insurance fund	7,363	32,960	10,776	3,666	-29,294	-7,110
FSLIC resolution fund	8,556	7,020	7,138	8,469	1,449	1,331
Other FDIC	-36	0	-205	-292	-292	-87
Subtotal, Federal Deposit Insurance Corporation	15,884	39,980	17,709	11,843	-28,138	-5,867
Federal Emergency Management Agency	870	1,152	1,226	1,406	254	180

Table 3.--1992 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1991 Actual	1992 Estimate Budget	1992 Estimate Mid-Session	1992 Actual	Change Budget	Change Mid-Session
Postal Service:						
On-budget	511	511	511	511	0	0
Off-budget	1,317	825	1,117	879	54	-238
Subtotal, Postal Service	1,828	1,335	1,628	1,390	54	-238
Railroad Retirement Board	4,358	4,654	4,793	4,843	189	50
Resolution Trust Corporation	50,751	40,467	-6,361	-8,934	-49,401	-2,573
Tennessee Valley Authority	740	372	1,036	1,469	1,097	433
Other (net)	6,237	7,035	7,044	6,612	-423	-431
Subtotal, other independent agencies	81,217	96,191	28,287	18,876	-77,314	-9,410
Allowances	0	-96	0	0	96	0
Undistributed offsetting receipts:						
Employer share, employee retirement (on-budget)	-30,402	-30,383	-30,457	-30,680	-297	-223
Employer share, employee retirement (off-budget)	-5,804	-6,095	-6,100	-6,101	-6	-1
Interest received by on-budget trust funds	-50,426	-53,371	-53,312	-54,201	-830	-889
Interest received by off-budget trust funds	-20,222	-23,853	-23,988	-23,637	216	351
Rents and royalties on the Outer Continental Shelf lands	-3,150	-2,282	-2,136	-2,498	-216	-362
Subtotal, undistributed offsetting receipts	-110,005	-115,985	-115,993	-117,118	-1,133	-1,124
Total, Outlays	1,323,757	1,475,439	1,407,144	1,381,895	-93,544	-25,249
On-budget	1,082,070	1,223,909	1,155,005	1,129,336	-94,573	-25,669
Off-budget	241,687	251,530	252,139	252,559	1,029	420
Deficit (-)	-269,492	-399,733	-333,524	-290,204	109,529	43,320
On-budget	-321,689	-449,125	-382,308	-340,071	109,054	42,237
Off-budget	52,198	49,392	48,784	49,867	475	1,083

NOTE: Detail may not add to totals due to rounding.

TREASURY NEWS

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**THE PROMISE OF HEMISPHERIC INTEGRATION:
GROWTH AND OPPORTUNITY FOR AMERICANS -- NORTH AND SOUTH**

Remarks by
The Honorable Olin L. Wethington
Assistant Secretary of the Treasury for International Affairs
at the
Exchequer Club
Washington, D.C.
October 28, 1992

I'm pleased to speak to you today about the Bush Administration's Enterprise for the Americas Initiative and the North American Free Trade Agreement.

By responding to and shaping the course of change, these two initiatives are benefitting people abroad and here at home. They hold great promise for future prosperity. They demonstrate the linkage between foreign and domestic policy in the new global economy. And they are consistent with values that helped make this country the world's leading economic power -- open trade and investment.

Reflect for a minute on the dramatic change that has taken place in Latin America. A decade ago, this region was the front line of the Third World debt crisis: exports plummeted; interest charges on the region's huge debt soared; new loans and investment dried up; capital fled in massive volumes. The international banking and financial system was threatened as the difficulties of debt service spread from country to country. The Latin American people suffered deeply as their incomes declined, social services were trimmed, and inflation skyrocketed.

Now, however, the US and Latin America are working together in a partnership based on mutual respect rather than on dependency. In the 1990s, a new Latin America has emerged from the crisis of the 1980s. The revolution has been quiet but dramatic. Evidence of change is now everywhere, including in the formerly war-torn countries of Central America:

NB-2043

- Real growth -- negative in the 1980s -- now averages approximately three percent for the region. For Mexico, Chile, Argentina, and Venezuela, GDP is increasing in the range of four to nine percent.

- Inflation has been reduced by two-thirds since 1989.

- Latin America's reserves have doubled.

- Some $40 billion in private capital flowed into the region last year, eight times the flow in 1989. (Bear in mind that flows were negative for years in the mid-1980s.) More than half of the new flow is in the form of equity, which will now contribute to the region's permanent capital base and support productive investment.

- Latin stock markets are booming, with spectacular returns to investors of over 100 percent in 1991 alone. U.S. companies are increasing their investments in response to more open investment climates, more positive growth prospects, and reduced trade barriers. Latin firms are also increasingly raising equity in the U.S. through public offerings or private placements.

But the advantages to the people of the region are not only economic. In Latin America, free societies are following free markets. Democratically elected governments are now in place from Santiago to Managua to Buenos Aires.

Today I'd like to briefly review the Administration's policy toward Latin America and the benefit it holds for America, including the North American Free Trade Agreement, or "NAFTA." The NAFTA stands as a model for future trade liberalization in this hemisphere and throughout the world.

<u>Our Economic Policy in Latin America</u>

This Administration's economic policy in Latin America has achieved four fundamental goals. We have reduced debt, changed the tenor of hemispheric relations, supported free market reforms, and layed the groundwork for a hemispheric free trade zone. I'll address each of these areas in turn.

First, this Administration has addressed the debt crisis in Latin America under what has been labelled the "Brady Plan." This strategy, unveiled in March of 1989, has been a success. Its key premise was straightforward: recognition by banks and governments that outstanding debt was not worth its face value. This was essential to a financial workout and was the basis for realistic negotiations between the debtor nations and creditor banks on debt and debt service reduction. Debt and debt service reduction has made sense, and has helped spur new investment and growth in the region. And it gave the debtor nations incentive to continue their reform efforts by offering hope of reduced debt burdens.

Following the most recent agreements in principle with Argentina and Brazil, almost all the major debtor nations have reached debt reduction or refinancing agreements with their commercial banks. These cover 92 percent of the major debtors' outstanding commercial bank debt, or some $240 billion. When the Argentine and Brazilian agreements are completed, we expect the strategy to have produced over $50 billion in effective debt reduction, while lifting much of the remaining debt burden from the debtors' backs through market-based collateralization.

The agreements have restructured commercial bank debt into tradeable securities to broaden its appeal and usability in markets. A whole new market for LDC debt has developed as a result, which will subject both borrowers and lenders to the discipline of the market. For the international financial community, and especially for U.S. banks, the Latin debt crisis of the 1980s is now clearly behind them. Exposure and risk have declined, while capital has increased. The workout has been considerably less painful for commercial banks than the bleak market they faced in 1988. Billions of dollars are now flowing back into profits or serving as a buffer against other loan losses.

Second, the our Latin American policy has changed the tenor of relations in the region. The President's Enterprise for the Americas Initiative (EAI), announced in 1990, is transforming the hemisphere. This is a three-part initiative involving trade, investment and debt reduction. Dependency has been replaced by mutual respect and a new partnership between North and South. Through open trade and investment -- rather than providing more and more aid -- we're establishing a system where all nations benefit from increasing flows of capital and commerce.

Third, because free markets lead not only to prosperity but also to free societies, we have supported market reforms throughout the region. The EAI is built on the principle that development and prosperity will come to Latin America through creating the kind of open an liberal investment climate in those countries that will attract the capital needed for development -- both in the return of Latin American "flight capital" and in new foreign direct investment. We have supported this policy by offering relief from AID, Ex-Im, CCC and PL-480 debt to those countries that adopt major economic reforms, including investment reform. We have also supported investment sector reform loans by multilateral institutions such as the World Bank and the Inter-American Development Bank.

Fourth, we have, through the NAFTA, laid the groundwork for a future hemispheric free trade zone. I'll return to that subject at length in a moment.

The Benefits to America of Our Latin American Economic Policy

First I'd like to describe some of the domestic benefits Americans receive from our trade, investment and debt policies in Latin America. The simple fact is that, when Latin American economies are healthy and growing, our own economy directly benefits through increasing exports and export-related jobs. For example:

- Since 1988, nearly 70 percent of U.S. economic growth has derived from increased exports.
- 1 in 7 dollars of U.S. exports now go to Latin America, which is our fastest growing regional export market.
- We've seen an 80 percent increase in exports to the region in the past 4 years. First quarter 1992 exports surged more than 32 percent over first quarter 1991 levels.
- This isn't just trade with Mexico: exports to 19 countries increased by more than 20 percent each between the first quarter of 1991 and the first quarter of 1992.
- We are extremely competitive in this region. We account for 57% of this region's imports from industrial countries -- vs. 29% for Europe and 11% for Japan. At the same time, we had a trade surplus with the region of $886 million last year.

The bottom line, of course, is jobs for American workers.

The North American Free Trade Agreement

When the NAFTA is approved by Congress, we can expect even more benefits to flow to the American worker. NAFTA reduces barriers to trade and investment between the three nations. Most tariff and other barriers are immediately dropped -- although a few are phased out over ten or fifteen year periods to ease the transition in sensitive industries. This is also the first trade agreement to include significant environmental provisions. NAFTA's benefits flow directly from impressive figures such as these:

- The combined NAFTA market will contain over 360 million customers and a combined total output of over $6 trillion.

- Today, Canada and Mexico are our first and third largest trading partners. US exports to Canada support approximately 1.5 million US jobs -- including 113,000 that were created between 1988 and 1990. And our exports to Mexico have almost tripled since 1987 -- now supporting over 600,000 US jobs.

- Virtually all studies agree that NAFTA will produce a net increase in US jobs. A recent International Trade Commission study found a high degree of unanimity regarding the job effects of NAFTA" -- with studies projecting net job <u>gains</u> of 90,000 to 180,000 jobs.

At the same time, this Administration has recognized that the NAFTA may entail some adjustment in particular industries. So, transition rules and safeguards for sensitive industries are built into the NAFTA. Sensitive sectors receive transition periods of from 10 to 15 years. Safeguards in the agreement allow reimposition of tariffs in certain industries if imports "surge" and threaten US jobs. Of course, traditional trade law remedies -- such as antidumping and countervailing duty cases -- are still available in all sectors.

To help support the small number of workers who may be displaced, President Bush recently announced an ambitious job retraining program. This program will assure that our workers have the training and skills necessary to compete -- and win -- in the today's global marketplace. <u>All</u> dislocated workers are eligible under the program, which will use a market-based system of vouchers for people to seek the kind of training they want in the fields they choose.

<u>NAFTA and Financial Services</u>

I would like to spend a few moments talking about the financial services sector implications of NAFTA, which is my area of particular responsibility at the Treasury Department. In this sector, we have negotiated a NAFTA chapter that we believe gives the industry dramatic new opportunities -- particularly in the Mexican market.

Mexico intends to move to a modern and efficient financial system. The decision to privatize its banks, nationalized ten years ago, is one example of this 180 degree change in policy. NAFTA opens to American financial firms a Mexican market now virtually closed. More specifically, the financial services chapter provides:

- The right to establish financial institutions in the territory of the other parties;

- Commitment that our financial institutions receive the same treatment as domestically owned firms -- so-called "national treatment";

- o The chapter commits the governments to transparency in the regulatory process and prompt action on applications;

- o Firms obtain access to a formal dispute settlement procedure;

- o The parties are obligated to take no measures that would restrict currently permitted cross-border trade in financial services. They have guaranteed that their residents are free to purchase financial services in the other countries' territory.

During a short transition period - which ends no later than January 1, 2000 - Mexico will be able to impose limits on the size of some categories of financial firms and on the aggregate market share of the foreign-owned firms. We believe that these limits provide sufficient scope for US firms. During the transition period, the size of individual banks will be limited to 1.5 percent of the entire system as measured by net capital. (This implies a maximum capital currently of around $100 million for individual banks. The minimum capital will be around $10 million, or the same as for a Mexican-owned bank.) Total market share for foreign banks will be limited to 8 percent of the system's net capital in the first year and will rise to 15 percent on January 1, 1999.

This market share limitation will be eliminated on January 1, 2000. Mexico reserves the right to reimpose an aggregate limit for three years, but only if the market share of the U.S. and Canadian banks reaches 25 percent prior to January 1, 2004.

Similar arrangements will be applicable to securities firms. Their market share limitation will be increased from ten to twenty percent over the transition period, and be eliminated entirely on January 1, 2000. The individual market share limitation for securities firms during the transition period will be 4 percent.

Insurance firms will have a slightly different transitional regime. There, U.S. firms will have the option of going into Mexico as a joint venture or as a wholly owned subsidiary. US participation in joint ventures will be allowed to increase from 30 percent in 1994 to 51 percent in 1998 to 100 percent ownership by January 1, 2000. Those US insurers already involved in joint ventures can increase to 100 percent ownership even earlier -- on January 1, 1996. There will be no aggregate or individual market share limitations for insurance joint ventures.

Foreign insurers that enter the Mexican market as wholly-owned subsidiaries will be subject to market share limitations. The aggregate market share limitation begins at 6 percent and increases to 12 percent until the limitation is completely lifted on January 1, 2000. During this transition period, the individual firm's market share limitation will be 1.5 percent.

Other types of financial firms - leasing and factoring - will not be subject to individual firm limits, but will have an aggregate market share limitation until January 1, 2000.

Mexico has agreed to create a new type of financial intermediary called a limited scope financial company. It will be able to engage in, for example, consumer finance, mortgage lending, or act as a credit card bank. The kind of firm will not be allowed to accept deposits from the public, but may fund itself in Mexico's capital markets.

What kind of benefits can you, as international bankers, expect to flow from these market-opening provisions? The Mexican government is committed to making Latin America's largest financial market private, efficient and attractive to foreign capital. By establishing in Mexico, you will get access to this rapidly growing financial market. The peso-denominated loan portfolio of Mexican banks increased by 50 percent in 1990 and by a similar amount in 1991. Total loans outstanding amounted to 90 billion dollars at the end of April.

You will also be able to market all the other financial services that a Mexican bank can undertake to offer. Further, you will be able to establish a holding company which can have subsidiaries that engage in banking, securities, foreign exchange trading, leasing and factoring. These auxiliary activities are significant. For example, leasing company assets amount to well over 3 billion dollars and factoring companies have assets approaching 3 billion dollars. In addition, Mexico's stock market, the largest in Latin America, has developed rapidly.

NAFTA as a Model for Global Free Trade

To some, NAFTA may wrongly be seen as a first step towards a world characterized by hostile and exclusive regional trading blocs. In reality, the opposite is true. Free trade agreements like NAFTA add momentum to the global drive towards free trade and support, rather than undercut, efforts in the GATT. The GATT agreement itself contemplates regional free trade zones, and NAFTA is consistent with the GATT. In fact, in many areas, the NAFTA provides greater trade liberalization commitments than the GATT has been able to provide so far.

Trading blocs will emerge only if the parties retreat within themselves, and erect barriers to foreign trade. This is clearly not the path we intend to take. In his economic program -- titled an "Agenda for American Renewal" -- President Bush announced his intention to both conclude the Uruguay Round of GATT and to begin developing a "strategic network of free trade agreements across the Atlantic and the Pacific and in our own hemisphere."

NAFTA will serve as the catalyst for such a network. Other countries will recognize the benefits of launching their economic boats on the surging tide of free trade and free markets -- or risk becoming stranded on a low-growth, protectionist shore. Countries need to make the kind of free trade and open investment reforms NAFTA requires in order to win in the global competition for goods, capital and technology.

Others appear already willing to join us. On their own, other Latin American and Caribbean countries are establishing agreements among themselves to reduce barriers to trade and investment -- within the Southern Cone countries, the Andean Pact, Central America, and the CARICOM group of countries. The President's goal of hemispheric free trade -- and the regional growth and prosperity that accompany it -- is within our grasp if we persevere.

# # #

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
October 28, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $10,753 million of 5-year notes, Series S-1997, to be issued November 2, 1992 and to mature October 31, 1997 were accepted today (CUSIP: 912827H47).

The interest rate on the notes will be 5-3/4%. All competitive tenders at yields lower than 5.84% were accepted in full. Tenders at 5.84% were allotted 87%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 5.84%, with an equivalent price of 99.615. The median yield was 5.79%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.73%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	19,490	19,490
New York	25,284,796	10,074,256
Philadelphia	13,168	13,168
Cleveland	86,149	86,149
Richmond	82,073	66,073
Atlanta	34,673	24,673
Chicago	1,078,905	223,255
St. Louis	14,800	14,800
Minneapolis	5,940	5,940
Kansas City	33,465	33,465
Dallas	9,236	9,236
San Francisco	460,850	105,765
Treasury	76,712	76,712
TOTALS	$27,200,257	$10,752,982

The $10,753 million of accepted tenders includes $508 million of noncompetitive tenders and $10,245 million of competitive tenders from the public.

In addition, $348 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $250 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2044

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 29, 1992

Contact: Anne Kelly Williams
(202) 622-2960

STATEMENT BY NICHOLAS F. BRADY
SECRETARY OF THE TREASURY

We are very pleased that the President has today signed the Housing and Community Development Act of 1992, which includes measures that improve federal oversight of Government-sponsored enterprises (GSEs) and provide regulatory relief to the banking industry.

The GSE provisions are the culmination of a process begun nearly three years ago with a comprehensive Treasury study. At the Administration's request, Congress has established a strong regulatory framework to address the taxpayer risk posed by the enormous GSEs engaged in housing finance -- before any crisis demanded action. This forward-looking legislation will greatly enhance the stability, affordability, and availability of housing finance well into the future.

In addition, the bank regulatory relief proposals included in the bill are good news for banks, borrowers, and the economy as a whole. Among other things, the legislation will prevent regulatory micromanagement of employee compensation, provide certain de minimis exceptions to real estate appraisal requirements, reduce Real Estate Settlement Procedures Act paperwork burdens, and alleviate Truth in Savings Act compliance costs.

Staggering regulatory burden on the banking industry restricts credit and impedes economic growth. We urge the next Congress to build upon the provisions in this bill by adopting all of the bank regulatory relief recommendations contained in the Administration's proposed Credit Availability and Regulatory Relief Act.

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
October 29, 1992

CONTACT: RICH MYERS
(202) 622-2930

TREASURY DEPARTMENT & IRS REQUEST COMMENTS ON 1993 BUSINESS PLAN

Treasury's Office of Tax Policy and the Internal Revenue Service are developing a 1993 Business Plan that will identify specific topics to be addressed through administrative guidance next year.

Recommendations from the public are encouraged on the specific issues that should be included in the Business Plan, the manner in which those issues should be resolved, and any business or other considerations that should be taken into account in developing appropriate guidance. If multiple issues are recommended in an area, their relative priorities should be addressed.

Fred Goldberg, Treasury's Assistant Secretary for Tax Policy, said, "We have found the 1992 Business Plan to be a valuable tool for setting priorities and holding ourselves accountable to the taxpaying public. And again for 1993, we want to provide taxpayers with the certainty needed for sound business planning and management."

Shirley Peterson, Commissioner of the IRS, said, "Public input is vital for the Business Plan to be a success. We want taxpayers to again be part of the process of developing a plan that is fair, practical and dependable."

In developing the 1993 Business Plan, the Office of Tax Policy and the IRS will consider comments submitted on the 1992 Business Plan for which guidance was not issued during 1992.

To ensure that the Office of Tax Policy and the IRS have sufficient time to review the comments before publishing the 1993 plan, comments should be submitted by December 1, 1992, and addressed to: Internal Revenue Service, Attn: Bruce Kipnis, CC:FI&P, 1111 Constitution Ave. NW, Room 4007, Washington D.C. 20024.

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TREASURY NEWS

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

AS PREPARED FOR DELIVERY
EMBARGOED UNTIL 1:00 PM
OCTOBER 30, 1992

CONTACT: CLAIRE BUCHAN
202-622-2910

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before the
Commerce and Industry Association of New Jersey
Woodcliff Lake, New Jersey
October 30, 1992

Thank you, Marge [Roukema, Member of Congress]. It is a great pleasure to be here in Woodcliff Lake, and I appreciate having the opportunity to join you.

As we look at the world at the turn of the century, economic and political borders have blurred. Our national economy has been transformed from a self-sufficient and isolated continent to an island in the world archipelago. It no longer makes sense to think in purely domestic terms; there is no longer a clear distinction between domestic and foreign 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.

We must change as the world around us changes, and to do so we must understand the nature of the profound economic transition through which America and the world are passing. There are two separate and distinct elements: a series of significant but **temporary** disruptions that are passing through our economy, but more important, a structural and **permanent** change in the organization of world economic competition -- in some ways greater than any since the Industrial Revolution of the 19th century.

First, let me give you some examples of the significant but temporary disruptions:

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- The victory in the Cold War will bring immeasurable benefits to the world economy. But the benefits of peace did not come free: this country now shows the strain of having carried the burden of the free world's defense for almost 50 years. In this country alone, the Defense Department has estimated the shift to a peace-time economy has meant the loss of over 1.6 million jobs in the last three years. Peace -- and leadership -- always have their price.

  But we have made adjustments at war's end before. Indeed, at war's end in the first Truman Administration -- gross national product **fell 19%** in a single year. This puts our economy's current annual positive growth rate of 2.7% in perspective.

- Second, the volume of debt in every segment of American society over the last four years has been at historically high levels. Those levels, however, are 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. Debt service consumes a much smaller percentage of cash flow, leaving more for consumption and investment.

- Third, economic growth has been hindered by a weakened banking system. But bank equity capital is at its highest level since 1966, and banks are more profitable and liquid than they have been in decades. The industry is poised to finance expansion.

- Fourth, American industry has been restructuring over the last several years, taking steps to become more productive and competitive. In 1988, our trade deficit in goods and services was almost $102 billion; it was only $11.7 billion last year. We are winning the battle for exports.

- Finally, there is a significant world economic slowdown. Still, the U.S. economy is expanding roughly **twice** as fast as Japan's, and Germany is experiencing **negative** growth.

Each of these five conditions has formed a significant brake on the economy, and when added together their combined effect has been greater than the sum of their parts. Negative business and consumer attitudes created an additional, independent restraint on growth.

But because of our efforts, each of these temporary factors is well on its way to resolution. While we are not fully satisfied with the current pace of expansion, this week's announcement of a 2.7% real growth rate for the third quarter shows that America is on the uptrend. It is worth noting that the average rate of expansion for 1992 is now roughly equal to the growth rate sustained over the last 25 years.

Yet even as we pass from a temporary downturn and restore growth, we must still come to terms with the long-term transformation of economic competition that technology has made possible. Twenty years ago most businesses could find their customers on a road map; today they need a world map. This has affected our businesses and daily work. Let me give you some examples:

- In today's world, businesses are not bound to a particular country by the dictates of geography. Over an electronic network, separate elements of the production process can be directed from anywhere in the world. For example, the Hewlett Packard personal computer -- a popular model -- is designed and marketed from Palo Alto, engineered in Grenoble, France, components are made in Malaysia, assembled in Singapore, and 50% of sales are in the United States.

- What is more, information and intellectual capital have become increasingly important parts of the production process. New businesses are created that depend less on physical capital and more on skills and know-how. These new businesses are becoming leading industries of the new world: Microsoft, for example, has a total stock market value of $22 billion; Amgen, a leading biotechnology company, has a stock market value of $9 billion; and McCaw Cellular's is $5 billion. The government cannot create these new businesses, it does not have that capability.

- Improvements in transportation combined with new information and communication systems have dramatically shortened the transportation "pipeline". An aircraft factory in Central California can fax a parts order to a supplier in Leeds, England and receive the components the next day.

- o Capital moves around the world at the touch of a button -- without government approval -- to wherever it will bring the highest return, whether that is Berlin, New Jersey or Berlin, Germany. Each day in excess of $1.5 trillion of transactions are settled through the New York Federal Reserve Bank.

These changes have transformed the economic order that has existed through most of our lives. This is understandably unsettling to us all. Vigorous international competition has caused some of our nation's most well-known companies to restructure, not only General Motors, but also Xerox, IBM, AT&T and others.

American workers go to the parts shelf and see labels that concern them. As someone recently remarked:

> I saw a snapshot of a shipping label for some integrated circuits produced by an American firm. It said, "Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, Mexico, Philippines. The exact country of origin is unknown."

Americans worry about what a label like that says about their own future, and this is a valid concern. But those who try to convince Americans that they should fear the new economic world of free trade and change are wrong. They are the newest members of the Flat Earth Society, refusing to accept the reality of the changes in the world around them. Most of the industries that are giving America its leadership in this new world economy -- industries like pharmaceuticals, software, telecommunications, aerospace, and computers thrive on trade.

In the U.S., the fact is that exports will create millions of new and better jobs -- which have paid, on average, 17% more than the average wage. As other countries increase their standard of living, they will buy more high-value-added products from the U.S. That is why the U.S. has increased its exports to Mexico from $14 billion to $33 billion over the last four years. What is more, New Jersey has increased its exports to Mexico over four years from $189 million to $452 million -- an increase of 139%.

Plainly stated, Americans do best when the competition is tough -- we do best by being more creative, more entrepreneurial, more innovative. Innovation, which is the application of intellectual capital to the process of production, will be a major source of the future's attractive, high-paying jobs.

And for that reason, the goal of the Bush Administration during the next four years will be -- as it has been -- not to evade change, but to face it; not to stand in place, but to advance. Our single-minded goal is to create high value jobs in the United States. To achieve this goal, we should do the following things.

U.S. 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. Simple multiplication indicates that this growth in exports accounts for almost 4 million new jobs. In total, exports now support one in six American manufacturing jobs.

We must build on our spectacular success in opening free 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.

Two-thirds of the jobs created in the United States are created by small businesses. Only 11% of the workforce works for the Fortune Five Hundred companies. We must not shackle the 4 million smaller firms that are creating the new jobs workers need during this transition. The infant industries of today will be the job generators of tomorrow.

To this end, President Bush recently announced a comprehensive five-year, $20 billion initiative which includes lowering the corporate tax rate for small businesses; making up to $2500 in small business start-up costs tax deductible; increasing equipment expensing; and reducing paperwork burdens that fall heavily on small businesses.

America still attracts investors. BMW, with the whole world to choose from, recently decided to locate its first plant outside Germany in South Carolina. In the words of BMW "the exports we plan from the U.S. factory, will strengthen BMW's global competitiveness." Imagine German models made by Americans sold to Europeans and Japanese.

Ensuring America's continued economic leadership will mean adopting policies that foster savings and reduce the cost of capital to encourage even greater investment. It means running the government so that inflation and interest rates remain low -- and today, short-term interest rates and inflation are at their lowest in decades. It means reducing unnecessary regulatory restrictions and correcting the excesses of our legal system. And it means reducing the capital gains tax to spur investment.

And while we're on the subject of taxes, I have to talk for a moment about Governor Clinton's "Putting People First" plan -- or as I refer to it -- "Putting Taxes First" plan. In his own plan, Governor Clinton says he will increase taxes by $150 billion, increase spending by $220 billion, and cut the deficit in half. But his numbers don't add up. So if he is really going to cut the deficit in half as he has repeatedly said, and we know he'll spend at least $220 billion, then he'll have to tax more than just the rich. He'll have to increase taxes on individuals making about $36,600 and families making about $61,000.

As President Reagan's chief economic advisor Martin Feldstein has said, "The numbers don't make any sense." The plan is "politically dishonest and fiscally irresponsible."

What Bill Clinton is calling a tax increase on the wealthy is nothing less than an attack on the most effective job creating enterprises in the United States -- this nation's small businesses. Bill Clinton's tax increase hits right at the heart of small farms and business proprietorships and partnerships. About seventy-five percent of the top 2 percent are small businesses -- the kinds of businesses that create jobs in this country. It is not hard to figure out who will be hurt -- more than a million of this nation's small businesses -- working Americans.

When we in New Jersey talk about tax increases and their effect on jobs and business, we're not talking abstract theory. We've been there. We ran the experiment for the country, and here's what it showed: higher tax rates were followed by businesses leaving the state and sharp economic decline. In a global market economy, we don't need business disincentives like that.

Rather than taxing people first, we must invest in America's future -- human capital. Investment in education, not just 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 a productive future. If, as students, American workers have learned how to learn, they will have laid the foundation for a lifetime of new skills.

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, and to encourage states to set meaningful education standards.

As we transform our economy, we will not leave out those who must retrain as they shift from one career to another late in life. The Administration's Worker Adjustment and Youth Skills initiatives will triple the funding currently provided for re-training.

Investing in America's future also means providing affordable health care for all Americans, while controlling the rising costs of health care. That is why President Bush, in February, proposed a plan for comprehensive health reform, to make health care more accessible by making health insurance more affordable. The President's plan will not lead to rationing of health care and leaves health care choices in the hands of the people, not the bureaucrats.

These objectives recognize the interconnection between foreign affairs and domestic policy; they deal with the dynamic changes in the way the world does business; and they emphasize individual initiative rather than fuel the engine of big government.

Some will say that this agenda is wrong. Competition, they will tell you, both at home and abroad, is destructive -- trade saps jobs, incentives to invest help only the rich. But it is they who are wrong. All they offer -- tricked up in the latest jargon -- are the tired, regressive remedies of protectionism, taxes, and government direction. They are the newest members of the Flat Earth Society -- their narrow view prevents them from seeing the new world around them. They want Americans to forget that when they elect a President, they elect the leader of the Free World.

We cannot hold on to the old ways, and we should not want to. We know what we must do to succeed in the new world economy. After all, the field of play is our native one: creating, risking, competing, achieving. With optimism, energy and commitment, America can remain what it has always been: the ark of the world's liberty and the engine of its prosperity. The second American Century can be as bright and brilliant as the first.

Thank you.

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TREASURY NEWS

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

FOR RELEASE AT 3:00 p.m.
October 30, 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 October-December 1992 quarter is estimated to be $87 billion, with a $30 billion cash balance on December 31. The Treasury also announced that its net market borrowing for the January-March 1993 quarter is estimated to be in a range of $65 billion to $70 billion, with a $20 billion cash balance at the end of March. The borrowing estimates assume that Congress will not enact additional funding for thrift resolutions before early next year, which will prevent significant Resolution Trust Corporation spending during these two quarters.

In the quarterly announcement of its borrowing needs on August 3, 1992, the Treasury estimated net market borrowing during the October-December quarter to be in a range of $115 billion to $120 billion, assuming a $30 billion cash balance on December 31. The higher-than-expected cash balance at the end of September accounts for most of the cut in the market borrowing estimate in the October-December quarter.

Actual market borrowing in the quarter ended September 30, 1992, was $72.4 billion, while the end-of-quarter cash balance was $58.8 billion. On August 3, the Treasury had estimated market borrowing for the July-September quarter to be $75 billion, with a $35 billion cash balance on September 30. A reduction in the cash deficit accounted for the higher cash balance and the reduction in market borrowing.

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NB-2048

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
October 30, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY OFFERS $15,000 MILLION
OF 41-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $15,000 million of 41-day Treasury bills to be issued November 6, 1992, representing an additional amount of bills dated December 19, 1991, maturing December 17, 1992 (CUSIP No. 912794 ZB 3).

Competitive tenders will be received at all Federal Reserve Banks and Branches prior to 1:00 p.m., Eastern time, Thursday, November 5, 1992. Each bid for the issue must be for a minimum amount of $1,000,000. Bids over $1,000,000 must be in multiples of $1,000,000. Bids must show the rate desired, expressed on a bank discount rate basis with two decimals, e.g., 7.10%. Fractions must not be used.

Noncompetitive bids will <u>not</u> be accepted. Tenders will not be received at the Department of the Treasury, Washington, D. C.

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

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account. An institution submitting a bid for customers must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount bid at each rate. Customer bids may not be aggregated by rate on the customer list. All bids submitted on behalf of trust estates must provide, for each trust estate, the name or title of the trustee(s), a reference to the document creating the trust with the date of execution, and the employer identification number of the trust.

A single bidder must report its net long position if the total of all its bids for the security being offered and its position in the security equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the security being auctioned, in "when issued" trading, and in futures and forward contracts, as well as holdings of outstanding bills with the same maturity date and CUSIP number as the new offering. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. 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.

Public announcement will be made by the Department of the Treasury of the amount and range of accepted 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. 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. Those submitting tenders will be advised of the acceptance or rejection of their bids. The Secretary of the Treasury expressly reserves the right to accept or reject any or all bids, in whole or in part, and the Secretary's action shall be final.

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 by a Federal Reserve Bank or Branch to bidders who have accepted bids, whether for their own account or for the account of customers. No later than 12:00 noon local time on the day following the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities must furnish, no later than 10:00 a.m. local time on the day following the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. A depository institution or government securities broker/dealer submitting a bid for a customer is responsible for notifying its customer of this requirement if the customer is awarded $500 million or more as a result of bids submitted by the depository institution or the broker/dealer.

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. 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, Treasury's Single Bidder Guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies may be obtained from any Federal Reserve Bank or Branch.

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