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U.S. Department of the Treasury

PRESS RELEASES

**STATEMENT BY THE U.S. TREASURY AND THE
FEDERAL RESERVE SYSTEM ON SUPPLEMENTAL
SWAP FACILITIES FOR MEXICO**

January 2, 1995

In response to recent financial developments in Mexico, the existing \$6.0 billion swap agreements between the United States and Mexico have been supplemented with an additional \$3 billion short-term facility, with the Treasury and the Federal Reserve each participating up to \$1.5 billion. Similarly, the existing CAN\$1.0 billion swap facility between the Bank of Canada and the Bank of Mexico has been supplemented by an additional CAN\$500 million.

We have taken this action in the context of the North American Financial Group, which was announced along with the establishment of a tri-lateral foreign exchange swap facility on April 26, 1994.

We will continue to consult closely on developments in Mexican financial markets.

AUCTION
RESULTS

PUBLIC DEBT NEWS



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

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FOR IMMEDIATE RELEASE
January 3, 1995
DEPT. OF THE TREASURY

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,401 million of 13-week bills to be issued January 5, 1995 and to mature April 6, 1995 were accepted today (CUSIP: 912794R48).

RANGE OF ACCEPTED COMPETITIVE BIDS:

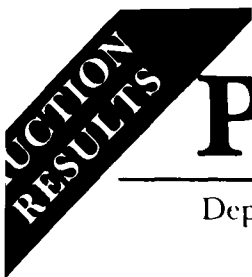
	Discount Rate	Investment Rate	Price
Low	5.76%	5.93%	98.544
High	5.78%	5.95%	98.539
Average	5.78%	5.95%	98.539

\$5,350,000 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)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$46,783,122	\$13,401,017
Type		
Competitive	\$41,529,045	\$8,146,940
Noncompetitive	<u>1,376,502</u>	<u>1,376,502</u>
Subtotal, Public	\$42,905,547	\$9,523,442
Federal Reserve	3,209,830	3,209,830
Foreign Official		
Institutions	<u>667,745</u>	<u>667,745</u>
TOTALS	\$46,783,122	\$13,401,017

An additional \$358,055 thousand of bills will be issued to foreign official institutions for new cash.



PUBLIC DEBT NEWS



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

JAN 6 95 000705

FOR IMMEDIATE RELEASE
January 30, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,435 million of 26-week bills to be issued January 5, 1995 and to mature July 6, 1995 were accepted today (CUSIP: 912794T87).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	6.36%	6.66%	96.785
High	6.38%	6.68%	96.775
Average	6.37%	6.67%	96.780

\$40,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 11%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$45,187,632	\$13,434,824
Type		
Competitive	\$39,039,716	\$7,286,908
Noncompetitive	<u>1,258,861</u>	<u>1,258,861</u>
Subtotal, Public	\$40,298,577	\$8,545,769
Federal Reserve	3,400,000	3,400,000
Foreign Official		
Institutions	<u>1,489,055</u>	<u>1,489,055</u>
TOTALS	\$45,187,632	\$13,434,824

An additional \$798,345 thousand of bills will be issued to foreign official institutions for new cash.

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
January 3, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$26,800 million, to be issued January 12, 1995. This offering will provide about \$1,175 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of \$25,634 million. In addition to the maturing 13-week and 26-week bills, there are \$16,037 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold \$10,687 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$3,535 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$3,220 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment



**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JANUARY 12, 1995**

January 3, 1995

Offering Amount \$13,400 million \$13,400 million

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R5 5	912794 T9 5
Auction date	January 9, 1995	January 9, 1995
Issue date	January 12, 1995	January 12, 1995
Maturity date	April 13, 1995	July 13, 1995
Original issue date	October 13, 1994	January 12, 1995
Currently outstanding	\$13,284 million	- - -
Minimum bid amount	\$10,000	\$10,000
Multiples	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids

Competitive bids

- (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
- (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid

at a Single Yield 35% of public offering

Maximum Award 35% of public offering

Receipt of Tenders:

Noncompetitive tenders Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY



NEWS

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FOR IMMEDIATE RELEASE

January 3, 1995

Contact: Michelle Smith

(202) 622-2013

U.S. INCREASES SWAP LINE WITH MEXICO TO \$9 BILLION

Acting Treasury Secretary Frank N. Newman announced that the Treasury Department and the Federal Reserve are expanding the existing swap line with Mexico, from \$6 billion to \$9 billion, as part of an international expansion of credit to that country.

"The decision to increase our swap line with Mexico is based on the importance of the U.S.-Mexican economic relationship, the substantial economic reforms that Mexico has undertaken in recent years, and the strong program announced by President Zedillo," Newman said.

The swap facility, which was made permanent in the context of the formation of the North American Financial Group on April 26, 1994, is funded jointly by Treasury's Exchange Stabilization Fund and the Federal Reserve System. All drawings on the credit lines will have assured means of repayment.



TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 3, 1995

Contact: Michelle Smith
(202) 622-2960

TREASURY RELEASES FOREIGN EXCHANGE REPORT

The U.S. Department of the Treasury today released the seventh Annual Report to Congress on International Economic and Exchange Rate Policy, which analyzes economic developments in the major industrial countries and also reviews the foreign exchange systems and policies of Korea, Taiwan and China.

"This report underlines the substantial improvement in the economic outlook since 1993. Global recovery is now well underway, with inflation holding at relatively low levels," Acting Treasury Secretary Frank N. Newman said.

The Report indicates that global economic recovery continues in the United States, Canada and the UK, and has strengthened in continental Europe and, to a lesser extent, Japan, while inflationary pressures remain modest. Renewed growth in domestic demand in Europe and Japan will likely contribute to substantial growth in U.S. exports 1995 and 1996.

The Report notes that the Administration in early November again expressed its concern about the decline of the dollar, recorded through late October, and reiterated its exchange rate policy, emphasizing the benefits of a strong dollar.

As in the July 1994 update of the Sixth Annual Report, this Report concludes that neither Korea nor Taiwan is manipulating the exchange rate between its currency and the U.S. dollar. Both continue, however, to maintain a number of troubling financial and foreign exchange policies, including capital controls, which discourage investment and hamper the full effect of market forces in exchange rate determination.

FN-12

(MORE)



The Report observes that China has undertaken reforms of its exchange rate market, and it concludes, unlike the July 1994 Report, that China is not manipulating its exchange system to prevent balance of payments adjustment or gain unfair competitive advantage in international exchange. However, the Report concludes that China should commit to liberalizing access to foreign exchange for current account transactions, as required under Article VIII of the IMF's Articles of Agreement. The Report notes that the United States continues to seek such commitments from China in bilateral negotiations and in multilateral negotiations regarding China's accession to the World Trade Organization.

The Report, prepared in consultation with the Federal Reserve, is required under the Omnibus Trade and Competitiveness Act of 1988.

DEPARTMENT OF THE TREASURY
SEVENTH ANNUAL
REPORT TO THE CONGRESS
ON
INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICY
DECEMBER 1994

**Embargoed for release until
5:00 p.m., January 3, 1995**

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PART I: SUMMARY AND CONCLUSIONS

This seventh annual Report addresses recent developments in U.S. international economic policy, including exchange rate policy, since the interim Report to Congress submitted in July 1994. It is based on information available for the most part through November 1994. These reports are required under Sections 3004 and 3005 of the Omnibus Trade and Competitiveness Act of 1988 (Trade Act).

Global recovery is now well underway. Recovery is strengthening in continental Europe, and in Japan there are initial signs of recovery. The Managing Director of the International Monetary Fund has termed the 1995 outlook for the world economy the most favorable in seven years.

With the momentum now shifting from the United States, Canada and the UK, where growth first took hold, to the economies in continental Europe (and, more hesitantly, Japan), the prospects for a sustained and balanced recovery are much improved. G-7 growth in 1995 is expected to average at least 2.7 percent -- about the same as in 1994, and double the figure recorded in 1993.

Inflation in the G-7 has been held to levels achieved only once since the 1960s, despite gains in capacity utilization. The inflation outlook for 1995 is only slightly less favorable. Those that started earlier in the recovery cycle, the United States, Canada and the UK, will likely see a very modest increase in inflation, but the steady decline of inflation in Germany and continued progress in Italy will provide a counterbalance.

The growing sense of optimism about recovery and output growth in the industrial countries is not, however, without blemishes. Unemployment in Europe remains very high, and the upturn is not expected to be sufficient to bring about a substantial improvement. The large fiscal deficits in Europe are also troubling, although most European countries have embarked on strenuous efforts to reduce the underlying structural deficit.

Stronger growth in the United States than in many key trading partners led to a widening of the U.S. current account deficit in 1994. The current account deficit will likely continue to widen further during the remainder of 1994 and in 1995, although it will remain well below peaks recorded in the late-1980s as a percentage of GDP.

Japan's surpluses, though still high, have started to decline. For the first ten months of 1994, the current account surplus fell 9.2 percent in yen terms relative to the same period in 1993, and declined 1.6 percent in dollar terms on the same basis. A further modest reduction is expected in 1995 as domestic demand strengthens in Japan.

When measured on a trade-weighted basis, the dollar declined approximately 4 percent between October 1, 1993 and November 30, 1994. However, the peak-to-trough decline from early 1994 to the dollar's lows in October was 14.6 percent vs. the yen and 5 percent vs. the DM. The decline against the yen and mark during a period of robust growth and low inflation in the United States prompted the Administration to express concern about

the decline on several occasions and to undertake several rounds of intervention. The Administration has made clear its desire for a strong dollar.

The main themes of the IMF's annual Article IV consultation with the United States Government, completed in August, were the U.S. fiscal outlook -- and its implications for the U.S. external position -- and the appropriate monetary policy at this stage of recovery in the United States.

In this Report, Treasury has re-examined the systems and policies of Korea, Taiwan and China, which have been identified in some previous reports as having manipulated the exchange rate between their currency and the U.S. dollar in order to prevent effective balance of payments adjustment or to gain an unfair advantage in international trade. It is Treasury's judgement that, at the current time, neither Korea nor Taiwan is manipulating the exchange rate between its currency and the U.S. dollar for such purposes. However, both Korea and Taiwan continue to maintain a number of troubling financial and foreign exchange policies, capital controls in particular, which discourage investment and hamper the full effect of market forces in exchange rate determination. Treasury will continue to seek removal of these impediments in the context of bilateral negotiations and/or discussions.

Treasury acknowledges that major strides in reforming China's foreign exchange system have been made this year. However, China maintains significant restrictions on foreign exchange transactions. Domestic firms are required to sell foreign exchange to designated banks, and while Foreign-funded enterprises (FFE's) may use the foreign exchange earned through exports, they must receive prior approval from the State Administration of Exchange Control (SAEC) for all purchases of foreign exchange in the interbank market. Moreover, China continues to require SAEC approval for certain current account transactions, including repatriation of profits.

At the moment, SAEC approval of foreign exchange purchases for foreign firms is not difficult to obtain. This liberal implementation stems from favorable market conditions -- ample foreign exchange availability and strong demand for the renminbi. However, as in the past, the SAEC could withhold approval. It is clear that the rationale for maintaining the approval system is to maintain the government's capability to ration foreign exchange.

Thus, Treasury has determined that China is not currently manipulating its exchange system to prevent effective balance of payments adjustment or gain unfair competitive advantage in international trade. However, it is essential that China commit to liberalizing access to foreign exchange for current account transactions, as is required under Article VIII of the IMF's Articles of Agreement. The United States continues to seek such commitments from China in bilateral negotiations and in multilateral negotiations regarding China's accession to the World Trade Organization (WTO).

PART II: GLOBAL ECONOMIC DEVELOPMENTS

A. Economic Situation in the G-7 Countries

Recovery of Growth is Taking Hold

The global recovery is on track. The overall outlook appears to be the most favorable in years, and the International Monetary Fund expects that global growth in 1995 will be the highest since 1988.

The recovery which began in the United States, Canada and the UK has now spread to continental Europe, and signs of an upturn are appearing in Japan. Aggregate G-7 growth for 1994 should reach close to 3 percent, and could exceed that rate in 1995. (The IMF growth forecasts published in October and noted below may now be somewhat conservative, especially regarding European growth, in light of recent indicators.)

	1993		1994F		1995F	
		IMF	Consensus	IMF	Consensus	
United States	3.1	3.7	3.8	2.5	2.8	
Japan	0.1	0.9	0.6	2.5	1.9	
Germany*	-1.1	2.3	2.5	2.8	2.9	
France	-1.0	1.9	2.2	3.0	3.8	
Italy	-0.7	1.5	2.1	2.8	2.8	
United Kingdom	2.0	3.3	3.5	3.0	2.9	
Canada	2.2	4.1	4.1	3.8	3.8	
Total G-7	1.4	2.8	2.8	2.7	2.7	

* All Germany; F=Forecast

Sources: IMF, World Economic Outlook, October 1994, and Consensus Economics, Consensus Forecasts, November 1994.

The recovery in Europe began with the export sector. Domestic demand -- consumption, business investment and housing -- is now strengthening, and should carry the advance into 1995. In Japan, consumption rose sharply in the third quarter. Business investment -- though weak -- registered its first uptick in three years, suggesting that 1995 should see greater strength on the investment side and a gradually building acceleration in growth. The overall picture suggests that recovery will grow to encompass more and more countries in a broad, non-inflationary upturn. Economic conditions and policies are oriented to making the expansion sustainable.

Prospects for Low Inflation are Bright

The G-7 can look forward to a continuation of inflation rates that are among the lowest in nearly 30 years. On average, G-7 inflation is expected to be around 2.2 percent in 1994, and 2.5 percent in 1995.

	<u>1993</u>	<u>1994F</u>		<u>1995F</u>	
		<u>IMF</u>	<u>Consensus</u>	<u>IMF</u>	<u>Consensus</u>
United States	3.0	2.7	2.7	3.4	3.4
Japan	1.3	0.7	0.6	0.7	0.6
Germany*	4.6	3.1	3.0	2.2	2.4
France	2.1	1.8	1.8	1.8	2.1
Italy	4.2	3.8	3.9	3.1	3.8
United Kingdom	1.6	2.5	2.5	3.1	3.4
Canada	1.8	0.2	0.3	1.6	1.9
Total G-7	2.7	2.3	2.2	2.5	2.7

* All Germany for IMF; F=Forecast
Sources: IMF, World Economic Outlook, October 1994, and Consensus Economics, Consensus Forecasts, November 1994.

The optimistic outlook for inflation is well grounded. The moderate pace of the expansion and the shift of momentum from the countries recovering earlier to the Continent and Japan have helped to prevent undue pressure on supply in any one country, thereby containing inflation pressures. The normal rise in global commodity prices associated with an industrial country upturn has been moderate.

In addition, the gap between actual and estimates of potential output remains sizeable in most countries. Hence, economies at a relatively early stage in their expansion can continue to grow for some time at above their long-run potential without experiencing inflationary pressures, and the recovery should not be cut short by the need to restrain inflation. Furthermore, G-7 policy measures are consistent with the goal of non-inflationary growth with higher employment.

	<u>G-7: Output Gaps</u> % of potential GDP		
	<u>1993</u>	<u>1994</u>	<u>1995</u>
United States	-0.9	+0.2	+0.2
Japan	-3.8	-5.6	-5.5
Germany*	-1.6	-1.7	-1.5
France	-3.0	-3.1	-2.3
Italy	-3.8	-4.2	-3.5
United Kingdom	-4.8	-3.7	-2.8
Canada	-4.3	-2.9	-1.9

Source : IMF, World Economic Outlook, October 1994
* All Germany

Judicious Monetary and Fiscal Policies

Monetary policy is being employed to bear on inflation risks in a timely fashion. Monetary tightening has been underway in the countries leading the recovery. Fiscal policy has also become more restrictive in all G-7 countries except (appropriately) Japan. This fiscal restraint will continue in 1995.

The restrictive movement in fiscal policy is indicated by the reduction in "structural" budget balances (i.e., the fiscal position estimated by abstracting from the normal cyclical movements in revenues and expenditures). Since the upturn will also reduce budget deficits by the revenue-increasing action of cyclical forces, the reduction in actual budget deficits will be even greater -- from 4.0 percent of G-7 GDP in 1993 to 3.2 percent in 1995, according to IMF projections. The tightening outside Japan will be even greater.

This generally optimistic picture should not obscure some very real problem areas. In addition to the continuing large high Japanese current account surpluses noted below, these problems include high fiscal deficits in many European countries, despite the reductions now in train. Both the IMF and the OECD estimate that the United States will have the lowest G-7 government sector budget deficit to GDP ratio again in 1995. Continuing efforts over the medium term will be needed to correct these deficits.

External Account Developments

While Japan's trade and current account surpluses remain high, they have started to come down. The current account surplus measured in yen peaked in 1992. Because of the rise of the yen against the dollar, however, the surplus in dollar terms continued to rise for some time, but may now be turning around. For the first ten months of 1994, the surplus in yen terms was down 9.2 percent relative to the same period in 1993, while the surplus in dollar terms fell 1.6 percent.

Trade volume figures show a substantial rise in imports, although exports have also risen somewhat. For 1994 as a whole, it is entirely possible that Japan's current account surplus measured in dollars could be the same as or slightly higher than its \$131 billion level in 1993. But the cumulative impact of the past yen rise (which took place mainly in the first half of 1993) and the gradual strengthening of domestic demand in Japan should produce a small reduction in the 1995 surplus even in dollar terms.

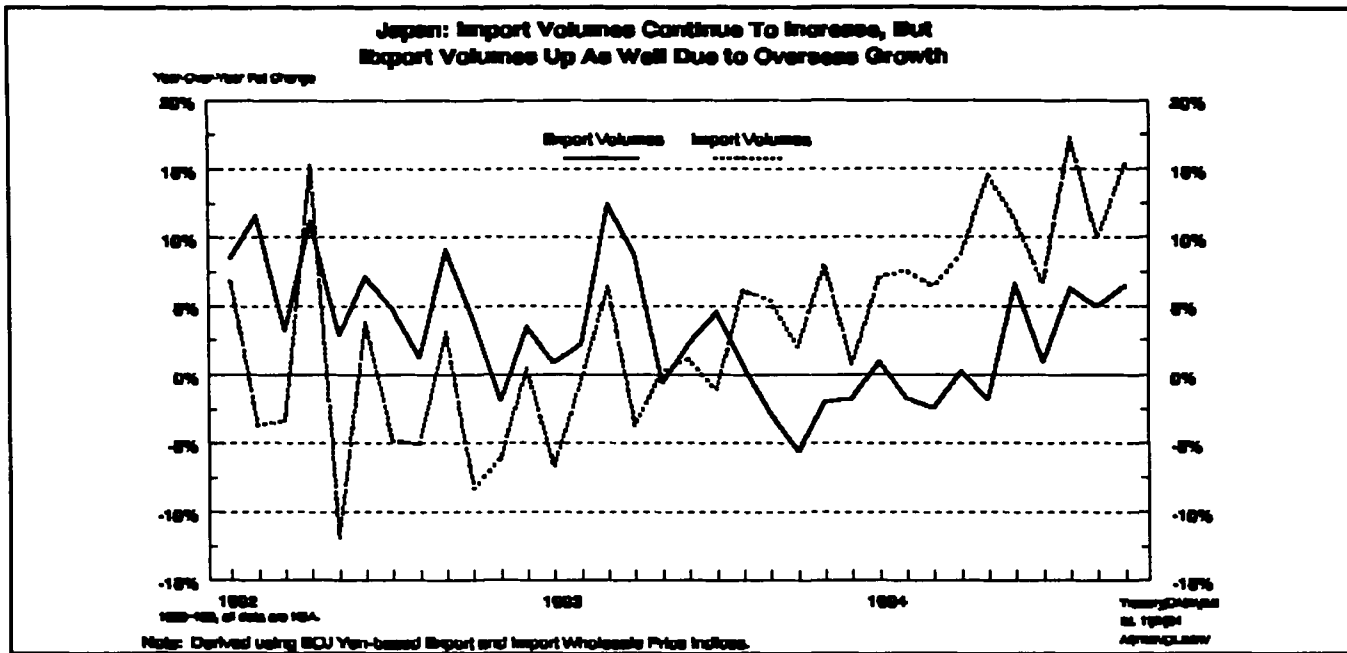


Chart 1

Even in 1995, however, Japan's external surpluses will remain sizeable, both in absolute terms and in proportion to GDP. It will therefore remain urgent that Japan continue to open its markets and avoid premature monetary and fiscal policy tightening, so that the recovery can gather strength and produce an expansion of domestic demand large enough to make a sizeable reduction in Japan's external imbalances. (For a discussion of U.S. trade and current account prospects, see section IIB.)

Table 4
G-7: Current Account Balances
(\$ billions; % of GDP in parentheses)

	<u>1993</u>		<u>1994F</u>		<u>Consensus</u>	<u>1995F</u>		<u>Consensus</u>
			<u>IMF</u>			<u>IMF</u>		
United States	-104	(-1.6)	-149	(-2.2)	-143	-167	(-2.4)	-141
Japan	+131	(+3.1)	+136	(+2.9)	+130	+129	(+2.6)	+115
Germany*	-20	(-1.0)	-16	(-0.8)	-25	-14	(-0.6)	-16
France	+10	(+0.8)	+10	(+0.7)	+8	+12	(+0.9)	+5
Italy	+11	(1.2)	+31	(+3.0)	+20	+38	(+3.4)	+23
United Kingdom	-16	(-1.6)	-13	(-1.3)	-8	-18	(-1.6)	-9
Canada	-24	(-4.3)	-21	(-3.9)	-22	-19	(-3.3)	-20
Total G-7	-11	(-0.1)	-23	(-0.1)	-39	-39	(-0.2)	-44

* All Germany for IMF; F=Forecast

Sources: IMF, World Economic Outlook, October 1994, and Consensus Economics, Consensus Forecasts, November 1994.

Unemployment and Structural Adjustment

The recovery has produced substantial employment gains in the United States. Since January 1993, 5.2 million new payroll jobs have been added, mostly in the private sector. The unemployment rate dropped to 5.6 percent in November. Job gains are now spreading to other countries, although unemployment remains high, particularly in Europe.

Reduction in unemployment rates normally lags upturns in production. The year 1995 should see a reduction in unemployment on the Continent, although the decline may be too small to reduce the aggregate European unemployment rate much below 10 percent before 1996. Thus, while it is likely that some gradual improvement in the unemployment rates will occur, and there is some evidence that G-7 labor markets are becoming more flexible, rates will remain at historically high levels in Europe even into the latter part of the decade. More progress in the structural policy area, supported by appropriate macroeconomic policies, is essential.

Other structural changes in the industrial economies have made product markets more competitive and reduced price-raising power. Among these changes is a more open international trade regime, which may reduce the power of capacity constraints in any one country to accelerate inflation.

Rise in Long-term Interest Rates

Long-term interest rates have risen substantially in all industrial countries over the past twelve months, although the size of the increase varies across countries. While the measurement of "real" (i.e., inflation-adjusted) interest rates is subject to a wide range of uncertainty, there appears to be a roughly one percentage point increase in the real ten-year bond rate which is common to all countries that have closely linked markets. This rise in real rates is due to the increasing strength of the global recovery, which has focussed attention on the large structural budget deficits in many countries. Increases in bond yields over and above the higher real rate reflect a mixture of concerns about future inflation and uncertainties about the future path of price increases that differs among countries. For example, the additional rise is lowest in Japan, where current and likely future inflation rates are lowest.

Policy Requirements

In the United States, where the expansion is now in its third year, monetary policy has been directed toward sustaining recovery with low inflation. The substantial increase in short-term rates since February 1994 (2-1/2 percentage points for Federal funds and over 3 percentage points for three month CDs) has begun to show some signs of slowing demand. The combined effects of the deficit reduction program and strong recovery brought the U.S. federal budget deficit down to only \$203.4 billion (3.1 percent of GDP) in FY94, the lowest in five years. There will be another sizeable cut in the deficit in FY95, for the third consecutive year.

In continental Europe, it will be important to continue the process of fiscal restraint. In addition to improving fiscal positions, this process will ensure continuing anti-inflation effects as the recovery accelerates. In this context of fiscal tightening -- and given declining inflation and substantial remaining gaps between actual and potential output -- there is no evident need for a tightening of monetary policy. Recovery also provides an opportunity to address structural obstacles to job creation more vigorously.

Japan needs to ensure that macroeconomic policy continues to support demand that the recovery which appears finally to be underway does not falter. In the fiscal area, it is essential to avoid a premature withdrawal of stimulus from the tax side, as well as expenditure cuts in the normal budget process that might undo the positive impact of the tax cuts on domestic demand and growth. In addition, the Bank of Japan should resist tightening monetary policy until the recovery is more assured. Real short-term interest rates are high, the financial system is still under strain, inflation is nil and the yen has been very strong. As the OECD remarks in its latest Economic Outlook, "the appropriate time for moving rates to an upward path appears to be some way off."

B. Developments in the Foreign Exchange Markets

Introduction

Between October 1, 1993 and November 30, 1994, the dollar experienced a moderate decline of approximately 4 percent on a nominal trade-weighted basis. The decline was widespread, including against many currencies which customarily follow dollar movements in the exchange markets. The dollar ended the period at a level 3.5 percent below its average over the past seven years in trade-weighted terms.

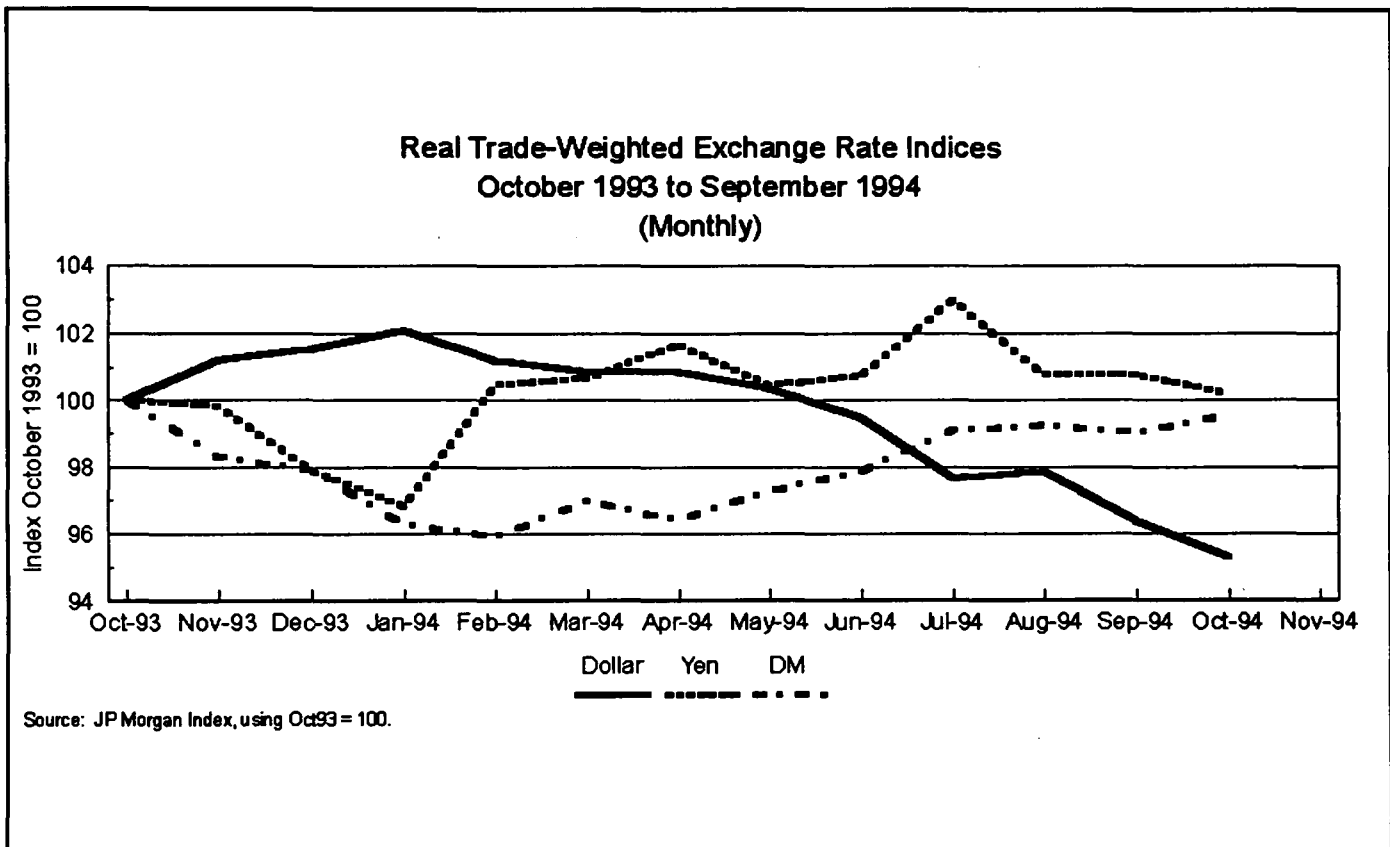


Chart 2

The downward movement in the dollar was first evidenced in January against the yen, reversing a trend of appreciation that had begun in August 1993. Over the next two months, the dollar also began to decline against the German mark and other European currencies. The following table shows the percent change in the dollar against various currencies from October 1, 1993 through November 30, 1994. The peak-to-trough decline from early 1994 to the dollar's lows in October was 14.6 percent vs. the yen and 5.0 percent vs. the DM.

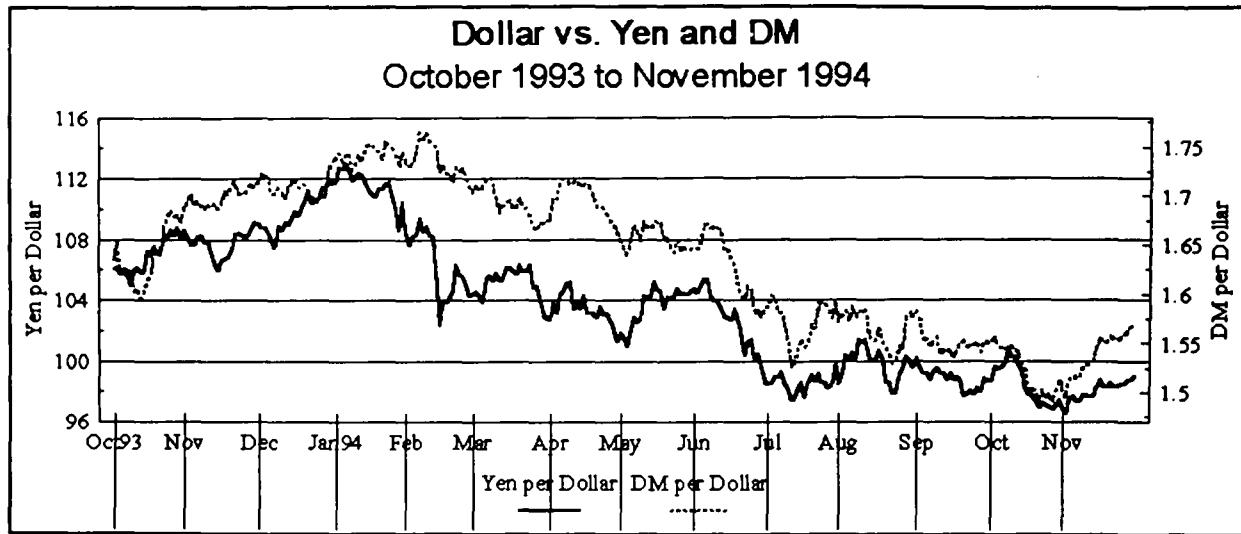


Chart 3

Table 5
Change in Dollar vs. Selected Currencies
(Percentage Change)

<u>Currency</u>	<u>Change:</u> <u>October 1, 1993-November 30, 1994</u>
Japanese Yen	-6.7%
German Mark	-3.9%
British Pound	-4.3%
French Franc	-5.4%
Italian Lira	1.6%
Canadian Dollar	3.4%
Swiss Franc	-6.8%
Mexican Peso	10.3%
Korean Won	-2.2%
Taiwanese Dollar	-2.3%

Factors Behind Recent Foreign Exchange Market Developments

The depreciation of the dollar over the period can be attributed to two sets of factors. First, there was a renewed focus in the market on external imbalances and the associated

trade tensions between the United States and Japan. Second, there was a change in market expectations regarding the monetary policy response to the sustained strength of the economic expansion in the United States and a faster than expected recovery in Europe.

The widening of Japan's trade surplus in late 1993 and into early 1994 raised market caution about the need for further adjustment in imbalances. The market showed sensitivity at times to developments in US-Japan trade negotiations in subsequent months, given their importance to the adjustment process. Lack of progress in Japan on fiscal and other policy measures which influence domestic demand led the market to believe that external adjustment might come about mainly through the yen/dollar exchange rate.

In addition, the deterioration in the U.S. current account deficit that accompanied the recovery generated some concern in the market. Changes in capital flows, including the continued diversification of U.S. investors into foreign assets and a period of reduced demand by Japanese investors for foreign assets were perceived to have exerted pressure on the dollar.

Market expectations about growth, inflation, and the expected monetary policy response played a key role. At times, there was downward pressure on the dollar as the market participants gradually realized that U.S. economic growth was moving along faster than they had anticipated and became concerned whether the monetary response would be adequate to keep the economy from quickly reaching employment and capacity constraints.

Over the period, the pace of economic recovery in Germany and throughout Europe accelerated faster than many market participants had anticipated, raising expectations of strong relative investment returns in these markets and thereby leading to some adjustment out of dollar assets. Market perceptions in the summer that the monetary easing cycle in Europe was over implied that interest rate differentials would not widen sufficiently in the dollar's favor.

The dollar stabilized for a short period beginning in mid-July as some of these concerns receded. Optimism spread about the favorable resolution of the framework talks with Japan. There was a growing feeling in the market that the Japanese trade surplus had peaked. The August tightening by the Federal Reserve was well received in the markets. Later, the dollar was supported by encouraging signs that other steps, such as preliminary Japanese tax reform and other policies to stimulate domestic demand, were being taken to address external imbalances.

However, starting in September, renewed indications of stronger than anticipated U.S. economic activity kept U.S. bond prices under pressure. Increases in various indicators of capacity utilization, of prices of inputs, and of employment pointed to sustained growth at faster than anticipated rates, which raised the market's concern about inflation risks. The dollar temporarily traded lower during the second half of October.

Subsequently, the dollar recovered following foreign exchange market intervention by the U.S. monetary authorities in early November and an increase by the FOMC in short term interest rates on November 15. Over the course of this period, short-term interest differentials favoring dollar placements widened further. Also, recent months' data have provided evidence that the Japanese trade surplus has probably peaked and is on a declining trend.

Exchange Rate Policy

The Administration supports a strong dollar. A strong dollar is good for the U.S. and world economies:

- it supports confidence in the financial markets;
- it enhances the attractiveness of U.S. assets;
- it gives an incentive for longer-term investment in the United States; and
- it helps to keep inflation low.

In early November, Secretary Bentsen stated that a decline in the dollar would be inconsistent with the fundamentals of a strong, investment-led recovery in the United States and with the greatly enhanced ability of U.S. firms to compete around the world, and that a continuation would be counterproductive for the U.S. and world economies. The U.S. position is shared generally among the G-7 authorities, who agree that, in prevailing economic conditions, a decline of the dollar is neither justified nor desirable.

As we have emphasized since early 1993, the Administration's position on exchange rate policy rests on two basic points. First, exchange rates should reflect economic fundamentals, as they evolve, and the policies that help shape the fundamentals. Second, the U.S. monetary authorities are prepared to cooperate with other G-7 authorities in the foreign exchange market when appropriate. As we have demonstrated in the past year, we believe that intervention can be a valuable policy instrument in the right circumstances.

Foreign Exchange Market Intervention

During the period under review, the Administration intervened in the foreign exchange market on five days. The first three episodes, occurring on April 29, May 4, and June 24, are detailed in the July report. On November 2 and 3, the U.S. monetary authorities intervened in the foreign exchange market, purchasing dollars against sales of Japanese yen and German marks.

C. U.S. Balance-of-Payments Developments

Goods and Services Trade

The U.S. deficit on Goods and Services (G&S) trade continued to widen in 1994, running at an annual rate of \$109.3 billion for the first 9 months, compared with \$74.1 billion for the same period in 1993, and a recent low point of \$28 billion for the year 1991. This widening was entirely due to an increased deficit on goods trade. The surplus on trade in services so far this year is roughly unchanged from the 1993 level.

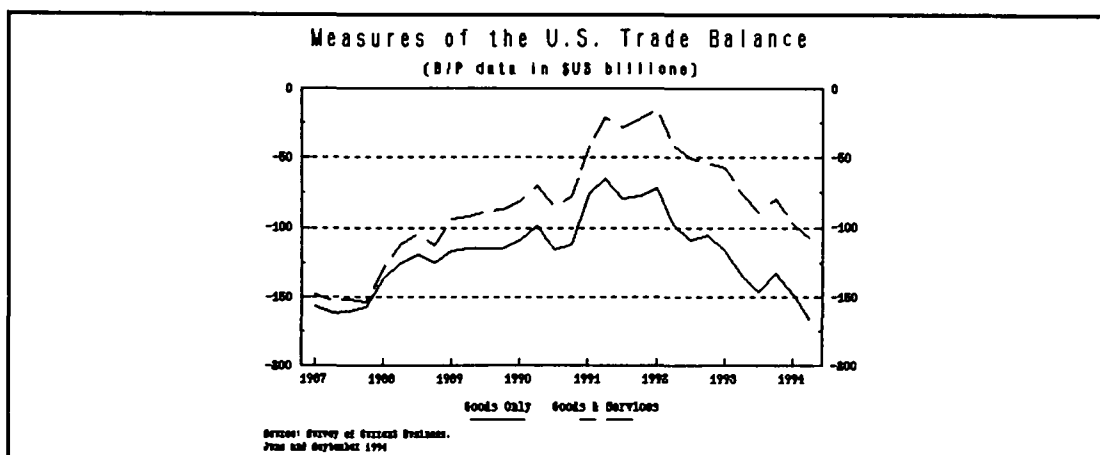


Chart 4

The goods trade balance was heavily influenced by cyclical factors.

- o The robust U.S. expansion, now in its third year, continues to draw in imports, which are up 12.6 percent in value terms for first 9 months of 1994 over the same period in 1993. Strong import growth is characteristic of such a robust expansion. However, 40 percent of the increase has been accounted for by capital goods, including computers. Such imports have a positive impact on the U.S. economy, since they support the strong capital investment expenditures by U.S. firms, which in turn contribute to the continued strong competitive performance by U.S. exporters in the face of weak demand in several major export markets.
- o Exports are up 9.3 percent in value terms over the first 9 months, despite having been hampered by sluggish growth in Europe and Japan. The drag of sluggish growth in major industrial country markets has been partly offset by strong growth in emerging country markets, and continued improvement in the foreign market share of U.S. exports, reflecting a robust U.S. competitive position as measured, e.g., by relative unit labor costs.

Table 6

Goods Exports and Imports by End-Use 1993-4
(\$ billion; Jan-Sept at annual rates)

End-Use Category	Exports		Imports	
	<u>1993</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>
Foods, Feeds, & Beverages	39.9	39.6	27.5	30.6
Industrial Materials	110.0	118.3	145.4	159.1
Capital Equipment	178.0	201.5	148.4	178.7
Automobiles & Parts	51.4	56.0	101.0	115.7
Misc. Manufactures	77.3	84.2	150.2	164.0
TOTAL, CENSUS BASIS	456.6	499.6	572.4	648.0
TOTAL, BOP BASIS	448.5	490.1	580.7	654.0

The surplus on services, though large, has remained in the \$55 billion range for several years, after rapid growth in the latter 1980s. The factors behind this apparent levelling-off are not clear, but may in part reflect the same cyclical factors influencing the goods trade balance, since U.S. competitiveness is as marked in services as in goods. Recovery abroad should contribute to a renewed widening in the services surplus.

However, renewed growth in the services surplus may well be offset by a widening deficit on investment income, as a decade of current account deficits has built-up a large net debt which has to be serviced. In 1994, for the first time, the United States will run a deficit on net investment income.

Table 7

U.S. Current Account: 1987; 1991*; 1994
(\$ billion; data from SCB)

<u>Balance</u>	<u>1987</u>	<u>1991*</u>	<u>1994#</u>
Goods	-160	-74	-164
Services	+8	+46	+57
Investment Income	+8	+15	-10
Transfers	-23	-35*	-32
Current Account	-167	-49*	-149

*excludes \$42 billion in one-time transfers from allies to support Desert Storm. Totals may not add due to rounding.

#Jan-Sept at annual rate

Changing Capital Account Patterns

The pattern of financing of the U.S. current account has changed somewhat in recent years. Direct investment recorded net inflows during much of the decade of the 1980s, but has shifted to net outflows so far during the 1990s. At the same time, there has been a substantial decline in the net inflow from securities transactions, though changes in the net have masked much larger swings in gross inflows and outflows. (In particular, there was a very large surge in U.S. purchases of foreign securities during 1993, which rose to \$142 billion annual rate during the second half of the year but dropped back sharply in 1994, to an annual rate of \$42 billion in the second and third quarters.) Banking transactions have accounted for increased inflows. There have been substantial official inflows in recent years, in part relating to foreign official intervention in exchange markets by major industrial countries and in part to the accumulation of dollar reserves by dynamic developing countries, which are a counterpart of their increased ability to attract private capital.

	<u>1981-85</u>	<u>1986-90</u>	<u>1991-93</u>	<u>1994*</u>
Direct Invest, net	+11	+28	-24	-15
Securities, net	+23	+31	+5	+18
Corporate (non-d.i.)	+1	+3	+12	+14
Banks, net	-1	+15	+32	+119
Official, net	-5	+28	+5	+52
* Jan-Sept at annual rate				

Outlook for the Trade and Current Account

Relative growth performance by the United States and its major trading partners will continue to be a major factor driving the U.S. trade and current account during 1995 and beyond. The U.S. economy should continue to expand, though at a more moderate pace, and thus imports will continue to grow as well. Renewed expansion in Europe and Japan will give a boost to U.S. exports, but the improvement will be gradual.

We expect the U.S. trade and current account deficit to continue to widen in 1995, albeit at a declining rate, reflecting this growth pattern. (A range of recent private and public sector forecasts is shown below.) However, the deficit in 1995 should not exceed 2-1/2 percent of GDP, well short of the peak deficit of 3.7 percent of GDP recorded in 1987. Recent data confirm that a recovery is underway in Europe -- though the likely vigor of the expansion remains uncertain -- and prospects for a revival of economic activity in Japan have improved. And various indicators of U.S. competitiveness, notably data on unit

labor costs and export market shares, show that U.S. goods are highly competitive in world markets.

<u>Source</u>	<u>1994</u>		<u>1995</u>	
	\$billion	%GDP	\$billion	%GDP
L. Meyer & Assoc (12/94)	-155	(-2.3)	-172	(-2.4)
DRI (12/94)	-158	(-2.3)	-200	(-2.8)
Consensus Econ, London (11/94)	-143	(-2.1)	-141	(-2.0)
OECD (12/94)	-154	(-2.3)	-173	(-2.4)
IMF (10/94)	-149	(-2.2)	-168	(-2.4)

The timing of a possible turn-around is very difficult to predict, but, if activity in the U.S. moderates as expected and there is robust recovery in Europe and Japan, at some point during the course of 1995 or 1996 the U.S. current account deficit should stabilize or begin to decline -- at least as a share of GDP, and probably in absolute terms as well.

The degree, and longevity, of such a turn-around will depend on improvements in the U.S. saving performance. At current levels of private saving, even if the progress made to date in reducing the budget deficit can be sustained, domestic saving will continue to be inadequate to finance desired levels of investment, and the United States will continue to need to borrow abroad to finance the difference -- or cut investment and future growth. Substantial further progress in improving U.S. saving performance will be needed to produce long-term reductions in the current account deficit.

PART III: ACTIONS UNDER SECTION 3004

Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 requires the Secretary of the Treasury to consider whether countries manipulate the rate of exchange between their currencies and the U.S. dollar for the purposes of preventing effective balance of payments adjustment or gaining competitive advantage in international trade. Section 3004 also requires the Secretary to undertake negotiations with those manipulating countries that have material global current account surpluses and significant bilateral trade surpluses with the United States. This section summarizes the current status of Korea, Taiwan and China, which in some past reports have been designated as manipulating the rates of exchange between their currencies and the U.S. dollar.

KOREA

Korea currently has a global current account deficit, but maintains a small bilateral trade surplus with the United States. It is the judgement of the Treasury Department that Korea is not at this time manipulating the rate of exchange between the won and the U.S. dollar to prevent effective balance of payments adjustment or to gain unfair competitive advantage in international trade.

Notwithstanding this determination, the Treasury Department remains concerned that Korea's continued use of foreign exchange and capital controls reduces market demand for the won and thereby tends to deter upward pressure on the won.

Trade and Economic Developments

Korea's external accounts continued to shift in 1994. Korea's current account was nearly balanced in 1993, recording a small surplus of \$500 million compared to a deficit of \$4.5 billion in 1992. Korea's trade balance registered a surplus of \$1.9 billion in 1993.

This year, according to statistics provided by the Bank of Korea, the current account balance in January-June registered a deficit of roughly \$2.7 billion. A small second-half surplus is expected to lower the annual deficit to \$2.5 billion. Trade flows accounted for most of the increased deficit. Imports, reflecting the recovery in aggregate demand as Korea pulled out of last year's recession, jumped roughly 14.5 percent in the first half of 1994 compared to the same period in 1993. Korea's exports, on the other hand, grew by 11.9 percent during January-June 1994, compared to 5.9 percent during the same period in 1993. Overall, Korea registered a trade deficit of \$1.6 billion during the first six months of this year. Korea ended 1993 with \$20.7 billion in gross reserves (excluding gold), equivalent to over two months of imports. By May 1994, this figure had risen to an estimated \$21.4 billion.

While Korea's economic recovery has been the driving force in widening the overall deficit in dollar terms, exchange rate developments may also be playing a role. Won

depreciation with respect to the yen and EU currencies has increased the dollar value of imports but will only gradually slow the growth of import volumes ("the J-curve effect"). According to Korean statistics, the value of imports from the EU and Japan grew at 22.8 and 21.9 percent, respectively, during the first half of 1994. This is more rapid than the rate of growth reported for imports from the United States, whose currency remained comparatively stable relative to the won. Despite government promotion of 1994 as "Visit Korea" year, the deficit in the tourism account during January-June more than tripled to \$655 million compared to the same period in 1993.

Korea's trade with the United States has also undergone significant adjustment. During January-September 1994, Korea's trade surplus with the United States amounted to \$1.4 billion, down from the \$1.9 billion surplus recorded in the first nine months of 1993 according to U.S. statistics. The decline in Korea's surplus with the United States is attributable to the surge in Korea's economic growth and the consequent increase in aggregate demand for imports. Korea's imports from the United States during January-September 1994 grew by roughly 18 percent over the same period in 1993. By comparison, the value of Korean exports to the United States grew by 11.5 percent.

Overall, the Korean economy surged ahead in the first two quarters of this year. Real GNP grew by an estimated 8.5 percent, with average growth for the entire year predicted to be around 8 percent. Facility investment and exports led the second quarter growth, as in the first quarter, but the second quarter also saw an acceleration in private consumption spending, which rose 7.6 percent over 1993 levels. Korea seems destined to overshoot its target of 6 percent inflation for 1994. The government has focused its 1995 budget on price stabilization, however, and the Bank of Korea will attempt to keep monetary growth in the 14-15 percent range.

Despite the depreciation of the won relative to the yen, Korea's trade deficit with Japan has widened. While Korean exports to Japan have risen 13.2 percent, the value of Korean imports from Japan have grown even more rapidly -- possibly due to the J-curve effect mentioned earlier and inelastic demand for imported capital equipment and inputs from Japan. The chronic trade deficit with Japan is a concern for Korean officials, with the gap widening 32 percent from \$4.4 billion during the first half of 1993 to roughly \$5.9 billion during the same period in 1994.

At the same time, the decline of the won relative to the yen has apparently also made Korea more competitive in some export markets in which it competes with Japan. Exports to the developing nations, for example, grew by 16.4 percent during the first half of 1994, while exports to the developed nations (the United States, Japan, and the European Union) grew by only 8.9 percent during the same period.

Exchange Rate Developments

The value of the Korean won relative to the U.S. dollar has not changed significantly since the last report in July 1994. Between December 31, 1993 and November 18, 1994, the won appreciated 1.9 percent relative to the dollar.

Korea's exchange rate system has acted to keep the won's value against the dollar virtually steady while the dollar has declined against most other major currencies. As a result, the won has captured the competitive benefits of the dollar's depreciation against the yen, declining from 629 won per 100 yen in early 1993 to a record low of 818 won per 100 yen at the end of June.

Exchange Rate and Financial System

Korea's exchange rate system is characterized by thin trading and an extensive set of capital controls. Treasury believes that the maintenance of foreign exchange and capital controls, rather than direct intervention by the Bank of Korea, is the more important factor in deterring upward pressure on the won.

Under the present system, the won's exchange rate is determined by a weighted average of the interbank won-dollar exchange rates applied in spot transactions on the previous day. The won is allowed to fluctuate ± 1 percent relative to the dollar on a daily basis. In July, the Minister of Finance stated that the government intends to widen the exchange rate fluctuation band to $\pm 1.2 - 1.5$ percent sometime before year-end 1994. In October, the new Minister of Finance announced that the limit would be increased to ± 1.5 percent effective November 1.

Korea continues to maintain a broad array of controls on foreign exchange and capital account transactions. These controls inhibit market forces from fully determining the exchange rate, prevent the free flow of capital both into and out of Korea, and constitute a potential means by which Korean authorities may influence the exchange rate. Foreign exchange banks, for example, have been required to obtain and review documentation of underlying commercial transactions for most foreign exchange transactions. Effective November 1, 1994, the MoF relaxed these regulations to some degree by increasing the minimum value of forward foreign exchange contracts subject to underlying documentation requirements to \$10 million, up from \$3 million. Despite this recent move, however, these restrictions remain an impediment to foreign exchange transactions. Korea's restrictive terms for deferred import payment, although recently eased by means of expanding the payback period to 150 days, still lag far behind international norms and continue to be a key concern. Offshore financing is also restricted. Some progress was made in this area during the summer, but the easing of access to offshore financing was selectively focused to maximize the importation of high-tech or capital equipment while leaving other sectors untouched.

Regarding inward capital controls, foreigners have been subject to a 10 percent general and 3 percent specific limit on investment in Korean stocks. Newly appointed Finance Minister Park Jae Yoon announced October 5 that, effective December 1, the 10 percent ceiling on aggregate foreign purchases in a listed stock will be increased to 12 percent, with the ceiling going to 15 percent sometime in 1995. The 3 percent limit on purchases by an individual will remain unchanged. Soon after the announcement, however, the Stock Market Stabilization Fund reportedly sold its equity holdings to slow the rise in stock prices. The Fund's decision to sell equity holdings was viewed by some as unnecessary intervention in the market. Treasury will closely monitor this issue and continue to press Korea for more rapid liberalization.

With regard to capital outflows, Koreans and Korean companies are permitted, effective July 1, 1994, to purchase foreign stocks and bonds, but individual Koreans are limited to investments of up to \$125,000 and companies up to \$375,000. However, new capital controls were introduced early this year in response to a surge in capital inflows. Foreign investors were required to obtain special identification cards prior to purchasing Korean shares. Foreign investors were also required to deposit 40 percent of the purchase price prior to entering the order -- a practice prohibited in the United States -- thereby cutting U.S. institutional investors out of Korea's securities market. Although these regulations were eased during the course of the year, their imposition had the effect of slowing capital inflows during the early months of 1994.

The limits on capital inflows and outflows, while they were eased on an incremental basis, reflect the cautious approach taken by the Korean government and the desire to insulate the won from the effects of market-determined capital flows. The imposition of new capital controls earlier this year and more recent actions to depress activity on the Korean stock exchange are evidence that Korean authorities are still far from the goal of allowing market forces to determine exchange rates. Moreover, such actions undermine foreign confidence in Korea's financial liberalization commitments, and in the longer run can complicate monetary management.

Financial Negotiations

Treasury has continued to engage Korean authorities in discussions related to accelerating its financial market and capital account liberalization and will continue to do so under extended Uruguay Round negotiations and further bilateral contacts. Most recently, Treasury has focused on the need for the exchange rate to reflect the influence of global capital markets. Treasury has expressed concern to Korean officials about the consequences of maintaining an undervalued exchange rate. Of particular note since the last report, the Ministry of Finance announced on December 7 its *Foreign Exchange System Reform Plan* -- a package of measures based on the recommendations of a study committee set up earlier this year. The reforms will loosen some controls on Korea's foreign exchange and capital markets, and will be introduced in three stages: 1995; 1996-97; and 1998-99. Specific areas which will be affected by the reform plan include selected current and capital account

transactions, import/export payments and the foreign exchange market structure -- including transition to a floating rate system for the won in 1996-97.

This latest package of reforms will, when fully implemented, represent an important liberalization of Korea's foreign exchange system. However, the plan delays many of the more important reform measures until the end of the reform schedule. Treasury will closely monitor implementation of the plan and encourage Korean authorities to accelerate its pace.

Assessment

The present determination, like the assessment contained in the July 1994 report, is that Korea is not at this time engaging in practices which constitute manipulation of the exchange rate between its currency and the U.S. dollar. Two factors support this conclusion. First, the won/dollar exchange rate has remained relatively unchanged since the July report. Second, Korea's current account and trade balance are now in deficit.

However, Treasury will continue to urge Korean authorities to make greater progress in lifting exchange and capital controls in the context of bilateral financial policy talks and in the extended Uruguay Round financial services negotiations. Removal of these controls is essential to promote the freer flow of goods, services, and capital, to facilitate Korea's integration with global financial markets, and to permit the won to respond to market forces.

TAIWAN (figures in U.S. dollars)

Taiwan continues to register an overall current account surplus and a bilateral trade surplus with the United States. However, it is the judgement of the Treasury Department that Taiwan is not at this time manipulating the rate of exchange between the New Taiwan (NT) dollar and the U.S. dollar for purposes of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade.

Notwithstanding this determination, the Treasury Department remains concerned that restrictions maintained by Taiwan on foreign exchange transactions and capital flows continue to reduce market demand for the NT dollar and thereby deter market generated appreciation.

During several rounds of negotiations during 1994 concerning a draft Special Exchange Agreement as part of Taiwan's accession to the World Trade Organization (WTO), Taiwan showed a willingness to undertake that it will not impose exchange restrictions on current account transactions. Despite this progress, however, Taiwan has been unwilling to remove key restrictions that can constrain demand for the NT dollar for capital account transactions. Permitting the full range of market forces to determine the level of demand for the NT dollar would likely contribute to further adjustment of the existing bilateral trade imbalance.

Trade and Economic Developments

Taiwan's current account surplus fell from \$8.2 billion (3.9 percent of GDP) in 1992 to \$6.7 billion (3 percent of GDP) in 1993. This decline was mainly attributable to a smaller overall merchandise trade surplus, which declined \$1.4 billion from \$12.8 billion in 1992 to \$11.5 billion in 1993 -- the lowest surplus since 1983. A slightly larger deficit in services and income (\$4.6 billion in 1993 compared to \$4.4 billion in 1992) and an increase in the deficit in private unrequited transfers from \$168 million in 1992 to \$957 million in 1993 also contributed to the reduction of the current account surplus.

According to recent estimates, Taiwan registered a current account surplus of \$2.4 billion in the first six months of 1994. Taiwan's trade surpluses continued to shrink in 1994. The continuing decline in Taiwan's trade surpluses stems from the slow recovery in Taiwan's export markets and from increasing competition posed by nations such as the PRC and Thailand. Taiwan's global trade surplus for the first eight months of 1994 was \$3.9 billion, compared to \$5.1 billion in the corresponding period in 1993.

Taiwan's bilateral trade surplus with the United States was \$8.8 billion in 1993, down from \$9.4 billion in 1992. Adjustment in Taiwan's bilateral trade surplus with the United States, has stalled so far this year. Taiwan's surplus with the United States during January-September 1994 registered roughly \$7 billion, a small increase over the \$6.8 billion seen in the same period in 1993. As the New Taiwan dollar/U.S. dollar exchange rate has remained

relatively steady, the small increase in the bilateral trade deficit with Taiwan is probably attributable to increased economic growth in the U.S.

In 1992, Taiwan ran its first overall balance of payments deficit in twelve years. Since that time, however, Taiwan's position has improved, despite a steady decline in the current account surplus. Taiwan registered an overall surplus of \$1.5 billion in 1993, which grew to \$3.8 billion in the first six months of 1994. The principal reasons for this improvement in the balance of payments are: 1) a substantial increase in the inflow of foreign direct and portfolio investment; 2) a steady fall in Taiwan's direct and portfolio investment abroad; 3) a drop in Taiwan's purchases of foreign real estate; and 4) a net inflow of short-term capital in 1994. Because of these factors, Taiwan's long- and short-term capital accounts together ran a surplus of \$2.1 billion in the first half of 1994, compared to a deficit of \$4.8 billion for all of 1993. Taiwan ended 1993 with \$83.6 billion in foreign exchange reserves, equivalent to over one year of imports. By August 1994, this figure had climbed to \$91 billion.

Taiwan's real GDP grew 6.2 percent during 1993, continuing the pattern set in recent years of more moderate growth. Annual growth rates below the seven percent rate which prevailed over the last several decades reflect both Taiwan's economic maturation and weakness in the world economy. Economic growth in the first half of 1994 registered only 5.7 percent, but an increase in exports and private sector investment has led to an upward adjustment of Taiwan's economic forecast to 6.2 percent growth for all of 1994.

Inflation in Taiwan ran at roughly 2.9 percent for 1993, but indicators for 1994 are mixed. The consumer price index jumped to 7.1 percent in August and 6.7 percent in September over previous year levels. These rates are far above the Central Bank's target of 3.8 percent for the full year. Inflation may have been distorted, however, by poor weather, which has significantly increased prices for basic commodities. The growth of broad money (M2) during the first eight months of 1994 slightly surpassed the Central Bank's target of 15 percent.

Foreign direct investment in Taiwan, measured on an approval basis, has declined steadily in recent years. The most likely causes for this drop include the earlier appreciation of the NT dollar against the U.S. dollar, an increase in labor costs and an increase in land costs. Inward foreign investment showed a surprising increase during the first six months of 1994, however, totalling \$465 million during January-June of this year, an increase of 72 percent over the same period in 1993. Further, it is estimated that Taiwan received \$1.5 billion of portfolio investment in the first half of 1994, compared to \$433 million during the same period in 1993.

Exchange Rate Developments

The NT dollar depreciated nearly 5 percent against the US dollar in 1993, largely due to strong capital outflows from the island during the first three quarters of that year.

However, between December 31, 1993 and November 18, 1994, the NT dollar has strengthened moderately, appreciating by roughly 1.2 percent relative to the U.S. dollar.

Exchange Rate and Financial System

Taiwan continues to maintain controls and regulations on foreign exchange transactions and capital flows. Together, these limit the size of Taiwan's foreign exchange market. Principally through negotiations held on accession to the WTO, Taiwan has made some progress in liberalizing its financial sector during the past year. Certain key ceilings and restrictions on foreign exchange remain in place, however, and authorities on Taiwan are reluctant to abolish them in favor of indirect controls.

Taiwan's ceilings on banks' foreign exchange liabilities limit the ability of banks to engage in forward trading in the NT dollar, to offer foreign currency loans in Taiwan, and to use swap funding in order to obtain NT dollars with which to make local currency loans. In January, the Taiwan authorities again raised the foreign exchange liabilities ceiling for commercial banks, and the industry as a whole does not appear to be operating up against the ceilings at present. Nevertheless, the existence of these ceilings may act to restrict the activities of individual foreign banks. The existing limits force banks to be more selective in the types of business that they do and have the effect of restricting long-term lending. Also, although some banks still have excess capacity on their limits, the Gross Business Revenue Tax on domestic interbank loans makes interbank lending too expensive. Further, while there currently is excess foreign liability capacity in the market, there is no guarantee that this will not change. The use of foreign currency borrowing is generally influenced by interest rate differentials and exchange rate movements. The current limits hinder the ability of banks to react to market movements and thus raise their costs. Taiwan authorities have pledged to replace these limits with reserve requirements after passage of a new Central Bank law.

Limits on foreign banks' short and long foreign exchange positions are also a concern. Under current regulations, foreign banks are subject to the same ceiling as "small" domestic banks. That is, foreign banks are limited to a \$20 million "long" position compared to \$50 million for large domestic banks; and a \$6 million "short" position, compared to \$10 million for large domestic banks. As New Taiwan dollar funding and liquidity remain areas of concern for foreign banks, raising the long and short ceilings for foreign banks to a level comparable to that for large domestic banks would be a positive development.

Non-trade-related capital inflows and outflows by an individual continue to be subject to a limit of \$5 million per year without prior approval. The limit for firms, however, has been raised to \$10 million per year. Foreign individual investors are prohibited from investing on Taiwan's stock exchange (the Taiex). The Taiex was opened to foreign institutional investors in January 1991, but these investors continue to face restrictions on repatriation of capital and earnings. On the positive side, however, the Central Bank of

China has raised the ceiling for aggregate foreign institutional investment from \$5 billion to \$10 billion, and increased the limit for a single institutional investor from \$100 million to \$200 million.

Financial Policy Negotiations

While not citing Taiwan as an exchange rate manipulator, Treasury nonetheless continues to urge Taiwan to move more rapidly to reduce restrictions on foreign exchange transactions and capital flows. Taiwan's aim of achieving the status of a regional financial center will require significant liberalization of these restrictions, as well as further movement toward opening its financial markets. Progress has been made in this regard during WTO accession negotiations, but foreign exchange restrictions remain a particularly troublesome area.

Of particular note since the last report, bilateral negotiations conducted in July resulted in a draft Special Exchange Agreement for use by the GATT Working Party in its discussions on Taiwan's accession to the WTO. The Special Exchange Agreement outlines disciplines on the use of foreign exchange restrictions once Taiwan joins the WTO. The draft agreement has strong commitments prohibiting exchange restrictions on the current account, and also requires Taiwan to seek to avoid capital controls.

Assessment

The present determination maintains the assessment contained in the July 1994 report that Taiwan is not at this time engaging in practices which constitute manipulation of the exchange rate between its currency and the U.S. dollar. Two factors support this conclusion. First, there has been no significant change in the value of the New Taiwan dollar relative to the U.S. dollar since the last report. Second, adjustment continues to occur in Taiwan's current account and trade surpluses.

Treasury will continue to use bilateral and multilateral discussions to press for further elimination of restrictions on foreign exchange transactions and capital movements which constrain demand for the NT dollar.

CHINA

As noted in the July report, China has taken important steps to reform its foreign exchange system this year, unifying exchange rates and liberalizing domestic firms' access to foreign exchange. Yet, government approval of foreign exchange purchases by foreign-funded enterprises, which account for a large share of China's imports, is still required. Documentation requirements for domestic enterprises wishing to acquire foreign exchange for current transactions are also burdensome and give authorities the scope to prohibit foreign exchange transactions. While approval is readily given at the moment, the arrangements can only be viewed as intended to provide the means to limit imports of goods and services if government officials wish to do so. The non-transparency of the process and the criteria for approval allow scope for discrimination in imports.

It is therefore Treasury's determination that China is not currently manipulating its exchange system to prevent effective balance of payments adjustment and gain unfair competitive advantage in international trade, but that it retains the capacity and bureaucratic means to do so in the future. In the context of bilateral negotiations as well as multilateral negotiations on China's entry into the WTO, Treasury continues to urge China to complete market-oriented reform of its foreign exchange system, give foreign and domestic firms equal access to the new interbank foreign exchange market, and eliminate all government approval systems aimed at regulating the level and composition of imports of goods and services.

Indeed, foreign exchange controls are but a part of a multiplicity of formal and informal trade controls. Restrictions include foreign exchange balancing requirements, limitations on the trading rights of foreign and domestic firms, and import licenses that restrict and distort the composition of China's imports.

Trade and Economic Developments

After deteriorating to a deficit of \$12.2 billion in 1993, China's overall trade balance returned to surplus in the first nine months of 1994 as exports benefitted from stronger growth in China's markets. China's data indicate that exports were up 30 percent in the first three quarters of 1994 to \$79.4 billion while imports, driven by China's continued rapid growth, rose 15 percent to \$78.0 billion. China thus reported a trade surplus of \$1.4 billion for January-September 1994. Current account information is not yet available for this year, but the improvement in China's trade account should give China a small current account surplus in 1994.

In this context, it is important to reiterate the caveat noted in previous reports that China's trade data are not consistent with those of its trading partners. Specifically, China's data significantly understate exports because of the incentives that China's foreign exchange surrender requirements generate to underreport export earnings and hold foreign exchange offshore. For example, while China reported a trade deficit of \$12.2 billion for 1993, trading partner data adjusted for differences in valuation and transshipment through Hong

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	Jan-Sept <u>1994</u>
Current Account	11.9	13.3	6.4	-11.9	na
Of which:					
Trade Balance*	8.7	8.2	4.4	-12.2	1.4
Capital Account	3.3	8.1	-0.2	23.5	na
Net Errors & Omissions	- 3.1	-6.8	-8.3	-9.8	na
Increase in Reserves	-12.0	-14.5	2.1	- 1.8	-18.6
(- = increase)					
Sources: Chinese and IMF Statistics					
* Trade Figures on Customs Basis; Other Figures on a Balance-of-Payments Basis					

Kong suggest that China's 1993 trade balance was instead in surplus by approximately \$20 billion.

China's large bilateral trade surplus with the United States will likely continue to increase this year. Extrapolating from January-September 1994 data, the bilateral surplus is projected to be \$28.7 billion, compared with \$22.8 billion in 1993 and \$18.3 billion in 1992. Growth in U.S. exports, largely capital goods, to China rose 15 percent for this period over last year (compared with 1993 growth of 17 percent), while imports, dominated by consumer goods, rose at a 23 percent rate (the same rate as 1993).

All sources agree that China's foreign exchange reserves have increased sharply this year. Chinese authorities reported that reserves of the People's Bank of China rose \$18.6 billion in the first nine months of 1994, from \$21.1 billion at the end of 1993 to \$39.8 billion at the end of September 1994, i.e., about five months of imports. This excludes foreign exchange holdings of the Bank of China that until 1992 were counted as part of official reserves.

The large increase in China's reserves and the selective easing of credit to unprofitable state enterprises in 1994 contributed to rapid growth of China's money supply. M1 and M2 expanded by 33 and 37 percent, respectively, in the year ending September 1994. This monetary expansion helped to sustain China's rapid growth in 1994. Real GDP growth remains very high -- 11.4 percent for the first 9 months of this year. This pace represents some moderation of last year's 13.4 percent growth and is in line with official forecasts of 11-12 percent growth in 1994. However, indicators suggest that growth is

accelerating in the second half of this year. Industrial sector value added grew 18.1 percent in the third quarter, 2.3 percentage points higher than in the first half.

China's inflation figures reflect this acceleration in demand and monetary growth. Urban prices were 27.5 percent higher in September 1994 compared to September 1993. Inflation rates have shown an upward trend in recent months, rising from an average of 25 percent in the first quarter. China's authorities blame the upward trend on rising food prices resulting from price decontrol and supply problems. Nevertheless, consumer demand is also likely playing an important role as urban wages have risen 30-40 percent in the first three quarters of the year. Under these circumstances, the need for renewed emphasis on monetary restraint is evident.

Foreign Exchange System

China's current foreign exchange system operates as a highly managed float. The daily exchange rate is set according to the median price for foreign exchange on the preceding day. An interbank market for foreign exchange, the foreign exchange trading center (FETC), was established in April 1994. The headquarters are located in Shanghai with additional, satellite-linked centers in 19 cities.

Foreign-funded enterprises (FFE) may, with the approval of the State Administration of Exchange Control (SAEC), buy and sell foreign exchange in the interbank market using a member institution as agent. (Member institutions currently comprise 278 domestic banks and non-bank financial institutions and designated foreign banks.) A FFE agent bank must submit the purchase request to the SAEC for approval. With SAEC approval, the agent bank executes the transaction at the FETC. FFEs, unlike domestic firms, can retain their foreign exchange earnings.

Domestic enterprises may not trade foreign exchange in the interbank market. However, those domestic companies that have trading rights are allowed to purchase foreign exchange automatically from designated members of the interbank market upon presentation of: (1) an import contract; (2) a request for payment from a foreign institution; and (3) an import license (if required). The spreads applicable to domestic firms are reportedly wider than those in the interbank market, providing a small profit margin for the bank. Domestic firms are required by the government to sell their foreign exchange earnings to a designated bank at the prevailing exchange rate.

The important distinction between the treatment of FFEs and domestic firms is that FFEs cannot purchase foreign exchange without the approval of the SAEC, whereas domestic firms may purchase foreign exchange automatically for permitted transactions. (Domestic firms must still obtain SAEC approval for capital account transactions and some invisible current account transactions.) In this context, it is important to note that China continues to impose requirements on FFEs to balance foreign exchange receipts and expenditures. The

SAEC approval system can be used as a means to enforce foreign exchange balancing requirements.

If a domestic firm wishes to purchase foreign exchange for permitted current account transactions, the request is not submitted to the SAEC. The firm needs only the required documentation cited above. With such documentation, the domestic firm can buy the foreign exchange directly from a designated bank.

Exchange rate management in the interbank market comes in two forms: (1) limiting trading to within a particular range of the daily determined rate (± 0.25 percent); and (2) intervention through buying or selling foreign exchange by the People's Bank of China (PBOC) to stabilize rates.

Outside the 19 cities linked to the interbank market in Shanghai, foreign firms must trade foreign exchange in the previously existing swap centers. These swap centers are not part of the integrated foreign exchange market in Shanghai but still must balance the local supply and demand for foreign exchange according to the exchange rate set in Shanghai. Local authorities often have been unwilling to allow foreign-funded enterprises to trade foreign exchange outside the local swap center.

Exchange Rate Developments

On November 4, 1994 China's exchange rate (unified in January of this year) stood at 8.53 yuan/dollar, a nominal appreciation of 2 percent from its end-1993 value of 8.71 yuan/dollar. Most of this appreciation has come in recent months and is likely the result of increased demand for renminbi stemming from domestic credit controls and the increased availability of foreign exchange resulting from large investment inflows and China's improved trade balance. Large accumulation of foreign currency by the People's Bank of China, as evidenced by the large increase in official foreign exchange reserves, prevented greater nominal appreciation of the exchange rate.

Nonetheless, China's inflation rate greatly exceeded that of the United States. As a result, China's yuan/dollar exchange rate appreciated an estimated 12 percent in real terms over the period end-1993 to end-September 1994.

Exchange Rate Negotiations

In the context of bilateral negotiations between Treasury and Chinese authorities, as well as in China's WTO accession negotiations, Treasury and other U.S. Government agencies have pressed China to: (1) give domestic and foreign firms equal access to a unified foreign exchange market; (2) eliminate all requirements for government approval of foreign exchange purchases for goods and services transactions (i.e., move to current account convertibility); and (3) eliminate foreign exchange balancing requirements.

While accepting these objectives as long-term goals, China's position in these negotiations is that reforms undertaken this year are very significant; that access to foreign exchange is already nearly unrestricted; and that China needs to maintain a system which provides the capability of regulating foreign exchange availability.

Table 11

**China: Nominal Bilateral Exchange Rate Indices
(End of Period)**

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>Sept 1994</u>
United States	100	96.4	80.2	68.9	65.5
Japan	100	88.7	73.7	56.7	47.8
EU	100	98.9	91.1	84.8	72.7

**China: Real Bilateral Exchange Rate Indices
(End of Period)**

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>Sept 1994</u>
United States	100	97.2	83.9	82.4	92.2
Japan	100	89.9	78.8	70.5	70.2
EU	100	98.6	93.8	101.3	102.6

Sources: IMF and Treasury Department Data

Decline of Index = Depreciation of Chinese Currency

September Real Exchange Rate Indices Are Based on Estimated Inflation Rates for China, Japan, and the European Union

Assessment

Treasury acknowledges that major strides in reforming China's foreign exchange system have been made this year. However, China maintains significant restrictions on foreign exchange transactions. Domestic firms are required to sell foreign exchange to designated banks, and, while FFEs may use the foreign exchange earned through exports, they must receive prior approval from the SAEC for all purchases of foreign exchange in the interbank market. Moreover, China continues to require SAEC approval for certain current account transactions, including repatriation of profits.

At the moment, SAEC approval of foreign exchange purchases for foreign firms is not difficult to obtain. This liberal implementation stems from favorable market conditions -- ample foreign exchange availability and strong demand for the renminbi. However, as in the past, the SAEC could withhold approval. It is clear that the rationale for maintaining the approval system is to maintain the government's capability to ration foreign exchange.

Thus, Treasury has determined that China is not currently manipulating its exchange system to prevent effective balance of payments adjustment or gain unfair competitive advantage in international trade. However, it is essential that China commit to liberalizing access to foreign exchange for current account transactions, as is required under Article VIII of the IMF's Articles of Agreement. The United States continues to seek such commitments from China in bilateral negotiations and in multilateral negotiations regarding China's accession to the WTO.

**APPENDIX 1: OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988
(H.R. 3)**

SEC. 3004. INTERNATIONAL NEGOTIATIONS ON EXCHANGE RATE AND ECONOMIC POLICIES.

(a) **Multilateral Negotiations.**--The President shall seek to confer and negotiate with other countries--

(1) to achieve--

- (A) better coordination of macroeconomic policies of the major industrialized nations; and
- (B) more appropriate and sustainable levels of trade and current account balances, and exchange rates of the dollar and other currencies consistent with such balances; and

(2) to develop a program for improving existing mechanisms for coordination and improving the functioning of the exchange rate system to provide for long-term exchange rate stability consistent with more appropriate and sustainable current account balances.

(b) **Bilateral Negotiations.**--The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. If the Secretary considers that such manipulation is occurring with respect to countries that (1) have material global current account surpluses; and (2) have significant bilateral trade surpluses with the United States, the Secretary of the Treasury shall take action to initiate negotiations with such foreign countries on an expedited basis, in the International Monetary Fund or bilaterally, for the purpose of ensuring that such countries regularly and promptly adjust the rate of exchange between their currencies and the United States dollar to permit effective balance of payments adjustments and to eliminate the unfair advantage. The Secretary shall not be required to initiate negotiations in cases where such negotiations would have a serious detrimental impact on vital national economic and security interests; in such cases, the Secretary shall inform the chairman and the ranking minority member of the Committee on Banking, Housing, and Urban Affairs of the Senate and of the Committee on Banking, Finance and Urban Affairs of Representatives of his determination.

SEC. 3005. REPORTING REQUIREMENTS.

(a) **Reports Required.**--In furtherance of the purpose of this title, the Secretary, after consultation with the Chairman of the Board, shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, on or before October 15 of each year, a written report on international economic policy, including exchange rate policy. The Secretary shall provide a written update of developments six months after the initial report. In addition, the Secretary shall appear, if requested, before both committees to provide testimony on these reports.

(b) **Contents of Report.**-- Each report submitted under subsection (a) shall contain--

- (1) an analysis of currency market developments and the relationship between the United States dollar and the currencies of our major trade competitors;
- (2) an evaluation of the factors in the United States and other economies that underlie conditions in the currency markets, including developments in bilateral trade and capital flows;
- (3) a description of currency intervention or other actions undertaken to adjust the actual exchange rate of the dollar;
- (4) an assessment of the impact of the exchange rate of the United States dollar on--
 - (A) the ability of the United States to maintain a more appropriate and sustainable balance in its current account and merchandise trade account;
 - (B) production, employment, and noninflationary growth in the United States;
 - (C) the international competitive performance of United States industries and the external indebtedness of the United States;
- (5) recommendations for any changes necessary in United States economic policy to attain a more appropriate and sustainable balance in the current account;
- (6) the results of negotiations conducted pursuant to section 3004;

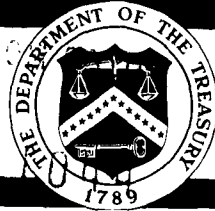
- (7) key issues in United States policies arising from the most recent consultation requested by the International Monetary Fund under article IV of the Fund's Articles of Agreement; and
 - (8) a report on the size and composition of international capital flows, and the factors contributing to such flows, including, where possible, an assessment of the impact of such flows on exchange rates and trade flows.
- (c) Report by Board of Governors.--Section 2A(1) of the Federal Reserve Act (12 U.S.C. 225a(1)) is amended by inserting after "the Nation" the following: ", including an analysis of the impact of the exchange rate of the dollar on those trends".

SEC. 3006. DEFINITIONS.

As used in this subtitle:

- (1) Secretary.--The term "Secretary" means the Secretary of the Treasury.
- (2) Board.--The term "Board" means the Board of Governors of the Federal Reserve System.

TREASURY



NEWS

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FOR IMMEDIATE RELEASE

Text as prepared for delivery

January 5, 1995

**TESTIMONY OF (ACTING) TREASURY SECRETARY FRANK N. NEWMAN
SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS**

Good morning Mr. Chairman, Senator Sarbanes, and other members of the committee. I am pleased to have the opportunity, along with my colleagues on the President's Working Group on Financial Markets, to discuss with you issues important to the financial system.

Before beginning remarks on today's topic, I would like to commend the Committee for the exceptional work it did during the 103rd Congress in advancing legislation important to the continued success of financial services in the United States. Interstate banking, paperwork reduction, community development banking, and small business loan securitization are just a few of the important legislative proposals that were passed by this committee in a highly successful bipartisan fashion.

I look forward to working with the Committee in the months ahead on the various issues under its jurisdiction and expect that, together, we will again have the opportunity for genuinely constructive actions.

Today, I am here as both the acting Treasury Secretary and the acting chairman of the President's Working Group on Financial Markets. I will present an update on recent activities of the Working Group and share with you Treasury's assessment of the need for federal government action -- legislative, regulatory or other -- to mitigate problems in the financial markets.

The subjects of these hearings are very important, for the effective functioning of our financial markets is crucial to the workings of the economy. The members of the Working Group are aware that even with the best government policies, unexpected financial market problems can occur, and the relevant agencies maintain an attitude of constant vigilance concerning financial market developments.

I would also like to assure the members of this committee that the participants in the Working Group are constantly mindful of the need to balance the objectives of appropriate protections for the financial system and the public, with the dangers of interfering too much with the efficiency and innovation of the markets and placing unwarranted regulatory burden on business activities. Collectively, we have substantial private-sector experience, and try to listen to the perspectives of market participants, while we take our oversight and regulatory responsibilities with utmost seriousness.

In my own background, I have been the chief financial officer of two major and successful banking companies. I have chaired committees responsible for the management of interest-rate risk and market risk for hundreds of billions of dollars of assets and notional amounts of derivatives, including approving -- and disapproving -- plans for investments and offerings of new financial products. I have seen how derivatives can be used to manage and reduce risk, but I have also seen how they can be misused. I, like my colleagues, try continually to give significant consideration to the real world implications and practicality of potential government actions, even as we recognize the importance of such factors as disclosure to investors as well as the stability of the financial system that supports our economy.

The Working Group was established by Executive Order in March 1988 in response to the October 1987 stock market decline. In January 1994, Secretary Bentsen, as chairman, reactivated the Working Group which consists of the Secretary of the Treasury, and the chairs of the Federal Reserve, the SEC, and the CFTC. In addition, our meetings often include the President of the Federal Reserve Bank of New York, the Comptroller of the Currency, the chair of the FDIC, and the Assistant to the President for Economic Policy. The primary goals of the Working Group are to promote information sharing among regulators, to discuss various approaches for dealing with serious market issues as they arise, and to encourage consistent and coordinated regulatory actions across markets and market participants.

The members of the Working Group, like members of this committee, share common goals: to protect the safety and soundness of the banking system, to maintain fair and orderly markets, to improve disclosure to customers and investors so that they can make more informed decisions, and to foster economic innovation and international competitiveness.

We all believe that the Working Group process has worked well in establishing close working relationships among the agencies. While there is not complete agreement on every issue, the Working Group has established effective communication among the agencies, which has improved the regulatory process and the ultimate outcome for the financial markets.

The issues the Working Group, and each agency within their respective jurisdictions, has addressed include:

- risk management and capital adequacy at regulated firms;
- accounting and disclosure improvements;
- enhancements to the systems for payment and settlement of financial transactions;
- specific matters regarding exchange-traded securities and other instruments and over-the-counter financial derivatives, including marketing practices; and
- evolution of markets and instruments and their possible impact on risk to the financial system.

Government regulatory action must be measured, timely, and consistent with the fundamental goals of economic growth and stability. It is not the role of government to ensure that no market participant ever loses money or becomes insolvent. Participation in financial markets entails risk, and the risk of loss or failure is a necessary discipline for efficiency in financial markets. However, we recognize that the government has a role in protecting the functioning of the financial system and ensuring the safety and soundness of the banking system.

In October 1994, Secretary Bentsen transmitted a report to Congress which summarized approximately 80 actions designed to reduce risks in financial markets taken by the agencies represented in the Working Group, other federal regulators, and numerous other government-related entities. Among the key points of that report were the following items:

- The bank regulatory agencies have issued new guidelines to banks and examiners detailing new standards for internal control and risk management. While these standards include specific guidance concerning the sale and use of derivatives, they do so -- appropriately -- within the broader context of overall management.
- The Office of the Comptroller of the Currency, the Federal Reserve, and the FDIC each have published proposals to amend their risk-based capital rules to better encompass the credit risk of derivatives. The banking regulatory agencies are working with the Basle Committee on Banking Supervision to develop international capital standards for market risks, and a new proposal is expected to be released in a few months.
- The SEC is reviewing its capital rule in connection with derivatives and is considering the use of sophisticated methods to set capital charges for exchange-traded options and related positions.
- The SEC is monitoring the activities of the unregulated affiliates of registered broker-dealers through its authority to collect risk-assessment data.
- The CFTC has used its risk-assessment authority to collect data relative to the size and scope of activities of affiliates of futures commission merchants and has coordinated with the SEC on other information-sharing initiatives. The CFTC recently adopted risk-assessment rules to require reporting of risk management

policies and certain other information by regulated entities. Following further review and consultation with other regulators, the CFTC intends to adopt additional risk-assessment rules.

- Accounting and disclosure standards are in the process of being revised by the Financial Accounting Standards Board and the SEC, and the bank call reports have been expanded, in particular to deal with holding and trading in derivatives.
- International coordination is being pursued through multilateral organizations, such as IOSCO, OECD, G-10, as well as bilateral discussions.
- And, in a matter especially important to the Treasury Department, the Congress passed and the President signed into law in December 1993 the Government Securities Act Amendments of 1993, which, in addition to reauthorizing the Treasury's rulemaking authority under the Government Securities Act of 1986, granted the bank regulators and the National Association of Securities Dealers (with SEC approval) the authority to write sales practice rules for government securities. The NASD has proposed such rules and are now reviewing comments, and the bank regulators are actively considering such rules.

There are many ways to get into trouble in financial markets, and one case that has received a great deal of publicity recently -- Orange County's current financial difficulties -- is another reminder that large, leveraged bets on interest rates can lead to large losses. Having said that, I do not want to minimize the difficulties the people of Orange County are facing as they deal with the enormous losses suffered in their investment pool.

Of late, each time a market participant suffers a large, newsworthy loss, the term "derivatives" is used almost as if it were an explanation. In fact, risky market strategies, such as borrowing short to invest long, have been around for a long time, while the terms "derivatives," or even "swaps," are more recent coinages.

In the Orange County case, the losses were not caused by over-the-counter contracts that market practitioners normally consider derivatives. Rather, Orange County got into financial trouble because it was highly leveraged and there was a significant duration gap between its assets and its liabilities, i.e., it purchased long-term securities with short-term loans. This left Orange County highly vulnerable to increases in short-term interest rates. In addition, Orange County had invested much of this borrowed money in categories of securities issued by Government-sponsored enterprises, many of which were structured to be especially sensitive to changes in interest rates.

The members of the Working Group all agree that the state governments have the primary responsibility for ensuring the prudent investment practices of the governmental units ultimately under their jurisdiction. Under current law, there are some significant, albeit indirect, measures we as federal regulators can take due to our collective ability to regulate

the marketing practices of many of the counterparties to state and local governmental authorities.

GSE structured notes and collateralized mortgage obligations are government securities covered by the Government Securities Act. Since the enactment of the Government Securities Act Amendments of 1993, the government has the authority to promulgate sales practice rules, including suitability standards, through the NASD (with SEC approval) or the bank regulators. Each appropriate agency is now actively considering such rules.

Additionally, we believe that the Working Group has a role to play in helping to develop and promote sound investment strategies for state and local authorities to adopt and follow. Recently, on behalf of the Working Group, we invited a number of associations representing state and local government entities to a meeting at the Treasury Department. These associations are: the Government Finance Officers Association; the Municipal Treasurer's Association; the National Association of State Auditors, Comptrollers, and Treasurers; the National Association of State Treasurers; the National Conference of State Legislatures; the National Governors Association; the National League of Cities; and the U.S. Conference of Mayors. The Working Group and these associations have agreed to work together to promote the use of model investment guidelines such as those already developed by many of the associations, provide educational materials, conduct training programs, share information and relevant guidelines by federal regulators, and identify possible regulatory or oversight issues. The investment policies and practices that we are discussing with these associations include management of credit and market risks, internal controls, accounting, supervision and reporting, and investment disclosure.

The issues highlighted by the Orange County case are complex and important and raise some very challenging questions. For example, since the financial insolvency of large state and local governments could adversely affect national financial markets, should the federal government have a larger role in ensuring that prudent practices are followed in order to lessen the possibility of this occurring? What possible roles are practical? Also, should broker-dealers and banks that market financial instruments to state and local governments be required to review their investment policies? Should they have to determine whether the particular instruments that are being recommended are appropriate for the governmental entity? These and other questions have been debated by the Working Group, and my colleagues will offer some particular perspectives on them.

The continual evolution of financial markets and financial instruments poses ever broader issues for the federal government, and the Working Group continues to actively address them. I have already mentioned some of the issues involved with respect to state and local governments. More generally, we may need to reexamine certain aspects of the current structure of our regulatory system and laws and consider whether modifications are needed. For example, distinctions between certain securities, swaps, and futures contracts are increasingly difficult to make in light of the evolution of financial instruments.

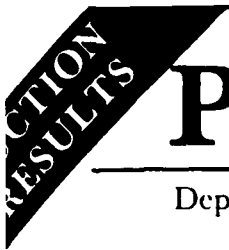
These issues bear importantly on the structure of our financial markets, the ability of variously regulated entities to compete with each other, the types of suitability protection, market transparency, and the degree of legal risk in our financial markets. Potentially, these matters may impact the nature and degree of systemic risk in our financial markets and the government's tools to mitigate such risk.

The financial regulatory agencies are taking significant steps to reduce risk in the financial system, but still have a lot of work to do. The Working Group continues to find no need at this time for additional broad legislative grants of authority to regulators in the area of over-the-counter instruments usually referred to as financial derivatives. We nevertheless expect to consider more targeted legislative proposals concerning particular ambiguities or issues of law.

Last year, for example, the Working Group proposed that the Bankruptcy Code be amended to clarify the status of netting of foreign currency transactions for delivery in two days or less, and the Congress, responding to our request, did amend the Code to address this point. The Orange County situation has indicated that there is some confusion about the treatment of certain financial transactions in a Chapter 9 bankruptcy filing. The Working Group, together with other relevant agencies such as the Justice Department, plans to study and consider this issue and other areas of law that may be unclear, and we may, if appropriate, make recommendations to Congress.

The financial markets are continually and rapidly evolving, and we believe that the Working Group process assists the financial regulators in adopting a coordinated, flexible, and constructive approach to this evolution. New regulatory authority or modification of current authorities may prove necessary in the future in light of the increased use of highly complex financial instruments and the increasing similarity of products and services provided by institutions regulated under quite different regimes. We will continue to work on this issue, some aspects of which, as you know, Treasury is required to study -- in concert with an advisory committee -- and report to Congress under provisions of the Interstate Banking and Branching Efficiency Act of 1994. We appreciate the opportunity to work with this committee on these matters, particularly to achieve greater understanding by market participants of the appropriate use of derivatives and other complex financial instruments, and the dangers that can arise from their misuse.

Mr. Chairman, that concludes my prepared statement. I will be happy to respond to questions you and the other members of the Committee may have.



PUBLIC DEBT NEWS



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January 5, 1995

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202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for \$17,256 million of 52-week bills to be issued January 12, 1995 and to mature January 11, 1996 were accepted today (CUSIP: 912794W59).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	6.84%	7.32%	93.084
High	6.86%	7.34%	93.064
Average	6.86%	7.34%	93.064

\$20,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 67%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$49,836,038	\$17,255,702
Type		
Competitive	\$43,905,075	\$11,324,739
Noncompetitive	<u>1,368,963</u>	<u>1,368,963</u>
Subtotal, Public	\$45,274,038	\$12,693,702
Federal Reserve	4,250,000	4,250,000
Foreign Official		
Institutions	<u>312,000</u>	<u>312,000</u>
TOTALS	\$49,836,038	\$17,255,702

TREASURY



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FOR IMMEDIATE RELEASE
January 6, 1995

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U.S. TO HOST JANUARY MEETING ON
FINANCING ECONOMIC DEVELOPMENT IN THE MIDDLE EAST

The United States will host a meeting in Washington on January 10-11, 1995 on "Financing Institutions for Economic Development in the Middle East." This meeting constitutes a key element of the follow-up to the Middle East/North Africa Economic Summit held in Casablanca, Morocco in October 1994, which called for a group of experts to examine different funding mechanisms to support the peace process, including the creation of a Middle East Bank for Economic Cooperation and Development. Attending the meeting will be 37 regional and extra-regional parties participating in and supporting the Middle East peace process.

Additional information on the meeting is contained in a fact sheet available from Treasury's Office of Public Affairs press office.

-30-

FN-15



FACT SHEET:
FINANCING INSTITUTIONS FOR ECONOMIC DEVELOPMENT
IN THE MIDDLE EAST

- o The United States will host a meeting in Washington on January 10-11, 1995 on "Financing Institutions for Economic Development in the Middle East." Attending the meeting will be 37 regional and extra-regional parties participating in and supporting the Middle East Peace Process.
- o This meeting is a key element of the follow-up to the Casablanca Middle East/North Africa Economic Summit in October 1994. The Casablanca Declaration called for a group of experts to examine different funding mechanisms to support the peace process, including the creation of a Middle East Bank for Economic Cooperation and Development. The January 10-11 meeting is the first gathering of this group of experts.
- o Proposals for the creation of a Middle East Development Bank originate with the core regional participants in the peace process. The Israeli-Palestinian Declaration of Principles signed in September 1993 called for the creation of such a bank. Jordan and Egypt joined this call in meetings of the four parties in Cairo in late 1994. In October, President Clinton told the Jordanian parliament that the U.S. would take the lead in organizing interested countries to consider creation of a properly structured regional development bank.
- o The January 10-11 meeting will consider financing mechanisms for economic development and the creation of new institutions to address key regional needs which are not adequately addressed through existing efforts. These include: the development of regional infrastructure, promotion of the private sector, and enhanced regional economic policy reform and dialogue. Regional development banks exist in other areas and have proved to be effective channels to leverage significant assistance from private and public sources.
- o Any new institutions would be designed to meet the region's unique economic and political needs and would complement, not duplicate, the work of existing institutions. The basic objective would be to add an economic pillar of support for the historic achievements in the peace process since Madrid.
- o The January 10-11 meeting will be the first in series of meetings to examine these issues in detail, leading to the second Middle East/North Africa Economic Summit in Amman, Jordan later this year, where key conclusions would be announced.

PUBLIC DEBT NEWS



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

FOR RELEASE AT 3:00 PM
January 6, 1995

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR DECEMBER 1994

Treasury's Bureau of the Public Debt announced activity figures for the month of December 1994, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	\$811,130,534
Held in Unstripped Form	\$585,924,654
Held in Stripped Form	\$225,205,880
Reconstituted in December	\$10,808,575

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."

Information about "Holdings of Treasury Securities in Stripped Form" is now available on the Department of Commerce's Economic Bulletin Board (EBB). The EBB, which can be accessed using personal computers, is an inexpensive service provided by the Department of Commerce. For more information concerning this service call 202-482-1986.

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TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, DECEMBER 31, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month#1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
7-1/2% Bond 2016.....	11/15/16.....	18,864,448	17,863,248	1,001,200	37,360
8-3/4% Bond 2017.....	5/15/17.....	18,194,169	7,294,809	10,899,360	610,240
8-7/8% Bond 2017.....	8/15/17.....	14,016,858	8,044,058	5,972,800	1,408,000
9-1/8% Bond 2018.....	5/15/18.....	8,708,639	1,820,639	6,888,000	468,800
9% Bond 2018.....	11/15/18.....	9,032,870	1,750,670	7,282,200	65,000
8-7/8% Bond 2019.....	2/15/19.....	19,250,798	5,329,198	13,921,600	811,200
8-1/8% Bond 2019.....	8/15/19.....	20,213,832	16,917,192	3,296,640	556,480
8-1/2% Bond 2020.....	2/15/20.....	10,228,868	4,647,668	5,581,200	83,600
8-3/4% Bond 2020.....	5/15/20.....	10,158,883	3,357,443	6,801,440	176,960
8-3/4% Bond 2020.....	8/15/20.....	21,418,606	4,437,006	16,981,600	741,280
7-7/8% Bond 2021.....	2/15/21.....	11,113,373	9,903,773	1,209,600	443,200
8-1/8% Bond 2021.....	5/15/21.....	11,958,888	4,093,608	7,865,280	121,920
8-1/8% Bond 2021.....	8/15/21.....	12,163,482	4,856,922	7,306,560	684,160
8% Bond 2021.....	11/15/21.....	32,798,394	7,112,919	25,685,475	187,150
7-1/4% Bond 2022.....	8/15/22.....	10,352,790	7,995,990	2,356,800	160,000
7-5/8% Bond 2022.....	11/15/22.....	10,699,626	4,298,026	6,401,600	200,000
7-1/8% Bond 2023.....	2/15/23.....	18,374,361	14,526,361	3,848,000	67,200
6-1/4% Bond 2023.....	8/15/23.....	22,909,044	22,616,436	292,608	-0-
7-1/2% Bond 2024.....	11/15/24.....	11,469,662	11,469,662	-0-	-0-
Total.....		811,130,534	585,924,654	225,205,880	10,808,575

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

Note: On the 4th workday of each month Table VI will be available after 3:00 pm eastern time on the Commerce Department's Economic Bulletin Board (EBB). The telephone number for more information about EBB is (202) 482-1986. The balances in this table are subject to audit and subsequent adjustments.

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, DECEMBER 31, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month#1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
11-1/4% Note A-1995.....	2/15/95.....	6,933,861	5,599,301	1,334,560	4,800
11-1/4% Note B-1995.....	5/15/95.....	7,127,086	4,397,326	2,729,760	112,480
10-1/2% Note C-1995.....	8/15/95.....	7,955,901	5,010,301	2,945,600	38,000
9-1/2% Note D-1995.....	11/15/95.....	7,318,550	3,419,350	3,899,200	99,200
8-7/8% Note A-1996.....	2/15/96.....	8,446,058	6,689,258	1,756,800	158,400
7-3/8% Note C-1996.....	5/15/96.....	20,085,643	18,156,043	1,929,600	116,800
7-1/4% Note D-1996.....	11/15/96.....	20,258,810	17,716,410	2,542,400	-0-
8-1/2% Note A-1997.....	5/15/97.....	9,921,237	8,774,437	1,146,800	-0-
8-5/8% Note B-1997.....	8/15/97.....	9,362,836	7,790,036	1,572,800	-0-
8-7/8% Note C-1997.....	11/15/97.....	9,808,329	7,344,329	2,464,000	76,800
8-1/8% Note A-1998.....	2/15/98.....	9,159,068	8,014,428	1,144,640	39,680
9% Note B-1998.....	5/15/98.....	9,165,387	6,723,387	2,442,000	32,600
9-1/4% Note C-1998.....	8/15/98.....	11,342,646	8,688,246	2,654,400	82,400
8-7/8% Note D-1998.....	11/15/98.....	9,902,875	6,930,075	2,972,800	11,200
8-7/8% Note A-1999.....	2/15/99.....	9,719,623	8,191,623	1,528,000	174,400
9-1/8% Note B-1999.....	5/15/99.....	10,047,103	6,722,303	3,324,800	-0-
8% Note C-1999.....	8/15/99.....	10,163,644	8,166,344	1,997,300	68,000
7-7/8% Note D-1999.....	11/15/99.....	10,773,960	7,785,160	2,988,800	41,600
8-1/2% Note A-2000.....	2/15/00.....	10,673,033	9,065,033	1,608,000	278,800
8-7/8% Note B-2000.....	5/15/00.....	10,496,230	6,081,830	4,414,400	46,400
8-3/4% Note C-2000.....	8/15/00.....	11,080,646	8,029,926	3,050,720	117,280
8-1/2% Note D-2000.....	11/15/00.....	11,519,682	8,690,482	2,829,200	56,800
7-3/4% Note A-2001.....	2/15/01.....	11,312,802	9,355,202	1,957,600	40,000
8% Note B-2001.....	5/15/01.....	12,398,083	9,958,608	2,439,475	40,625
7-7/8% Note C-2001.....	8/15/01.....	12,339,185	10,225,585	2,113,600	9,600
7-1/2% Note D-2001.....	11/15/01.....	24,226,102	22,955,622	1,270,480	54,240
7-1/2% Note A-2002.....	5/15/02.....	11,714,397	11,001,037	713,360	102,560
6-3/8% Note B-2002.....	8/15/02.....	23,859,015	23,447,815	411,200	-0-
6-1/4% Note A-2003.....	2/15/03.....	23,562,691	23,534,851	27,840	-0-
5-3/4% Note B-2003.....	8/15/03.....	28,011,028	27,855,828	155,200	-0-
5-7/8% Note A-2004.....	2/15/04.....	12,955,077	12,955,077	-0-	-0-
7-1/4% Note B-2004.....	5/15/04.....	14,440,372	14,440,372	-0-	-0-
7-1/4% Note C-2004.....	8/15/04.....	13,346,467	13,346,467	-0-	-0-
7-7/8% Note D-2004.....	11/15/04.....	14,373,760	14,373,760	-0-	-0-
11-5/8% Bond 2004.....	do.....	8,301,806	5,093,806	3,208,000	291,200
12% Bond 2005.....	5/15/05.....	4,260,758	2,725,808	1,534,950	38,400
10-3/4% Bond 2005.....	8/15/05.....	9,269,713	8,408,113	861,600	227,200
9-3/8% Bond 2006.....	2/15/06.....	4,755,916	4,754,764	1,152	-0-
11-3/4% Bond 2009-14....	11/15/14.....	6,005,584	1,703,184	4,302,400	245,600
11-1/4% Bond 2015.....	2/15/15.....	12,667,799	5,152,439	7,515,360	898,240
10-5/8% Bond 2015.....	8/15/15.....	7,149,916	1,728,796	5,421,120	139,520
9-7/8% Bond 2015.....	11/15/15.....	6,899,859	2,171,859	4,728,000	11,200
9-1/4% Bond 2016.....	2/15/16.....	7,266,854	6,126,854	1,140,000	110,400
7-1/4% Bond 2016.....	5/15/16.....	18,823,551	18,287,551	536,000	221,600

COMMITTEE ON FINANCE
UNITED STATES SENATE
SD-205 Dirksen Building
Washington, D.C. 20510

PRESS RELEASE #104-1
FOR IMMEDIATE RELEASE
January 6, 1995
CONTACT: Eric Bolton
(202) 224-4515

**FINANCE COMMITTEE SETS CONFIRMATION HEARING
FOR ROBERT E. RUBIN**

Washington, D.C. -- Senator Bob Packwood (R-OR), Chairman of the Committee on Finance, announced today that the Committee will conduct a hearing on Tuesday, January 10, 1995, on the nomination by President Clinton of Robert E. Rubin, of New York, to be Secretary of the Treasury.

The hearing will immediately follow an Executive Session of the Committee on Finance beginning at 9:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

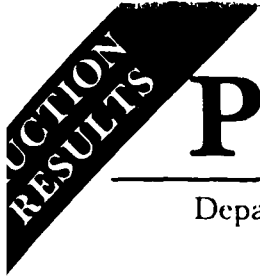
Since January 1993, Mr. Rubin has been Assistant to the President for Economic Policy. From 1966 to 1992, he was with The Goldman Sachs Group, L.P., located in New York City.

Mr. Rubin received an A.B. from Harvard College and a L.L.B. from Yale Law School. He also attended the London School of Economics.

Written statements: Witnesses who are not scheduled to testify, and others who desire to present their views to the Committee, are urged to submit written statements for inclusion in the hearing record. Written statements must be typed and must not exceed 10 pages in length. One copy should be mailed to Publication Section, United States Senate, Committee on Finance, Washington, D.C. 20510, and also to Mr. Lawrence O'Donnell, Minority Chief of Staff, United States Senate, Committee on Finance, Washington, D.C. 20510. These statements must be received no later than close-of-business, Tuesday, January 10, 1995. Please indicate the date and subject of the hearing on the first page of the statement.

The Committee urges those who submit statements to provide a diskette containing the statement in a format that can be read by personal computers. Plain ASCII text is preferred, but other formats will also be accepted.

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PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 9, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,473 million of 13-week bills to be issued January 12, 1995 and to mature April 13, 1995 were accepted today (CUSIP: 912794R55).

RANGE OF ACCEPTED COMPETITIVE BIDS:

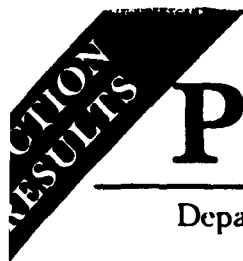
	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	5.86%	6.03%	98.519
High	5.87%	6.04%	98.516
Average	5.87%	6.04%	98.516

Tenders at the high discount rate were allotted 100%.
The investment rate is the equivalent coupon-issue yield.

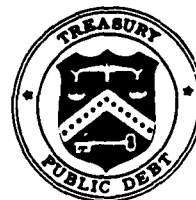
TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$55,519,226	\$13,472,570
Type		
Competitive	\$49,842,413	\$7,795,757
Noncompetitive	<u>1,630,609</u>	<u>1,630,609</u>
Subtotal, Public	\$51,473,022	\$9,426,366
Federal Reserve	3,136,520	3,136,520
Foreign Official		
Institutions	<u>909,684</u>	<u>909,684</u>
TOTALS	\$55,519,226	\$13,472,570

An additional \$72,616 thousand of bills will be issued to foreign official institutions for new cash.



PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 9, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,574 million of 26-week bills to be issued January 12, 1995 and to mature July 13, 1995 were accepted today (CUSIP: 912794T95).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	6.41%	6.72%	96.759
High	6.42%	6.73%	96.754
Average	6.42%	6.73%	96.754

Tenders at the high discount rate were allotted 29%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$54,143,287	\$13,573,661
Type		
Competitive	\$47,529,249	\$6,959,623
Noncompetitive	<u>1,416,922</u>	<u>1,416,922</u>
Subtotal, Public	\$48,946,171	\$8,376,545
Federal Reserve	3,300,000	3,300,000
Foreign Official		
Institutions	<u>1,897,116</u>	<u>1,897,116</u>
TOTALS	\$54,143,287	\$13,573,661

An additional \$151,284 thousand of bills will be issued to foreign official institutions for new cash.

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

For Release Upon Delivery
Expected at 2:00 p.m.
January 10, 1995

ORAL TESTIMONY OF LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and members of the Committee:

I have a longer statement for the record and I'd like to summarize it if I may.

I am pleased to appear before this Committee today to present the Administration's views on the tax proposals in the series of bills referred to as the "Contract with America." The Contract raises broad issues of public policy concerning the proper size and scope of Federal government activity, the allocation of Federal budgetary resources, and the division of responsibilities between the Federal and State governments. In addition, the Contract contains several broad proposals, such as the proposed balanced budget amendment, that could indirectly have a major impact on the Federal tax system. These broad issues are beyond the scope of my testimony today, which will focus on the tax and tax-related provisions in the Contract and their tax policy implications.

We look forward to working with this Committee to develop and refine tax proposals that encourage economic growth and improve the lives of working Americans. We are particularly interested in crafting proposals that are affordable, simple, efficient and focused on middle-income families.



We must build on the progress we have made over the past two years. We have achieved a remarkable combination of high employment, high economic growth, and low inflation. In the last Congress, we worked on a bipartisan basis with this Committee to pass NAFTA and GATT. There are a number of proposals in the Contract where there is common ground. But we are particularly concerned about the capital gains and the cost recovery proposal. These proposals, if enacted, would result in significant tax shelter transactions and encourage investment in uneconomic activities. Nevertheless, we are confident that together we can develop targeted proposals that are acceptable to the Congress, the President and the American people.

There are fifteen tax and tax-related proposals in the Contract. They range from tax credits for children and a savings incentive to capital gains preferences and a cost recovery system. Before I discuss a few of these, I want to offer an overview of the tax policy implications of the Contract.

We are very concerned about the potential effect of the Contract on the deficit. This Administration, with the assistance of the previous Congress, has made significant progress in controlling Federal spending and reducing the deficit. In the last fiscal year the deficit was at its lowest level relative to GDP in the past five years, and the second lowest in the past thirteen years. Moreover, our unemployment rate has dropped to 5.4% and inflation last year was below 3%.

We have prepared preliminary revenue estimates, shown in Table 1, that reflect changes made to the Contract in bills introduced last week. Our preliminary analysis shows that the proposed tax cuts in the Contract with America would lose \$205.4 billion over the period FY1995-FY2000. The revenue cost grows rapidly after FY2000, to almost \$120 billion per year, raising the FY1995 - FY2005 revenue cost to \$725.5 billion. Thus, the tax provisions in the Contract would increase the deficit unless they are fully and permanently offset by specific financing proposals. We learned an important lesson in the 1980s: The responsible thing to do is to make certain that tax cuts and spending increases are paid for at the outset.

Our evaluation of the tax proposals in the Contract is based on three basic principles of tax policy: fairness, simplicity, and efficiency. We are concerned that several provisions in the Contract do not fully satisfy these criteria. In particular, they would provide disproportionate benefits to high income taxpayers, would make the tax law more complicated, and would encourage unproductive tax shelter activity.

The first of these basic principles of tax policy is fairness. An important dimension of tax fairness is the distribution of the tax burden among families at different income levels. Fifty percent of the tax benefits from the Contract would go to families with incomes over \$100,000. The most well off in America -- the richest Americans -- get half of the benefits of the tax cuts contained in the Contract. That doesn't meet the fairness test. In fact, it reduces the progressivity of the Federal tax system.

Simplicity is also a tax policy goal by which the Contract should be evaluated. To the extent consistent with other tax policy goals, the income tax should be designed to minimize the cost of compliance by taxpayers and the administrative costs of the Internal Revenue Service. Several of the proposals may appear simple at first glance. But, as I will point out in a moment, a great deal of complexity must be introduced in order to implement the proposals and administer them. If this is not done, arbitrary and unfair distinctions are created, which also provide opportunities for abuse.

Finally, the tax system should be efficient. It should interfere as little as possible in the economic decisions of investors, workers, and consumers. The tax system should not encourage investment in uneconomic activities. In the early 1980s, we experienced a proliferation of tax shelter activity, with very adverse results both for investors and the tax system. We must not repeat that experience.

I'd like now to go over some of the provisions in the Contract:

\$500 Per Child Refundable Tax Credit

The Administration supports a \$500 per child tax credit for middle income families. And I would point out that Congress passed a child tax credit in 1992, but it was vetoed. We believe the Contract proposal would be improved if modified along the lines of the President's proposal. The Contract proposal provides benefits for families with AGI up to \$250,000 -- more than 99 percent of all families. The President's proposal is targeted to middle income families.

Back-Loaded IRAs

American Dream Savings Accounts, or ADSAs, are designed to provide an incentive to individuals to increase their savings. We support this goal for middle income families. We believe the Contract proposal again would be improved if targeted to these families.

A quick word here on savings. Our national savings rate is abysmally low. If we don't get the rate up, it will be hard to sustain private investment into the next century. That could endanger the continued healthy growth of the economy.

We believe that expanding and improving the traditional deductible IRA is the most effective way to promote new savings. In this regard, the President's proposal is similar to the IRA bill passed by Congress in 1992. Back-loaded proposals like the ADSA can supplement expansion of deductible IRAs, but we do not believe that they are as effective standing alone. I would also note that the Contract proposes penalty-free withdrawals from ADSAs for first home purchases, education and other purposes. We feel that those same benefits should be available for IRAs. Finally, the Contract proposal fails to target its benefits to those most likely to increase savings. As a result, it is less cost effective than the President's proposal.

Increased Expensing Limit for Small Business

The Administration supports an increase in the expensing limit for small business, which the House passed in 1993 with the Administration's support.

Favorable Tax Treatment of Long-Term Care Insurance and Services, and Tax-Free Accelerated Death Benefits Under Life Insurance Contracts

Last year the Administration proposed legislation on the tax treatment of long term care insurance and services, as well as accelerated death benefits under life insurance. We generally support these proposals but believe that they should be modified to protect policyholders and to prevent tax abuse that could occur under the Contract proposals.

Neutral Cost Recovery System

The Administration opposes this cost recovery system. Its generous benefits could divert investment dollars from investments that improve productivity to investments that yield significant tax benefits.

The CRS could lead to a proliferation of tax shelters, like the "see-through" buildings we experienced in the last decade. In addition, indexing the basis of assets for inflation and a 3.5 percent return without also indexing debt, effectively allows businesses to earn tax-free income and fully deduct the cost of funds used to produce that income. In essence, CRS could revive the tax shelter abuses of the 1980s.

Let me give a simple example you can see on the chart in your material. A business buys a machine for \$1,000. Instead of depreciating the \$1,000 cost as permitted under current law, the taxpayer under the proposal would be entitled to total depreciation deductions of \$1380, assuming 3 percent inflation. In addition, the taxpayer will be allowed to deduct all of the interest on money borrowed to buy the equipment. It is a better deal than buying a tax-exempt bond -- the taxpayer has a negative income tax.

We are very concerned about the revenue loss from this proposal. While it is structured to raise \$18.4 billion through fiscal year 2000, it loses \$138.8 billion over the second 5 years. As a result of the CRS, some large corporations may not pay corporate income tax or alternative minimum tax. This would be a major retreat from tax reform enacted in 1986. I think Americans would be concerned if we gave such a large benefit to business when it's middle income taxpayers who need our help.

Capital Gains Tax Preferences

With respect to capital gains tax, the Administration opposes the 50 percent exclusion and indexing proposals. The combination of a 50 percent exclusion plus indexation is too generous, too complex, and not well targeted. The Administration's 1993 capital gains exclusion that would be repealed by the Contract is limited to new investments, and thus does not provide a windfall benefit to existing investments. It is also limited to small businesses, thus reducing the cost of equity capital to those businesses that are most likely to find it difficult or costly to obtain financing. We believe that additional capital gains preferences for new investment, if they are determined to be necessary, should likewise be targeted, and should meet the tests of fairness, simplicity and efficiency.

I want to say just a quick word about indexing capital gains -- that is taxing only the amount of profit that exceeds the cumulative inflation rate. Most Americans want to do less paperwork, not more -- and that holds doubly so when we're talking about taxes. But that's not what will happen if you start requiring people to keep new detailed records on every home improvement. And the same holds true for people who own stock or mutual funds. The record keeping burden really begins to pile up.

This could be a tax lawyer's and accountant's dream, and a homeowner's and investor's nightmare.

On top of that, with quarterly inflation adjustments, investors will wait until the end of each quarter to sell, looking for that little inflation "bump" to reduce the tax they owe. You know, to keep that from happening you'd probably have to put out a figure more frequently. Think about the record keeping problems and market inefficiencies this creates..

The indexing proposal permits investors to claim a tax loss when their investment does not keep up with inflation, even though they are able to sell it for more than the original purchase price. In addition, since borrowings are not indexed taxpayers would have a tax incentive to finance the lots with debt. Overall, you can see how this indexing proposal would encourage tax shelter activity.

Phase Out of the 85 Percent Maximum Inclusion Rate for Social Security Benefits

The Administration opposes the phase out of the 85 percent maximum inclusion rate for Social Security because it would reduce needed revenues for the HI Trust Fund. Moreover, under current law Social Security benefits generally receive more favorable tax treatment than do pension and other retirement income.

The OBRA 93 increase affected only 13 percent of taxpayers reporting Social Security benefits -- those at the high end of the income distribution of beneficiaries. The OBRA 93 changes did not affect the other 87 percent of taxpayers receiving benefits.

Tax Credit to Reduce Marriage Penalties

The proposed tax credit to reduce marriage penalties lacks detail on the allocation of benefits and would be difficult to administer. The Administration would prefer to work with the Congress to investigate other means of addressing the issue.

Income Tax Return Check-Off for Deficit Reduction

With respect to an income tax return check-off for deficit reduction, this Administration has a strong commitment to deficit reduction and supports the goal of this proposal. The idea is to impose discipline on spending by the federal government and, in doing so, reduce the amount of outstanding Federal debt. But the Administration opposes this particular proposal because of the impact it could have on the legislative process, the budget process, and the economy.

The proposal would allow certain individuals effectively to override Congressional choices by extending to those designating a transfer to the Trust Fund the right permanently to reduce the level of federal spending. Those with high income tax liabilities would have a greater say in how federal funds are spent. Those with low income tax bills or with only payroll or excise tax liability would, in effect, be disenfranchised. This proposal undermines the fundamental tenet of our political system -- "one person, one vote."

Regulatory Reform

The Administration supports the goal of reducing regulatory burdens to the extent compatible with responsible administration of the laws. Nevertheless, this Administration and the prior two Administrations have recognized that a "one-size-fits-all" approach to regulations is not in the best interests of the government or the public.

The Contract's provisions would apply to tax regulations. It is important to consider the consequences. And we would like to work with the Committee on this important issue.

The Contract could have a very negative impact on the tax guidance and administrative process. Without regulatory clarification of statutory issues, individuals and businesses would be subject to uneven enforcement of the tax laws. They would be denied the certainty they need to plan for long term investments and would be hesitant to engage in productive economic activities. We strive in tax policy for uniform administration of the tax laws, and regulatory standards are essential.

The prior Administration also recognized the critical role of tax regulations during the 1992 regulatory moratorium and allowed the IRS to continue to issue tax regulations on a regular basis.

Conclusion

The Administration has serious reservations about some of the provisions in the Contract. But we share the goals that would be advanced by other provisions. The Administration is interested in crafting a set of tax cut proposals that are affordable, simple, efficient and focused on middle-income families, as the President has done in the Middle Class Bill of Rights. We look forward to working with the Committee to develop proposals that meet these criteria and which are acceptable to the Congress, the President and the American people.

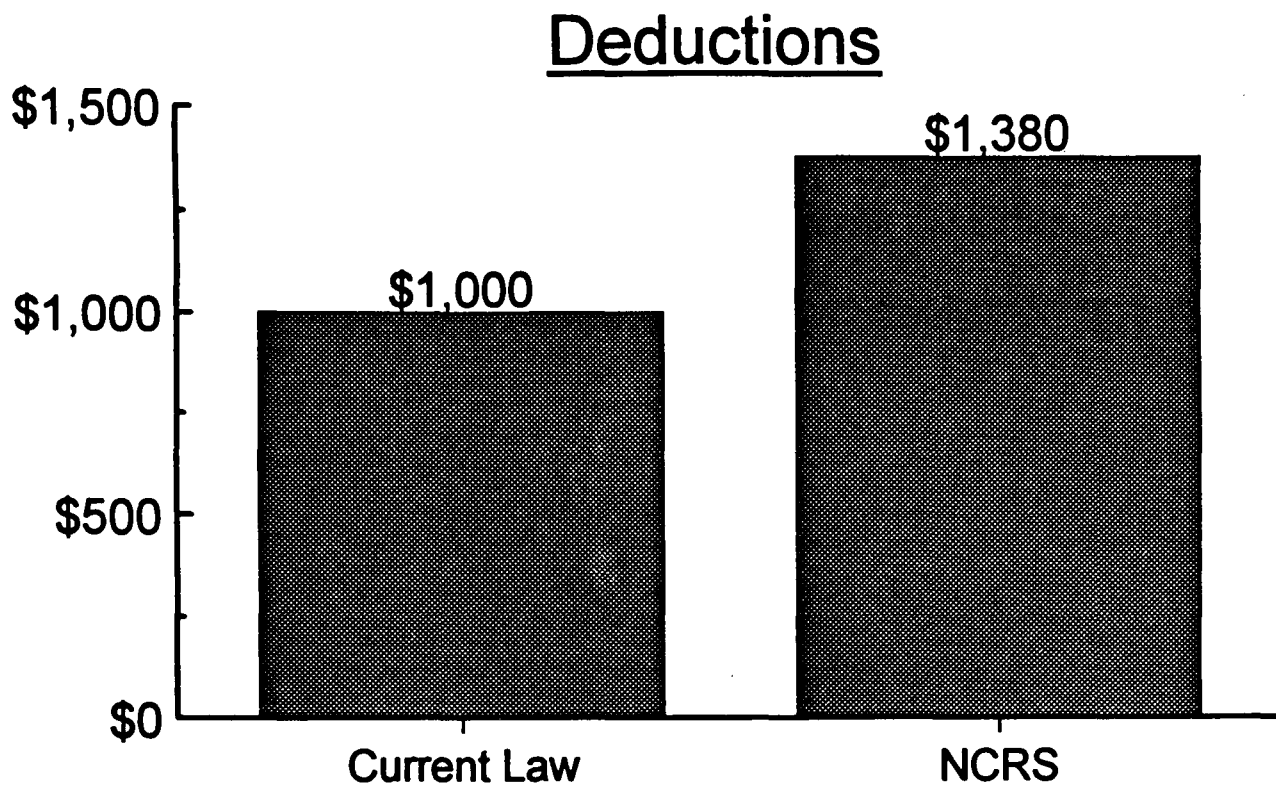
Table 1
Preliminary Estimates */
CONTRACT WITH AMERICA

Proposal	01/10/95 12:27 PM	Fiscal years													
		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1995-00	1995-2005	
		(\$ billions)													
1 \$500 per child tax credit		--	-13.4	-27.0	-27.2	-27.4	-28.9	-30.4	-31.9	-33.4	-33.6	-35.1	-124.1	-288.5	
2 American Dream Savings Accounts		--	0.3	1.3	1.9	1.3	0.2	-1.7	-3.6	-4.7	-5.9	-6.8	5.0	-17.7	
3 Favorable tax treatment of long-term care insurance and services		--	-0.9	-1.1	-1.2	-1.3	-1.4	-1.6	-1.7	-1.9	-2.0	-2.2	-5.9	-15.3	
4 Tax-free accelerated death benefits under life insurance contracts		--	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	
5 Increased expensing limit for small business		--	-0.8	-1.3	-0.9	-0.7	-0.4	-0.3	-0.2	-0.1	-0.1	-0.0	-4.2	-5.0	
6 \$5,000 refundable tax credit for adoption expenses		--	-0.0	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.4	-3.3	
7 \$500 refundable tax credit for elderly care		--	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.2	-2.6	
8 Neutral cost recovery		3.3	10.0	13.4	8.5	-2.6	-14.1	-21.5	-26.0	-28.7	-30.4	-32.2	18.4	-120.4	
9 Capital gains tax preferences		0.2	-1.1	-8.4	-15.0	-17.4	-19.2	-20.9	-22.6	-24.4	-26.2	-28.2	-60.9	-183.1	
10 Phase-out of the 85 percent maximum inclusion rate for social security benefits		--	-0.5	-1.9	-3.2	-4.2	-5.2	-5.9	-6.3	-6.7	-7.0	-7.4	-15.0	-48.5	
11 Tax credit to reduce marriage penalties		--	-1.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-9.0	-19.0	
12 Expansion of the home office deduction		--	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-1.0	
13 Increase of the estate tax exemption to \$750,000		--	0.0	-1.4	-1.6	-1.8	-2.0	-2.2	-2.5	-2.8	-3.1	-3.5	-6.7	-20.7	
			3.5	-7.6	-29.0	-41.5	-57.0	-73.9	-87.5	-97.7	-105.5	-111.2	-118.3	-205.4	-725.5

Department of the Treasury
Office of Tax Analysis

*/ Estimates are preliminary. The Office of Tax Analysis has had only a short time to analyze the legislation in its current form. There have been significant changes in some of the provisions since the original legislation was released on September 27, 1994.

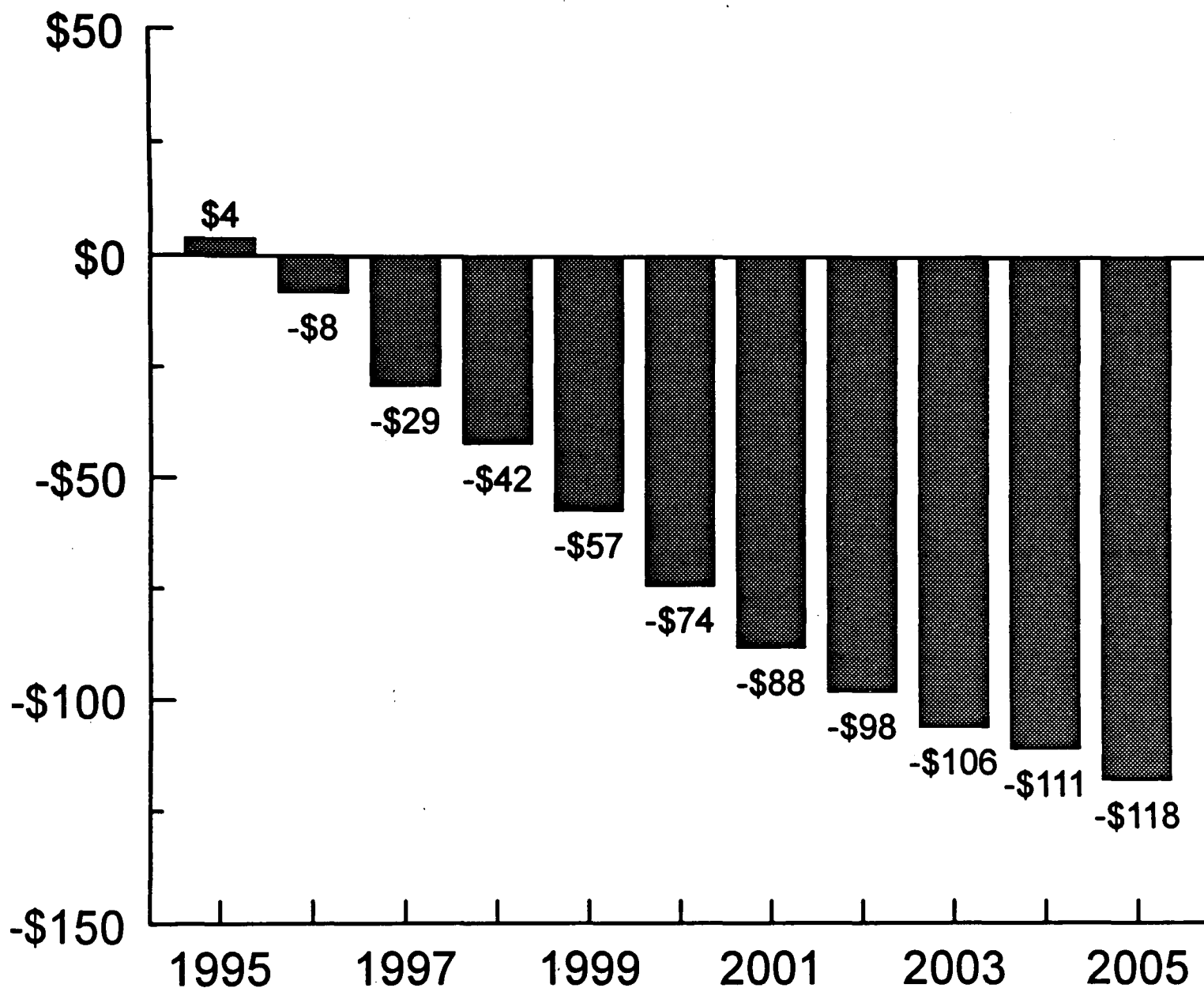
NCRS, Debt Financing and Negative Taxable Income \$1,000 Investment. Ten-Year Property



Source: Department of the Treasury
Office of Tax Analysis

Revenue Effect of Contract with America

Billions of Dollars



5-year cost **-\$205 billion**
10-year cost **-\$726 billion**

Source: Department of the Treasury
Office of Tax Analysis

TREASURY



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For Release Upon Delivery
Expected at 2:00 p.m.
January 10, 1995

STATEMENT OF LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and distinguished Members of the Committee:

I am pleased to appear before this Committee today to present the Administration's views on the tax proposals in the series of bills collectively referred to as the "Contract with America."¹ The Contract raises broad issues of public policy concerning the proper size and scope of Federal government activity, the allocation of Federal budgetary resources, and the division of responsibilities between the Federal and State governments. In addition, the Contract contains several broad proposals, such as the proposed balanced budget amendment, which could indirectly have a major impact on the Federal tax system. These broad issues are beyond the scope of my testimony today, which will focus on the tax and tax-related provisions in the Contract and their tax policy implications.

There are fifteen tax and tax-related proposals in the Contract. The tax proposals are: (1) a \$500 per child refundable tax credit; (2) the "American Dream Savings Account;" (3) favorable tax treatment for long-term care insurance and services; (4) tax-free accelerated

¹ These bills include H.R. 2, the "Fiscal Responsibility Act," H.R. 3, the "Taking Back Our Streets Act," H.R. 4, the "Personal Responsibility Act," H.R. 5, the "Unfunded Mandate Reform Act," H.R. 6, the "American Dream Restoration Act," H.R. 7, the "National Security Restoration Act," H.R. 8, the "Senior Citizens' Equity Act," H.R. 9, the "Job Creation and Wage Enhancement Act," H.R. 10, the "Common Sense Legal Reforms Act," and H.R. 11, the "Family Reinforcement Act."

death benefits under life insurance policies; (5) an increased expensing limit for small businesses; (6) a \$5,000 refundable tax credit for adoption expenses; (7) a \$500 refundable tax credit for elderly care; (8) the "neutral" cost recovery system; (9) capital gains tax preferences; (10) phase out of the 85 percent maximum inclusion rate for Social Security benefits; (11) a tax credit to reduce marriage penalties; (12) expansion of the home office deduction; and (13) an increase of the estate tax exemption to \$750,000.² The two tax-related proposals in the Contract are: (14) an income tax return check-off for deficit reduction; and (15) regulatory reform.³ Before addressing each of these proposals in detail, I will provide an overview of the tax policy implications of the Contract.

We look forward to working with this Committee to develop and refine tax proposals to encourage further economic growth and improve the lives of working Americans. We are particularly interested in crafting proposals that are affordable, simple, efficient, and focused on middle-income families. We must build on the progress we have made in the last two years. We have achieved a remarkable combination of high employment, high economic growth, and low inflation. Over the course of the last two years we have worked on a bipartisan basis with this Committee to pass NAFTA and GATT. There are a number of proposals in the Contract where there is common ground. But we are particularly concerned about the capital gains and cost recovery proposals. These proposals, if enacted, could stimulate the renewal of tax shelters and encourage investment in uneconomic activities. Nevertheless, we are confident that together we can develop proposals that are targeted to middle-income Americans and are acceptable to the Congress, the President, and the American people.

One of our primary concerns relates to the potential effect of the Contract on the deficit. This Administration, with the assistance of the previous Congress, has made significant progress in controlling Federal spending and in reducing the Federal deficit, which in the last fiscal year was at its lowest level relative to GDP in the past five years, and the second lowest in the past thirteen years. Furthermore, the Administration is proposing additional expenditure cuts that will fully pay for the tax cuts proposed in the President's "Middle Class Bill of Rights."

We have prepared preliminary revenue estimates of the tax provisions in the Contract based on the bills introduced on January 4, 1995. These estimates are preliminary because we have had only a short time to analyze the bills in their current form, and there have been

² Proposals 1, 2, and 11 appear in H.R. 6, the "American Dream Restoration Act," proposals 3, 4, and 10 appear in H.R. 8, the "Senior Citizens' Equity Act," proposals 5, 8, 9, 12, and 13 appear in H.R. 9, the "Job Creation and Wage Enhancement Act," and proposals 6 and 7 appear in H.R. 11, the "Family Reinforcement Act."

³ These two tax-related proposals appear in H.R. 9, the "Job Creation and Wage Enhancement Act."

significant changes in some of the provisions of the Contract since the original legislation was released on September 27, 1994. According to these preliminary revenue estimates, shown in Table 1, the tax cuts proposed in the Contract with America would lose \$205.4 billion over the period FY1995 - FY2000. The revenue cost grows rapidly after FY2000, to nearly \$120 billion per year in FY2005, raising the FY1995 - FY2005 revenue cost to \$725.5 billion. Although the Contract proposes a balanced budget amendment, it does not contain specific proposals for expenditure reductions or tax changes necessary to achieve that balance or to offset the proposed tax cuts or pay for other provisions, such as increased defense expenditures, that would further increase the deficit. Thus, the tax provisions in the Contract would increase the deficit unless they are fully and permanently offset by specific financing proposals.

We believe that the tax proposals in the Contract should be evaluated according to three basic principles of tax policy: fairness, simplicity, and efficiency. Several provisions in the Contract, in their present form, do not fully meet these criteria.

A basic principle of tax policy is fairness. One dimension of tax fairness is the distribution of the tax burden among families at different income levels. Table 2 shows the Treasury Department's estimates of the distributional effects of the tax provisions in the Contract. The fourth column shows that of the \$97.2 billion of annual tax cuts from the Contract provisions when fully phased in, \$48.5 billion, or 50 percent, would benefit families with incomes over \$100,000. These families would receive a disproportionately large share of the tax cuts, thereby reducing the progressivity of the Federal tax system. This reduction in progressivity can also be seen in the ratio of tax cuts to income (column six in the table), which increases with income throughout the income distribution.

Another dimension of fairness may be characterized as the "equal treatment of equals," or the imposition of similar tax burdens on taxpayers in similar circumstances. As discussed more fully below, several provisions in the Contract would create disparities in the tax burdens of similarly-situated taxpayers.

Simplicity is also a goal of tax policy by which the Contract should be evaluated. To the extent consistent with other tax policy goals, the income tax should be designed to minimize the cost of compliance by taxpayers and the administrative costs of the Internal Revenue Service (IRS). Several of the proposals may appear simple at first glance, but, as will be noted, a great deal of complexity must be introduced in order to implement these proposals and to reconcile them with the rest of the Tax Code. If this is not done, arbitrary and unfair distinctions are created, which also provide unintended opportunities for abuse.

Finally, the tax system should be efficient. We strongly believe the tax system should not encourage investment in uneconomic activities and a renewal of tax shelter activities. In the early 1980s, we experienced a proliferation of tax shelter activity, with very adverse results for investors, the tax system, and the economy. We should not repeat that experience

by creating new opportunities for tax motivated transactions that distort economic and investment decisions.

1. \$500 Per Child Refundable Tax Credit

Current Law

A tax exemption, in the form of a deduction, is allowed for each taxpayer and for each dependent of a taxpayer. A dependent includes a child of the taxpayer who is supported by the taxpayer and who has not attained the age of 19 at the close of the calendar year or who is a student under age 24. The deduction amount is \$2,500 for tax year 1995. This amount is indexed annually for inflation.

In addition to an exemption for each child, three other tax benefits may accrue to taxpayers because of dependent children: the earned income tax credit (EITC), the credit for child and dependent care expenses, and the exclusion for employer-provided child and dependent care benefits. The EITC is a refundable tax credit based on the earnings of the taxpayer. The EITC is restricted to lower income taxpayers and phases out when earnings exceed specified levels. Although the EITC is available for taxpayers without dependents, the credit rate and income range of the credit are far greater when the taxpayer has one or more dependent children. In addition, the rate and income range are higher for taxpayers with two or more eligible dependent children than for taxpayers with only one eligible dependent child.

Proposal

The Contract with America would provide a \$500 refundable tax credit for each child under age 18 for families with adjusted gross income (AGI) less than \$200,000. The credit would be phased out for families with AGI between \$200,000 and \$250,000. The amount of the credit would be capped by the sum of the individual's income tax liability and any Social Security taxes paid with respect to the individual's earnings (including an employer's share of Social Security taxes). The \$500 maximum amount would be indexed annually for inflation. The credit would be effective for tax years beginning in 1996.

The proposal would reduce tax receipts by \$124.1 billion over the five-year FY1996 - FY2000 period, and by \$288.5 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration supports the concept of a \$500 per child tax credit, but believes the Contract proposal would be improved if targeted to middle-income taxpayers along the lines of the President's proposal.

The Contract proposal provides benefits for families with AGI up to \$250,000. This income limitation denies the credit to only one percent of all otherwise eligible taxpayers.

2. American Dream Savings Accounts

Current Law

Taxpayers can contribute up to \$2,000 to an individual retirement account (IRA). These contributions are deductible (so-called "front-loaded" IRAs), but the level of such deductible contributions is phased out for single filers with AGI between \$25,000 and \$35,000, and for joint filers with AGI between \$40,000 and \$50,000. If neither the taxpayer nor the taxpayer's spouse is an active participant in an employer-sponsored pension plan, then deductible contributions can be made, regardless of the taxpayer's income. No tax is imposed on the earnings on IRA balances. Taxpayers, however, are required to pay income tax on withdrawals. Penalty-free withdrawals from these front-loaded accounts are allowed only after the taxpayer reaches the age of 59 1/2, or upon disability or death of the taxpayer.

Proposal

The proposal would allow individuals, regardless of income and pension coverage, and, in some cases, regardless of employment status, to contribute up to \$2,000 a year into an "American Dream Saving Account" (ADSA). ADSAs would be back-loaded, which means that contributions would not be tax deductible, earnings would not be taxed, and no tax would be imposed on withdrawals if certain conditions are satisfied. As with current-law IRAs, penalties would apply to premature distributions. Penalty-free withdrawals would be allowed after five years for the purchase of a first home, higher education expenses, or medical expenses including purchases of long-term care insurance. In addition, as with current-law IRAs, penalty-free withdrawals after five years would be allowed upon death or disability, or when the individual reaches the age of 59 1/2. Individuals could continue to contribute after age 70 1/2. The proposal would also allow individuals a one-time opportunity to convert their current IRA accounts into ADSAs. Income tax would be due on the total amount transferred, but the proposal would allow individuals to spread this tax liability, interest free, over four years. The proposal would be effective for tax years beginning in 1996.

Because of the addition of the one-time conversion feature, the proposal would increase tax receipts by \$5.0 billion over the five-year FY1996 - FY2000 period, but would reduce receipts by \$17.7 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration supports the expansion of IRAs, but believes the President's IRA proposal is more cost-effective than the ADSA proposal and provides taxpayers more with more choice in selecting a tax-favored savings incentive.

The nation's saving rate has declined dramatically since the 1970s. During that decade, net national saving averaged 7.2 percent of gross domestic product (GDP). Over the past ten years, the saving rate has averaged only 2.8 percent of GDP. The Administration is particularly concerned about the current level of national savings. We believe that the savings rate is too low to sustain a sufficient level of private investment into the next century. Without adequate investment, the continued healthy growth of the economy is at risk. A continuation of our successful policies of the past two years to reduce the Federal deficit is an essential element of any effort to improve the nation's savings rate. Increasing the personal savings rate is an essential supplement to that effort.

ADSAs are designed to provide an incentive to individuals to increase their savings. We support this goal. However, we do not believe that the Contract proposal as currently drafted is the best mechanism for reaching this goal.

ADSA contributions are not deductible, so they do not reduce current income tax liabilities. For many middle-income taxpayers, a major attraction of traditional IRAs is that contributions are deductible and, therefore, provide immediate tax relief. By requiring that contributions be made out of after-tax dollars, it is likely that ADSAs will be less attractive to many middle-income taxpayers than the deductible, front-loaded, IRAs. Conversely, ADSAs will appeal primarily to more sophisticated savers, who have sufficient income and sufficient liquidity to make ADSA contributions out of after-tax dollars. Thus, the people whose contributions to tax-preferred saving accounts are most likely to represent new saving -- those with income of less than \$100,000 -- are the ones more likely to contribute to front-loaded IRA accounts than to ADSAs. That is why the President's proposal (and other bipartisan IRA bills that have been introduced over the last few years) allow eligible taxpayers the option of choosing a traditional front-loaded IRA or a new back-loaded special IRA.

We also believe that broadening the tax incentives for saving for reasons other than retirement is an important element in any proposal to increase the nation's saving rate. By expanding incentives to include savings for first-time home purchases, higher education expenditures, and catastrophic medical expenses, ADSAs should prove to be more attractive to taxpayers than accounts limited to retirement savings. This should be particularly true for individuals with moderate incomes and those below the age of 35, who are now doing little saving. But these penalty-free withdrawal options should not be limited to ADSAs. They should be made available for IRAs, as proposed by the President and should also include penalty-free withdrawals for long-term unemployment and caring for an incapacitated parent.

In addition, the Contract proposal fails to target its benefits as well as the President's proposal to expand IRA benefits and does not provide a range of choices to taxpayers. It is thus less cost effective than the President's proposal in increasing net national saving. IRA contributions by wealthy taxpayers are much more likely to be financed by diverting assets from existing non-tax preferred accounts, while contributions by taxpayers with more moderate incomes are more likely to represent increases in savings. Thus, providing high-

income taxpayers with the option of saving in tax-preferred accounts is unlikely to generate much in the way of new saving.

3. Favorable Tax Treatment of Long-Term Care Insurance and Services

Current Law

A taxpayer is allowed an itemized deduction for unreimbursed expenses that are paid by the taxpayer during any taxable year for medical care of the taxpayer, the taxpayer's spouse, or a dependent of the taxpayer to the extent that such expenses exceed 7.5 percent of the AGI of the taxpayer for such year. The cost of personal services, including custodial care, is a medical expense if there is a direct connection between the service and a recognized, specific medical condition, and the services are performed directly for the individual. Old age is not a sufficiently specific medical condition. Regulations provide that the entire amount of an expense may be treated as a medical expense if the expense is incurred primarily to provide medical care.

To the extent that long-term care is not classified as medical care, employer-provided care is taxable to the employee. Generally, benefits paid under a long-term care plan or policy are not treated as amounts received through accident and health insurance on an excluded basis unless the amounts received for long-term care represent reimbursement for medical care expenses.

Proposal

Long-term care services. The proposal would allow expenses for qualified long-term care services for the chronically ill to be deducted as an itemized medical expense (subject to the 7.5 percent of AGI limitation). Qualified long-term care services would include services required by a chronically ill individual in a qualified facility, including home care in certain circumstances, under care prescribed by a licensed health care practitioner. A chronically ill individual must require substantial assistance with at least two activities of daily living (ADLs) for a period of at least 90 days or have a similar level of disability due to cognitive impairment.

Long-term care insurance. The proposal provides that benefits could be received tax-free from a long-term care insurance policy. Benefits could be paid on a "per diem" basis without regard to the actual expenses incurred during the period to which the payments relate. However, whether paid on a reimbursement basis or a per diem basis, any benefits in excess of \$200 per day (indexed for medical inflation care) for any single policy would be taxable. Individuals would be allowed to deduct premiums paid to purchase long-term care insurance as a medical expense (subject to the floor of 7.5 percent of AGI) to the extent the premiums do not exceed specified annual limits.

The value of employer-provided coverage under a long-term care insurance contract would not be included in an employee's income because the contract would be treated as accident or health insurance. An exchange of a life insurance, endowment, or annuity contract for a long-term care insurance contract would be treated as a tax-free exchange. In addition, the proposal would allow a tax-free distribution to an individual from an IRA or a 401(k) plan for the payment of premiums on a long-term care insurance contract for the benefit of the individual or the individual's spouse.

All provisions would be effective for taxable years beginning in 1996.

The proposal would reduce tax receipts by \$5.9 billion over the five-year FY1996 - FY2000 period, and by \$15.3 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration has developed similar proposals for the favorable tax treatment of long-term care insurance and services, and therefore supports the goals of the provisions included in the Contract. However, we believe a number of modifications are required to ensure that the proposals reflect sound tax policy.

In particular, we believe that the Contract's provisions that (i) allow tax-free withdrawals from IRAs and 401(k) plans to purchase long-term care insurance, (ii) allow tax-free exchanges of life insurance and annuity contracts for long-term care insurance contracts, and (iii) permit unlimited tax-free long-term benefits by allowing the purchase of multiple policies that provide a \$200 per day benefit are too generous, and treat amounts paid for long-term care insurance much more favorably than out-of-pocket expenses. These provisions would allow individuals to purchase future long-term care insurance without being subjected to the funding and/or benefit restrictions imposed on a long-term care insurance policy.

4. Tax-Free Accelerated Death Benefits Under Life Insurance Contracts

Current Law

Payments made under a life insurance contract other than by reason of an insured's death are generally taxable. However, the tax treatment of payments made with respect to terminally ill insureds in anticipation of death is not entirely clear. Proposed regulations issued in 1992 would permit the tax-free receipt of accelerated death benefits in certain circumstances, and would allow accelerated death benefit riders to be added to current life insurance contracts without endangering such contracts from being disqualified as life insurance.

Distributions (other than policy loans) from a life insurance policy are taxable to the extent they represent income on the contract.

Proposal

The Contract would exclude from gross income certain distributions received by an individual under a life insurance contract if the insured under the contract is terminally ill. An individual would be considered terminally ill if a licensed physician certified that the individual's death was reasonably expected within 12 months of the certification.

The Contract would also permit tax-free payment of benefits from a life insurance policy on the life of an insured who is chronically ill and confined to a qualified long-term care facility (including home care).

The proposal would reduce tax receipts by \$0.1 billion over the five-year FY1996 - FY2000 period, and by \$0.4 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration generally supports this provision, although we believe it should be modified. For example, policyholder safeguards should be added to ensure that the payment of accelerated death benefits under a life insurance contract would not unduly lower the remaining value of the policy's death benefits or its cash value.

5. Increased Expensing Limit for Small Business

Current Law

The cost of business or income-producing property that provides service for more than one tax year generally must be deducted over the recovery period of the property. A taxpayer may elect, however, to deduct currently up to \$17,500 of the cost of the property (i.e., "expense" the property). However, this \$17,500 maximum is reduced for each dollar of the total cost of qualified property acquired during the year in excess of \$200,000. Thus, if the cost of qualified property placed in service during the year exceeds \$217,500, no expensing is allowed.

Proposal

The Contract with America would increase the maximum investment that may be expensed from \$17,500 to \$25,000 for tax years beginning in 1996.

The proposal would reduce tax receipts by \$4.2 billion over the five-year FY1996 - FY2000 period, and by \$5.0 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration supports an increase in the maximum investment that may be expensed for small businesses. The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) increased the maximum from \$10,000 to \$17,500. We supported this Committee's version of OBRA 93 which, like the Contract, would have raised the maximum to \$25,000. Increasing the maximum to \$25,000 would provide an incentive for small businesses to increase their investment in capital assets. In addition, the proposal also would simplify tax reporting for eligible small businesses.

6. \$5,000 Refundable Tax Credit for Adoption Expenses

Current Law

The Tax Reform Act of 1986 repealed a deduction of up to \$1,500 for expenses related to special needs adoptions and replaced it with an outlay program with several components. States are required to reimburse families for costs associated with the process of adopting special needs children. The Federal government shares 50 percent of the first \$2,000 of such costs. Some special needs adoptees are eligible for continuing Federal-State Social Security assistance, including Medicare, under Title IV-E of the Social Security Act. Other adoptees may be eligible for continuing assistance under state-only programs.

Proposal

The proposal provides a refundable tax credit of up to \$5,000 for adoption expenses in tax years beginning in 1996 and subsequent years. The credit would be allowed for all adoptions, not solely for the adoption of a child with special needs. The credit would be phased out for taxpayers with AGI between \$60,000 and \$100,000.

The proposal would reduce tax receipts by \$1.4 billion over the five-year FY1996 - FY2000 period, and by \$3.3 billion over the ten-year FY1996 - FY2005 period.

Discussion

We believe that it is generally more cost-effective to target federal support for adoption to adoption of special needs children. By applying to all adoptions, this proposal provides benefits for adoptions that would occur even without the credit. In addition, administrative issues need to be addressed in the context of a refundable credit.

7. \$500 Refundable Tax Credit For Elderly Care

Current Law

Current law allows taxpayers who support their parents or grandparents to claim a dependent exemption. In general, a taxpayer is entitled to an exemption of \$2,500 in 1995 for each dependent. An elderly person may be claimed as a dependent of another taxpayer if the taxpayer provides more than one-half of the support of the elderly person and the elderly person has gross income below \$2,500. In addition, single taxpayers can file as heads of households if they provide over one-half the costs of maintaining a home in which their dependent parents reside.

Current law also provides a nonrefundable tax credit for taxpayers 65 years of age or older who receive moderate amounts of social security, railroad retirement, and other pension annuity or disability benefits and who have modest amounts of income from other sources. The tax credit is an amount equal to 15 percent of an initial amount (\$7,500 if a joint return is filed and both spouses qualify, or \$5,000 if single or only one spouse qualifies), but reduced for certain nontaxable income and for AGI exceeding certain levels. Taxpayers may also be eligible for the child and dependent care tax credit or the exclusion for employer-provided child and dependent care benefits (see the "Current Law" description for item 1).

Proposal

Taxpayers would be eligible for a refundable tax credit if they maintain a household that includes an elderly and disabled parent or grandparent. The tax credit would be equal to \$500 for each qualified person. A qualified person would include any parent or grandparent of the taxpayer whose principal place of abode is the taxpayer's home for more than one-half of the year and who is not able to perform at least two activities of daily living (e.g., bathing or dressing) or who suffers a similar level of disability due to cognitive impairment. The credit is available regardless of the taxpayer's income. The credit amount is not indexed. The provision would be effective for tax years beginning 1996.

The proposal would reduce tax receipts by \$1.2 billion over the five-year FY1996 - FY2000 period, and by \$2.6 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration is very concerned about the care of elderly and disabled individuals. We believe that the Administration's long-term care proposals made in 1993, as well as the President's IRA proposal, better address this issue and would provide many taxpayers with greater assistance than would the tax credit contained in the Contract. The President's proposals would also be easier to administer.

Under our long-term care proposals, taxpayers could deduct long-term care expenses if such expenses exceeded 7.5 percent of AGI. In addition, taxpayers could exclude employer contributions for long-term care insurance from their taxable income. Under the President's "Middle Class Bill of Rights" proposal, taxpayers would be allowed to withdraw funds, without penalty, from their IRAs in order to pay for nursing home and other long-term care expenses of their parents and grandparents.

8. Neutral Cost Recovery System

Current Law

For regular tax purposes, depreciation deductions for most tangible personal property are calculated using the 200-percent-declining-balance method over recovery periods of 3, 5, 7 and 10 years. Certain longer-lived types of property are depreciated using the 150-percent-declining-balance method over recovery periods of 15 and 20 years. The straight-line method is used over periods of 27.5 and 39 years for residential and nonresidential real property, respectively. Certain other specified property (including property used by a tax-exempt entity, property used predominantly outside the United States, and property financed with tax-exempt bonds) is depreciated using the straight-line method over a prescribed recovery period. Depreciation deductions are not indexed for inflation.

For purposes of the alternative minimum tax (AMT), property other than residential or nonresidential real property is depreciated using the 150-percent-declining-balance method over assigned class lives. These class lives are generally longer than regular tax recovery periods. Real property is depreciated for AMT purposes using the straight-line method over a 40-year recovery period.

Proposal

The proposed "neutral" cost recovery system (CRS) would replace the current depreciation system for property placed in service after December 31, 1994. Taxpayers would compute cost recovery allowances using the 150-percent-declining-balance method for tangible personal property, and the straight-line method for real property, over the recovery periods prescribed under current law. These recovery allowances would be adjusted upward by multiplying them by "CRS ratios". For assets with recovery periods of 10 years or less (most tangible personal property), the CRS ratios would adjust for actual inflation (based on the GDP deflator) plus 3.5 percent per year for each year the property has been in service; for all other depreciable assets (including real property), the CRS ratios adjust only for inflation. Additional depreciation adjustments attributable to the CRS ratio would not reduce the basis of assets or any interest in a pass-through entity holding these assets, and would not affect recapture. The CRS ratios could not be less than one, and the sum of the adjusted cost recovery allowances would exceed the original basis of the property if the property were held for its full recovery period.

Depreciation deductions under the AMT system for CRS property would be calculated in the same fashion. Allowances would be computed as under the AMT system prescribed by current law, but would be adjusted upward for actual inflation, plus 3.5 percent for property with recovery periods of 10 years or less.

Because of the slower depreciation method for some property, the proposal would increase tax receipts by \$18.4 billion over the six-year FY1995 - FY2000 period. However, tax receipts would be reduced by \$120.4 billion over the eleven-year FY1995 - FY2005 period.

Discussion

The Administration opposes this cost recovery system because it would encourage uneconomic investment and tax shelter activity and would be very costly beyond the five-year budget window. The CRS proposal would also add significant complexity to the tax system.

Table 3 provides an example of how CRS back-loads revenue losses. It compares depreciation deductions for a property acquisition under current law and under CRS, assuming a seven-year recovery period and 3.0 percent annual inflation. While deductions are smaller for the first three years, total deductions increase by over 23 percent. The early revenue gains accrue entirely from property with recovery periods of ten years or less. For longer-lived property, CRS loses money after the first year.

For equipment, CRS is intended to provide taxpayers with deductions spread over a period of years that have the same present value as expensing, thus reducing the effective tax rate on the income for new investment to zero (as under a consumption-based tax). In a consumption-based system, however, the return on all investments, and not solely investments in equipment, would be subject to an effective tax rate of zero. The proposal does not achieve tax neutrality with respect to investment decisions.

Contrary to its title, this cost recovery system is clearly not "neutral." The difference in treatment between short-lived tangible property and real and other property (including certain intangibles), the difference in treatment of assets subject to CRS and assets subject to the capital gains indexation provisions, and the ability of a taxpayer to elect out of CRS on a property-by-property basis, all compel taxpayers to consider carefully the tax impact on the investment decision. Furthermore, the CRS proposal creates a bias against investment in longer-lived depreciable property, in non-depreciable property, and in certain intangible property.

The CRS subsidy is so large, especially when coupled with the Contract's capital gain proposal, that it could lead to significant investment in uneconomic activities. Taxpayers will have significant incentives to engage in transactions designed to use CRS deductions to shelter other income from tax. Some businesses will even be able to "zero-out" their tax liabilities (including their AMT liabilities). The net effect may well be to hurt, rather than

help, the economy, just as very accelerated depreciation allowances in the early 1980s contributed to the proliferation of "see-through" buildings.

The policy justifications for these differences are far from clear. In fact, the exclusion of real property from application of the full CRS adjustment may serve to aggravate the existing controversy regarding classification of components of real property. In addition, property subject to CRS is precluded from application of the capital gains indexation provisions.

The CRS introduces substantial additional complexity to an already complex depreciation system. Depreciable property placed in service after December 31, 1994 will be subject either to CRS with the full CRS ratio, to CRS with an inflation adjustment only, or to the current cost recovery system (i.e., for property not eligible for CRS or property that the taxpayer elects to have excluded, which may be the case if the taxpayer intends to index for purposes of capital gains). Moreover, property subject to CRS will have to be tracked by quarter and year of acquisition. In addition, existing property will continue to be subject to current depreciation provisions, including the AMT system.

In addition to these areas of complexity, there are a number of areas where the interaction of the CRS provisions with related provisions of the Code is not addressed in the statutory language. Issues such as the effect of additional CRS deductions on the normalization rules, the operation of the CRS provisions with certain pass-through entity provisions (e.g., election to adjust basis of partnership property), and the interaction of CRS provisions with general asset accounts must be addressed. In addition, specific, detailed anti-churning rules would be required to assure that only new property is being covered in the CRS.

9. Capital Gains Tax Preferences

Current Law

Under current law, nominal capital gains are fully included in taxable income upon realization, and for taxpayers in the 15 percent and 28 percent brackets are taxed at ordinary rates. In general, individual taxpayers in the 31, 36, and 39.6 percent tax brackets pay a maximum capital gains rate of 28 percent. The 28 percent maximum rate effectively provides exclusions of 10, 22, and 29 percent to taxpayers in the 31, 36, and 39.6 percent tax brackets, respectively. Capital losses can be deducted against capital gains, and up to \$3,000 of net capital losses per year can be deducted against other income.

Capital gains on the sale of a principal residence can be deferred if the taxpayer purchases a replacement residence of equal or greater value. Taxpayers age 55 and over are eligible for a one-time exclusion of up to \$125,000. Capital losses on principal residences are not deductible.

OBRA 93 provided a 50 percent exclusion for gains on the sale of certain small business stock that is purchased directly from the business (or through an underwriter) at the time of issue and held for at least five years. Eligible corporations must have assets (including the funds from the stock issue) of under \$50 million and must meet certain other conditions throughout the taxpayer's holding period. The amount of gain eligible for the 50 percent exclusion is limited to the greater of ten times the taxpayer's basis in the stock and \$10 million gain from the stock in that corporation. One half of the excluded gains are treated as a preference for purposes of the Alternative Minimum Tax.

Proposal

The proposal would allow individuals and corporations to deduct 50 percent of net long-term capital gains from gross income effective January 1, 1995. Only 50 percent of net long-term losses would be deductible. These capital losses could offset ordinary income up to the annual \$3,000 limitation. The 28 percent maximum tax rate on taxable gains of individuals and the targeted small business capital gains provision in OBRA 93 would be repealed. In addition, individuals and corporations could prospectively index the basis of corporate stock and certain tangible assets (including collectibles such as antiques) for inflation after January 1, 1995 in computing gains and losses. The proposal also would allow individuals to deduct any capital loss from the sale or exchange of a principal residence, subject to the annual \$3,000 limitation on the deduction of net capital losses.

The proposal would reduce tax receipts by \$60.9 billion over the six-year FY1995 - FY2000 period, and by \$183.1 billion over the FY1995 - FY2005 period.

Discussion

The Administration opposes the 50 percent exclusion and indexing proposals. The combination of these proposals is too generous, too complex, and not well targeted, both with respect to the investors benefitted and the assets included. The OBRA 93 capital gains exclusion (which would be repealed by the Contract) is limited to new investments, and thus does not provide a windfall benefit to existing investments. It is also limited to small businesses, thus reducing the cost of equity capital to those businesses that are most likely to find it difficult or costly to obtain financing. We believe that additional incentives for new investment, if they are determined to be necessary, should likewise be targeted and consistent with the tax policy principles of fairness, efficiency, and simplicity.

50 Percent Exclusion. Proponents of a 50 percent capital gains exclusion argue that this exclusion could reduce barriers to the sale of existing assets by taxpayers with unrealized gains. But it would also increase the incentive to convert ordinary income to capital gains and confer the largest benefits to the highest-income taxpayers. Consequently, the Administration believes that the exclusion is too large and is not sufficiently cost effective.

Studies of the effects of capital gains tax cuts by the Treasury (1985), the Congressional Budget Office (1990), and the Congressional Research Service (1990) have all concluded that any effects on saving, investment and economic growth are likely to be quite small. This is because much of the income from savings is already tax favored, the responsiveness of saving to changes in the after-tax return is uncertain, and only a fraction of the additional savings will be used to fund new investment in domestic plant and equipment.

Increasing the preferential treatment of capital gains would create economic efficiency losses and make the tax system more complex by encouraging taxpayers to convert ordinary income into capital gains. One example of such tax arbitrage is contributing ordinary income property to a corporation and then selling the stock of the corporation. Corporations used in this way are referred to as "collapsible" corporations. The Code contains provisions aimed at preventing abuse through the use of collapsible corporations, but these and other provisions designed to prevent similar abuses are extremely complex. Such complexity increases transaction costs to taxpayers and the costs of ensuring compliance for the IRS. While incentives to engage in tax arbitrage, and thus some of the accompanying complexity, already exist as a result of current law's limited preferences for capital gains, this proposal would greatly increase taxpayers' incentives to engage in arbitrage transactions.

Indexing. Proponents of indexing of capital assets contend that it limits capital gains taxes to "real" gains that increase a taxpayer's purchasing power as opposed to "nominal" gains that result simply from inflation and do not increase the taxpayer's purchasing power. The best approach to deal with inflation, however, is to keep the rate of inflation low. The combination of the deficit reduction under this Administration and Federal Reserve policies has achieved this goal -- inflation over the past year has been held to under 3 percent.

Even if some form of capital gains relief is considered desirable, providing both an exclusion and indexation of basis clearly provides too large an adjustment for inflation. Rather than taxing "real" gains, the combination of indexing and the 50 percent exclusion would largely eliminate the capital gains tax. For example, for a taxpayer in the 28 percent bracket who sells after one year a \$1,000 capital asset that increased in value by 8 percent while prices generally increased by 3 percent during the year, the capital gains tax would decrease by 69 percent (from \$22.40 to \$7.00), resulting in an effective tax rate on the nominal gain of 8.75 percent.

Indexing the basis of capital assets for inflation would significantly increase complexity and distortions in the tax system. This is one of the reasons this proposal has been rejected, after careful consideration, in the past. Basis indexation has the potential to affect every area of the Code. Addressing all of these aspects would add considerable complexity to the Code, while ignoring them would leave the door open to tax avoidance opportunities. Indexing basis would also place a great deal of strain on the Internal Revenue Service's ability to administer the tax system.

The distinction between real and nominal gains is not limited to the assets that would be indexed under the proposal. For example, interest payments on debt have inflationary components, as do capital gains. Yet the Contract would not differentiate between real and nominal interest income or deductions. Indexing the basis of capital assets without indexing debt used to finance these assets would greatly expand the potential for tax arbitrage and tax shelter opportunities. Without complicated anti-arbitrage provisions, indexing capital gains alone would make it possible for taxpayers to reduce their effective tax rates to zero.

For example, assume that a taxpayer purchases undeveloped land for \$100,000, giving a \$20,000 cash down payment and borrowing \$80,000. If the land were sold several years later for \$130,000, with the \$30,000 gain representing an inflationary increase in the value of the property the taxpayer could repay the \$80,000 mortgage and retain \$50,000 in cash without being subject to taxation. However, only \$6,000 ($20,000/100,000 \times \$30,000$) of the taxpayer's total \$30,000 gain from the transaction represents the inflationary gain on the taxpayer's \$20,000 investment; the remaining \$24,000 of gain has been shielded from taxation because the proposal would index the basis in the property but not the debt or the interest adjustments used to finance it.⁴

Unlike some previous indexing proposals considered by Congress, this proposal would allow nominal capital gains to be turned into deductible capital losses. Under current law, taxpayers already benefit from the fact that their capital gains are taxed only when realized. They are thereby encouraged to claim losses when the losses are incurred, while deferring the tax on gains. This proposal would even allow taxpayers with gains that have not kept pace with inflation to claim losses on those nominal gains. Also, the use of quarterly indicators to measure inflation could lead to a disruption of the normal operation of markets as investors attempt to recognize their gains early in any given calendar quarter.

Rules would have to be developed to address the treatment of common investments made by many individuals, such as dividend reinvestment plans in mutual funds and investments in partnerships and other pass-through entities. Computation of the taxpayer's income in each of these cases would require more than merely determining basis, holding period, and the amount realized. Rather, these circumstances would require the development of special indexing rules that coordinate entity level and investor level adjustments and provide appropriate allocation of indexation benefits among investors. Rules would also have to be developed for complex transactions involving indexed assets where the date of sale or acquisition may be unclear, such as sales pursuant to forward contracts, options, and sales with contingent purchase prices. Similar issues arise with respect to a disposition pursuant to a corporate or partnership distribution, or an installment sale. Adjusting the basis of investments in foreign tangible property and certain foreign stocks for domestic inflation

⁴ Stated differently, because of indexation of gains, the taxable gain on the asset is reduced from \$30,000 to zero, but because of the failure to index liabilities, taxpayers escape tax on the \$24,000 real gain on the debt.

would generate additional complexities, especially under the tax rules that apply to foreign currency. Complexity would also result from adjustments made to basis over time as the result, for example, of improvements to real property or contributions to the capital of a corporation.

Any system of indexation would have to provide rules for all these cases. Every such rule, however, would impose additional computational burdens of a magnitude far greater than the single basis calculation now required. While certain simplifying assumptions could be adopted, these simplifications would arbitrarily deny indexation benefits to some taxpayers while providing planning opportunities to others.

Deduction of Losses on Principal Residences. We have some concerns about the proposal to allow the deduction of losses on sales of principal residences. Generally, the tax law does not allow capital losses arising from personal use assets. Under the proposal, taxpayers in neighborhoods or sections of the country that experience general declines in real estate prices would benefit, but the proposal would also benefit those whose homes have lost value from anticipated real depreciation or other deterioration in the property.

10. Phase Out of the 85 Percent Maximum Inclusion Rate for Social Security Benefits

Current Law

The amount of Social Security benefits included in income is determined by the amount of income and benefits in excess of certain thresholds. The thresholds also determine the maximum percentage of benefits included in AGI.

Under OBRA 93, people with income and Social Security benefits above the top threshold must include up to 85 percent of Social Security Benefits in AGI, beginning in 1994. The top threshold is \$34,000 for unmarried individuals and \$44,000 for married individuals. The amount of benefits subject to tax is: (1) 85 percent of income and benefits over the threshold, plus (2) an adjustment for amounts below the threshold subject to inclusion at the 50 percent rate. However, the total taxable amount does not exceed 85 percent of benefits. The OBRA 93 change does not apply to people with income and benefits below the top threshold. The revenue from the OBRA 93 changes is earmarked for the Hospital Insurance (HI) trust fund.

Proposal

The Contract with America would phase out the OBRA 93 changes in the taxation of Social Security (and Railroad Retirement Tier I) benefits. As a result, not more than 50 percent of Social Security benefits would be subject to income tax, regardless of the level of the beneficiary's total income. The phase out would occur between 1995 and 2000. This change would affect only taxpayers with income above the second threshold (\$34,000 for single taxpayers and \$44,000 for married taxpayers filing jointly).

The proposal would reduce tax receipts deposited in the Hospital Insurance (HI) Trust Fund by \$15.0 billion over the five-year FY1996 - FY2000 period, and by \$48.5 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration opposes this proposal, because the OBRA 93 changes were necessary to achieve consistent tax treatment of retirement income, and because it would reduce revenues needed for the HI Trust Fund.

Even with the changes in OBRA 93, Social Security benefits generally receive more favorable tax treatment than do pension and other retirement income. Generally, the portion of pension payments representing previously untaxed income is included in gross income when received, while the portion of pension payments representing previously taxed contributions is excluded. Social Security benefits are treated more favorably. For those with higher incomes, the portion of Social Security benefits subject to tax is phased in, based on the recipient's total income level. However, even for the highest income retirees, no more than 85 percent of benefits are taxed, even though over 90 percent of the benefits may represent previously untaxed income.

The OBRA 93 increase affected only 13 percent of taxpayers reporting Social Security benefits in 1994 -- those at the high end of the income distribution of beneficiaries. The OBRA 93 changes did not affect the other 87 percent of taxpayers receiving benefits.

11. Tax Credit to Reduce Marriage Penalties

Current Law

Couples in which both spouses have similar levels of income generally have a higher tax liability than the combined tax liability of two single persons with the same levels of income. This extra amount of tax is called a "marriage penalty." Conversely, where one spouse has most or all of the couple's income, the tax liability of the couple is usually lower than the combined liability of two single persons with the same levels of income. This lesser tax liability is called a "marriage bonus." The extent of the marriage penalty or bonus depends on the division of income, deductions, and credits between the spouses as well as on the relative sizes of standard deductions, on the level of income tax rates, and on the relative widths of income tax brackets for married and unmarried taxpayers.

If couples filed tax returns as two separate individuals, there would be neither marriage penalties nor bonuses (except for those living in community property states). But married couples with the same total income would then pay different amounts of tax, depending on the division of income between them.

Proposal

The proposal provides a tax credit in the amount of, but not more than, a married couple's "marriage penalty." The dollar amount of the credit would be determined each year by the Secretary of the Treasury so that the aggregate amount of credits for all taxpayers would not exceed \$2 billion for the year. The proposal would be effective for tax years beginning after the date of enactment.

The proposal would reduce tax receipts by \$9.0 billion over the five-year FY1996 - FY2000 period, and by \$19.0 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration does not support this particular proposal because it lacks detail on the allocation of benefits and would be difficult to administer. We would, however, be willing to work with the Committee to consider other ways to address this issue.

Since the total amount of marriage penalties greatly exceeds the \$2 billion a year limit on the cost, this proposal would only partially reduce, but not fully eliminate, marriage penalties. As a result, one major problem with the proposal is the lack of detail on how the \$2 billion of benefits would be allocated among families with marriage penalties. Another problem is that marriage penalties intrinsically depend upon how people would live if they were not married -- what housing arrangements they would make, how they would divide their assets, etc. While a hypothetical calculation can be made, such a calculation may overstate the actual penalty for some and understate it for others.

The proposal could also result in a married two-earner couple having a lower tax liability than a one-earner couple with the same total income and deductions. Moreover, the proposal does not address the treatment of heads of household. Any proposal that significantly reduced marriage penalties while leaving marriage bonuses unchanged would shift the overall tax burden away from families filing joint returns and would increase the relative tax burden of heads of household and single persons.⁵

12. Expansion of the Home Office Deduction

Current Law

Under current law, home office expenses are deductible only if the home office is used (1) as the principal place of business, (2) as a place of business used by patients, clients

⁵ As the result of complaints about tax penalties for single persons, in 1969 a separate tax rate schedule was enacted for single taxpayers. Prior to that time, single taxpayers used the same tax rate schedules as married taxpayers filing separate returns.

or customers in meeting or dealing with the taxpayer in the normal course of business, or (3) in the case of a separate structure which is not attached to the dwelling unit, in connection with the taxpayer's trade or business.

The principal place of business definition was interpreted by a recent Supreme Court case. In *Commissioner v. Soliman*, 113 S. Ct 701 (1993) the Supreme Court held that the principal place of business should be defined to include only the place of business where the activities most crucial to the operation of the business occur. As a result of the decision, the Internal Revenue Service set forth in Revenue Ruling 94-24 the factors to be applied in determining whether a taxpayer's home office qualifies as a principal place of business. For example, activities crucial to certain service businesses require personal contact with customers outside the service provider's home office. In such cases, the home office would not be regarded as the principal place of business, even if no other principal place of business existed.

Proposal

The Contract with America proposal would loosen the standards under which home office deductions would be allowed. The proposal would allow deductions for an office where a taxpayer's essential administrative or management activities are conducted on a regular basis provided the taxpayer has no other place to perform those activities. The proposal would also allow a taxpayer to deduct costs attributable to the storage of product samples in a residence if the taxpayer is engaged in the business of selling those products at retail or wholesale and the residence is the sole fixed location of the taxpayer's business.

The proposal would reduce tax receipts by \$0.4 billion over the five-year FY1996 - FY2000 period, and by \$1.0 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration believes this proposal needs further review in order to minimize potentials for abuse and associated audit difficulties.

13. Increase of the Estate Tax Exemption to \$750,000

Current Law

Under current law, an exemption from estate tax is generally allowed for the first \$600,000 of a taxable estate. This is effected through a credit of \$192,800 against estate tax, which translates into an exemption for \$600,000. The credit reduces the estate tax liability of most decedents, but is phased out for estates that exceed \$10 million. The credit is referred to as the "unified credit" because it is also utilized (and reduced to the extent so used) to offset gift tax.

Proposal

The proposal contained in the Contract with America would increase the amount of the unified credit against estate tax. The increase would be to \$700,000 for decedents dying (and gifts made) in 1996, \$725,000 in 1997, \$750,000 for 1998, and would be indexed for later years.

The proposal would reduce tax receipts by \$6.7 billion over the five-year FY1996 - FY2000 period, and by \$20.7 billion over the ten-year FY1996 - FY2005 period.

Discussion

The Administration recognizes that this threshold has not been increased since 1987. We are willing to work with the Committee to address this issue. However, we are concerned about the cost of this proposal and the limited number of taxpayers it would affect. Only one percent of all estates are taxable with the current exemption, and only half of one percent would be taxable under the proposed increase in the exemption.

14. Income Tax Return Check-off for Deficit Reduction

Current Law

The Presidential Election Campaign Fund check-off is the only analogous federal program. Section 9006 of the Internal Revenue Code establishes the Presidential Election Campaign Fund (the Campaign Fund). Each taxpayer may designate, by checking the appropriate box on his or her income tax return, that \$3 be paid into the Campaign Fund. The amount designated for the Campaign Fund does not affect the taxpayer's tax liability. Monies in the Campaign Fund are used for three purposes: (1) payments to the national committee of each major and minor political party for its nominating convention; (2) payments to the eligible candidates of a political party for President and Vice-President; and (3) payments to eligible candidates seeking the nomination of a political party to be President.

Proposal

The Contract would allow individual taxpayers to designate on their federal income tax returns up to ten percent of their tax liability to be earmarked for reducing the public debt. The IRS would tabulate the amounts designated and the Treasury Department would transfer those amounts into a "Public Debt Reduction Trust Fund" (the Trust Fund). The amounts in the Trust Fund would be used to retire or purchase outstanding Treasury securities, and therefore could not be used to fund federal programs.

The proposal also mandates a corresponding decrease in federal spending through an essentially across-the-board sequestration. Social security payments, net interest payments on

federal debt, and funding for certain insurance funds established to resolve the savings and loan problem are exempted from sequestration under the bill.

Sequestration reports under the Balanced Budget and Emergency Deficit Control Act of 1985 would be expanded to include an estimate of the amount earmarked to the Trust Fund. Budget authority for the new fiscal year would be cut by the "sequestration percentage" (i.e., the total amount earmarked by taxpayers for debt reduction divided by all government spending programs that are not explicitly exempted).

The provisions of this proposal would remain in effect until the entire outstanding public debt is retired.

Discussion

This Administration has a strong commitment to deficit reduction and supports the goal of this proposal, which is to impose discipline on spending by the federal government and, in doing so, reduce the amount of outstanding Federal debt. The Administration opposes the proposal, however, because of the potentially adverse effects it could have on the legislative process, the budget process, and the economy. In addition, the proposal would complicate tax returns and tax administration.

By requiring across-the-board spending cuts, the proposal could disrupt the orderly development of a Federal budget and discourage the Administration and Congress from making difficult budgetary choices. The proposal would allow certain individuals effectively to override Congressional choices by extending to those designating a transfer to the Trust Fund the right permanently to reduce the level of federal spending. Further, by incorporating a "one dollar, one vote" concept into the budgetary process, the fundamental "one person, one vote" tenet of our political system would be undermined. The proposal would allow citizens with significant tax liabilities to have a potentially greater voice in the way Federal funds are spent than those who incur little or no tax liability. The millions of voters who have no income tax liability would, in a sense, be disenfranchised, even though these individuals pay payroll and excise taxes. The role of government in society, and the way in which Federal monies are raised and spent, clearly are questions that deserve to be addressed by all citizens. These fundamental issues should be decided through the voting process, not through the tax system.

Amounts designated to the Trust Fund reduce Congressional budget authority for the following fiscal year, and in all future years. Thus, designations in successive years would result in significant cumulative reductions. These spending cuts, which are required to be spread equally across nearly all federal programs, would quickly have major, and in many instances unanticipated, impacts on these programs.

15. Regulatory Reform

The Administration supports the goal of reducing regulatory burdens to the extent compatible with responsible administration of the laws. Nevertheless, this Administration and the prior two Administrations have recognized that a "one-size-fits-all" approach to regulations is not in the best interests of the public or the government.

The IRS already must satisfy elaborate procedures before issuing regulations and taxpayers have extensive safeguards in enforcement proceedings. If existing procedures and safeguards need amendment, we would welcome the opportunity to work with this Committee to achieve a satisfactory result.

We assume that many of the Contract's regulatory and enforcement reform provisions were not intended to apply in the tax area. Nevertheless, the Contract would apply as written, and it is important to consider the consequences.

Proposal

The Contract would establish many additional requirements for issuing tax regulations. For example, a 23-point regulatory impact analysis would have to be prepared for each regulation. This analysis would include an evaluation of the costs and benefits to be derived from the regulation, a demonstration that the regulation adopted the least costly approach, and a description of the alternative approaches that were considered but rejected. In addition, no regulation could be issued unless the Office of Management and Budget (OMB) certified, among other things, that the regulation was easily readable, employed proper grammar, used short and well-organized sentences, and did not contain double negatives, confusing cross-references, or words with multiple meanings.

Other provisions would grant those subjected to Federal investigative, enforcement or official proceedings more rights.

Discussion

The Internal Revenue Code is extraordinarily complex and there inevitably are questions as to the meaning of its provisions and the ways in which they interact with each other. Without regulatory guidance interpreting the Code, taxpayers would be subject to uneven enforcement of the tax laws, denied the certainty they need to plan for the long term, and hesitant to engage in productive economic activities.

For these reasons, the Treasury is often requested to issue more tax guidance, more promptly. The prior Administration also has recognized the critical role of tax regulations and, therefore, did not apply the 1992 regulatory moratorium to those regulations.

By putting tax regulations "on hold" until the completion of a complex regulatory impact analysis and other requirements, the Contract would bog down the guidance process and increase compliance burdens on taxpayers. The Contract also would undermine the ability of taxpayers to rely on published guidance by permitting any tax protestor to challenge the validity of a regulation on procedural grounds. Congress has long recognized in the Anti-Injunction Act and Declaratory Judgment Act that the tax collection system could not function if taxpayers could so easily disrupt IRS operations.

These issues should be in the jurisdiction of the tax writing committees. We would like to work with the Committee to insure that the tax regulatory process continues to function in an orderly and efficient manner.

Conclusion

The Administration has serious reservations about some of the provisions in the Contract, but it also shares goals that would be advanced by other provisions in the Contract. The Administration is interested in crafting a set of tax cut proposals that are affordable, simple, efficient, and focused on middle-income families. We look forward to working with this Committee to develop proposals that meet these criteria and are acceptable to the Congress, the President, and the American people.

Table 1
Preliminary Estimates */
CONTRACT WITH AMERICA

Proposal	01/10/95 09:41 AM	1995	1996	1997	1998	1999	2000	Fiscal years					1995-00	1995-2005
								2001	2002	2003	2004	2005		
								(\$ billions)						
1 \$500 per child tax credit		-	-13.4	-27.0	-27.2	-27.4	-28.9	-30.4	-31.9	-33.4	-33.6	-35.1	-124.1	-288.5
2 American Dream Savings Accounts		-	0.3	1.3	1.9	1.3	0.2	-1.7	-3.6	-4.7	-5.9	-6.8	5.0	-17.7
3 Favorable tax treatment of long-term care insurance and services		-	-0.9	-1.1	-1.2	-1.3	-1.4	-1.6	-1.7	-1.9	-2.0	-2.2	-5.9	-15.3
4 Tax-free accelerated death benefits under life insurance contracts		-	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
5 Increased expensing limit for small business		-	-0.8	-1.3	-0.9	-0.7	-0.4	-0.3	-0.2	-0.1	-0.1	-0.0	-4.2	-5.0
6 \$5,000 refundable tax credit for adoption expenses		-	-0.0	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.4	-3.3
7 \$500 refundable tax credit for elderly care		-	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.2	-2.8
8 Neutral cost recovery		3.3	10.0	13.4	8.5	-2.6	-14.1	-21.5	-26.0	-28.7	-30.4	-32.2	18.4	-120.4
9 Capital gains tax preferences		0.2	-1.1	-8.4	-15.0	-17.4	-19.2	-20.9	-22.6	-24.4	-26.2	-28.2	-60.9	-183.1
10 Phase-out of the 85 percent maximum inclusion rate for social security benefits		-	-0.5	-1.9	-3.2	-4.2	-5.2	-5.9	-6.3	-6.7	-7.0	-7.4	-15.0	-48.5
11 Tax credit to reduce marriage penalties		-	-1.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-9.0	-19.0
12 Expansion of the home office deduction		-	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-1.0
13 Increase of the estate tax exemption to \$750,000		-	0.0	-1.4	-1.6	-1.8	-2.0	-2.2	-2.5	-2.8	-3.1	-3.5	-6.7	-20.7
			<u>3.5</u>	<u>-7.6</u>	<u>-29.0</u>	<u>-41.5</u>	<u>-57.0</u>	<u>-73.9</u>	<u>-87.5</u>	<u>-97.7</u>	<u>-105.5</u>	<u>-111.2</u>	<u>-118.3</u>	<u>-205.4</u>
														<u>-725.5</u>

Department of the Treasury
Office of Tax Analysis

*/ Estimates are preliminary. The Office of Tax Analysis has had only a short time to analyze the legislation in its current form. There have been significant changes in some of the provisions since the original legislation was released on September 27, 1994.

Table 2
Tax Proposals in "Contract with America" (1)
 (1994 Income Levels)

Family Economic Income Class (4) (000)	Federal Taxes Under Current Law (2)			Change in Federal Taxes (3)			Total Federal Taxes After Change		
	Amount (\$B)	As a Percent of Pre-Tax Income (%)	As a Percent of After-Tax Income (%)	Amount (\$B)	As a Percent of Pre-Tax Income (%)	As a Percent of After-Tax Income (%)	Amount (\$B)	As a Percent of Pre-Tax Income (%)	As a Percent of After-Tax Income (%)
0 - 10	6.4	7.5	8.1	-0.4	-0.5	-0.5	6.1	7.1	7.6
10 - 20	25.8	9.4	10.3	-1.8	-0.7	-0.7	24.0	8.7	9.6
20 - 30	54.7	13.8	16.0	-4.3	-1.1	-1.2	50.5	12.7	14.7
30 - 50	152.3	17.3	20.9	-12.4	-1.4	-1.7	139.9	15.9	19.2
50 - 75	204.1	19.1	23.6	-15.3	-1.4	-1.8	188.8	17.7	21.8
75 - 100	175.2	20.5	25.8	-14.2	-1.7	-2.1	161.0	18.8	23.7
100 - 200	244.5	21.3	27.1	-21.0	-1.8	-2.3	223.5	19.5	24.8
200 & over	275.0	23.3	30.3	-27.5	-2.3	-3.0	247.6	20.9	27.3
Total (5)	1,139.8	19.5	24.2	-97.2	-1.7	-2.1	1,042.5	17.8	22.1

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- (1) This table distributes the estimated change in tax burdens due to the tax provisions in the "Contract with America," as introduced January 4, 1995 in H.R. 6, H.R. 8, H.R. 9, and H.R. 11. The effect of the proposed change in the estate tax exemption is excluded.
- (2) The taxes included are individual and corporate income, payroll (Social Security and unemployment), and excises. Estate and gift taxes and customs duties are excluded. The individual income tax is assumed to be borne by payors, the corporate income tax by capital income generally, payroll taxes (employer and employee shares) by labor (wages and self-employment income), excises on purchases by individuals by the purchaser, and excises on purchases by business in proportion to total consumption expenditures. Taxes due to provisions that expire prior to the end of the Budget period are excluded.
- (3) The change in Federal taxes is estimated at 1994 income levels but assuming fully phased in law and long-run behavior. The effect of the back-loaded ADSA proposal is measured as the present value of tax savings on one year's contributions. The effect of the neutral cost recovery proposal is measured as the present value of the tax savings from one year's investment. The effect of the prospective capital gains indexing proposal is the fully phased in tax savings, multiplied by the ratio of the sum of the present values of prospective indexing over 20 years to the sum of the present values of fully phased in indexing over 20 years, holding realizations constant. The effect on tax burdens of the proposed capital gains exclusion and prospective indexing are based on the level of capital gains realizations under current law. The incidence assumptions for tax changes is the same as for current law taxes (see footnote 2).
- (4) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments, such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family, rather than on a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (5) Families with negative incomes are included in the total line but not shown separately.

TABLE 3

**Comparison of Deductions Under Current Law
and the "Neutral" Cost Recovery System (CRS)**

(Example of a \$1,000 asset with a 7 year recovery period and 3% inflation)

<u>Year</u>	<u>Current Law</u>	<u>CRS</u>	<u>Difference</u>
0	143	107	-36
1	245	204	-41
2	175	171	- 4
3	125	148	23
4	89	158	69
5	89	169	80
6	89	180	91
7	45	96	51
Sum	1,000	1,233	233

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January 10, 1995

Opening Statement of
Robert E. Rubin
Secretary of the Treasury Designate

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today, and I especially appreciate your willingness to schedule this hearing so expeditiously.

I'd like to thank my two home state Senators from New York, Senators Moynihan and D'Amato, for introducing me and for their kind words. And I'd like to thank Senator Graham from Florida where I grew up for his kind introduction.

I would also like to express my great respect for your long-time member and former Chairman, my friend of many years and colleague of the last two years, Secretary Lloyd Bentsen. He provided our Administration and our economic team with extensive experience, outstanding judgment, and consistent support for the spirit of teamwork. I look forward to his advice and guidance in the time ahead.

For the past two years, I have served in the White House as the Assistant to the President for Economic Policy and Coordinator of the National Economic Council, where a truly outstanding group of Cabinet members and White House officials worked together on the economic issues of the Nation.

Before that, I worked for 26 years at a major international financial institution headquartered in New York, where I had responsibility at various times for trading activities in debt, equities, foreign exchange, and commodities, as well as involvement in various domestic and international investment banking activities.

I welcomed the opportunity to join this Administration because I believed that this country was at a true economic crossroads, and that, with all of our natural advantages, our economic future could be robust -- but only if we faced and dealt with the many problems and issues before us in a rapidly changing global economy. Conversely, I felt that if we did not face our economic problems, our economic prospects were likely to be mediocre as far into the future as the eye could see.

I strongly identify with the President's comprehensive economic strategy to promote investment-led economic growth with low inflation now, and to position the country for the long term. That strategy has been consistent from the beginning of the Administration. It consists of deficit reduction; education, training, programs for economically-depressed areas, and other public investments critical to future productivity; targeted tax reduction; reforming and reducing government and regulations; health care and welfare reform; and opening markets.

Through this strategy, our country, over time, can achieve fiscal order, strong productivity increases, and open markets, and so healthy long-term economic growth with low inflation, and all Americans can have the opportunity to share in that growth.

Much has been accomplished within this framework, often with bi-partisan support -- but much remains to be done at this critical juncture, if our country is to prosper, both now and for the long run. Thus, in my opinion, it is crucial that the Administration and Congress work together effectively as we go forward. It is worth noting, in this regard, that this Committee in particular has had major accomplishments on a bi-partisan basis, including NAFTA and GATT.

Mr. Chairman, I am pragmatic, and I believe that differences can usually be resolved, not always but usually, by being straight-forward and focusing on substance. If confirmed, I will work with each Member of this Committee and with all Members of Congress in this spirit. I also believe that there are no easy answers to the significant issues of economic policy and that difficult trade-offs are almost always involved.

As we face the likely legislative agenda for the next two years, I would like to suggest a few guiding principles.

1. Maintaining Fiscal Discipline. Tax cuts or spending programs must be paid for, and we must sustain our efforts to continue reducing the deficit.

2. Promoting Productivity. We should endeavor to increase our national savings rate. And, within the discipline of deficit reduction, we need to continue to reorder the federal budget to emphasize education -- which had strong bipartisan support in the last Congress -- training, programs for economically-depressed areas, and other essential public investments. These investments in people are also key to equipping all Americans with the tools to participate in the Nation's economic growth and, thereby, to reverse the greatly increased income inequality that has developed over the last 20 years.

3. Supporting International Cooperation. In the new global economy, we need to open markets, we need to sensibly but effectively regulate the vast global financial markets that so critically affect all of the world's economies, and we need to help the developing and transitional economies.

4. Modernizing Financial Markets. We can make American financial markets more competitive and more efficient through modernizing regulatory structure and regulations, but the issues are very complex and competing considerations must be weighed carefully and thoughtfully.

Finally, if confirmed, I would endeavor to carry forward the United States Treasury's long and proud history of professional excellence and integrity, which I have admired from the vantage points of both Wall Street and the White House for many years. Treasury has been and should continue to be a reliable and trusted resource for Members of Congress and the general public. I also want to emphasize my commitment to Treasury's important law enforcement mission.

In conclusion, Mr. Chairman, I would like to thank you again for bringing me before this Committee so promptly. I hope my comments have been useful. Now I would be pleased to respond to any questions which you or the Committee may have.

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TEXT AS PREPARED FOR DELIVERY

Embargoed for 1 p.m. (EST)

January 10, 1995

"AVOIDING DOUBLE TAXATION: TRANSFER PRICING AND THE OECD"

REMARKS BY JOSEPH H. GUTTENTAG

INTERNATIONAL TAX COUNSEL

EUROPEAN-AMERICAN CHAMBER OF COMMERCE

HOTEL WASHINGTON

The purpose of section 482 is to protect the U.S. tax base. It is applied when income has been artificially shifted away from the U.S., whether to a tax haven country or one whose tax burden might even be higher than in the United States. An increase of tax by one country without an adjustment for tax imposed by another country will normally lead to double taxation. The United States has consistently taken the position that the appropriate administration of its transfer pricing and related rules requires that there be a system in place for the avoidance of possible double taxation.

Decades ago, Treasury considered, and quickly rejected, a partial solution that would have waived application of section 482 in situations in which the taxpayer paid an "appropriate" amount of total tax to two or more taxing jurisdictions but not necessarily the correct amount to each one. The U.S. strongly supports a system administered through its tax treaty network by which the other taxing jurisdiction involved in an allocation would make a correlative adjustment to taxable income and tax liability. In the past several decades, there has been increasing transfer pricing enforcement using the arm's length method to prevent tax avoidance by many countries throughout the world.

The U.S. and the other members of the OECD have continued over the years to refine the arm's length concept. Such refinement and the increased attention to this aspect of tax administration made it easier for tax authorities to accept the need for correlative adjustments and related tax refunds. The U.S. and its partners in the OECD recognized that the greater the similarity in the substance and procedure of the transfer pricing

(more)

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rules in each of their countries, the easier it would be to administer such rules internationally. The U.S. continues to have a deep commitment to ensuring avoidance of double taxation in transfer pricing cases.

The latest chapter in this continuing saga of attempts to prevent tax avoidance, protect the tax base, but also prevent double taxation is the focus of my remarks today. I first want to remind you of what the Treasury and IRS did last year in this area and demonstrate the importance of an OECD document entitled "Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations - Discussion Draft of Part I."

Transfer pricing continues to attract a great deal of scrutiny from legislators, tax administrators and taxpayers. I think that this additional focus is attributable to two causes.

One cause is the increasing pressure to raise revenue in this country and elsewhere and the concomitant rightful demand that all taxpayers pay their fair share of taxes.

The second cause is the fact that the system was not been working as well as it should. From the government's perspective, we see two obvious flaws. First, there was insufficient self-compliance by taxpayers. Second, the legal framework did not offer taxpayers, tax administrators and courts adequate guidance in cases in which the traditional transfer pricing methods are inadequate.

In 1993, Commissioner Richardson and Treasury Assistant Secretary Leslie Samuels announced a program entitled "Tax Compliance in a Global Economy." Transfer pricing was at the center of this initiative. The program acknowledged that a better system had to be created under which the United States would collect its fair share of revenue from taxpayers conducting cross-border transactions with related parties. However, as I have noted, this revenue must be collected without forcing taxpayers to pay tax on the same income more than once. Also, the system must not create impossible administrative burdens for taxpayers and governments.

With these concerns in mind, we took the following actions last year. To ensure that taxpayers report an appropriate amount of income to the United States, we issued temporary penalty regulations in February and final regulations under section 482 in July.

I will not delve into these measures except to make the following observation: The penalty provisions are an essential component of our efforts to make the arm's length standard work. They are fully consistent with a taxation system based on the principle of self-compliance. In accordance with this principle, we believe that taxpayers who make reasonable, good faith efforts to report arm's length results from their intercompany transactions should not be penalized -- even if it is subsequently demonstrated that they were wrong. But taxpayers who do not accept their responsibility to attempt to file accurate tax returns should be penalized. We are sensitive to concerns

that the penalty rules could be administered so as to cause taxpayers to over allocate income to the U.S. and away from foreign tax jurisdictions. The U.S. is committed to obtaining its fair share of tax revenue -- but no more. It would be foolish and counter-productive for us or any country to create or permit a tax system which did otherwise. We are committed to an appropriate and consistent application of the transfer pricing penalties.

The Penalty Oversight Committee recently established by the Internal Revenue Service is evidence of this commitment. The Committee consists of senior National Office as well as field office personnel who will review, in advance, all proposals to impose such penalties and ensure consistency. We are also going to make sure that all taxpayer and practitioner comments are given full consideration before we finalize these regulations. We are open to further suggestions as to how to alleviate taxpayers' concerns with these rules. But there can be no turning back from the fundamental principle that underlies these regulations. The high level of attention being paid to the administration of the penalty regulations will ensure they achieve their intended purpose -- but, as I previously said, no more.

I have given you a brief summary of what we have done and are doing in the United States. Now let me turn to the recent work of the OECD complementary to our internal efforts. This work has involved our active participation because we believe that transfer pricing enforcement demands international cooperation, harmonization and agreement as well as adherence to arm's length principles in both substantive and procedural rules. A task force is revising the 1979 OECD Transfer Pricing Guidelines in light of recent developments in this country and others. The Discussion Draft published in July, is to be Part I of a complete revision of the OECD's 1979 Transfer Pricing Guidelines. The OECD is making an extremely important contribution to tax administration by revising a set of guidelines that in many ways is badly out of date. The OECD has been considering public comments and intends to finalize this portion of the report in June. Subsequent portions of the report will cover a number of additional subjects relevant to transfer pricing -- penalties, documentation, cost-sharing, and corresponding adjustments.

Today I would like to stress that the Treasury Department strongly supports prompt finalization of Part I of the OECD report in June, and substantially in its current form, and to urge all of you to support it as well.

It is difficult to overemphasize the importance of these guidelines. As the consensus interpretation of the arm's length standard, the guidelines are the bridge between each country's substantive rules during the competent authority process. They also provide a framework for bilateral discussions leading to Advance Pricing Agreements -- or APAs -- which are another critical component of our compliance initiative. Common guidelines permit the competent authorities to resolve disputes without having first to agree on basic principles. They therefore greatly facilitate the

smooth resolution of difficult cases in mutual agreement procedures and in the APA process.

The impetus for revising the OECD's 1979 guidelines has been provided by recognition of the reality that the traditional methods for applying the arm's length standard are often inadequate to deal with important transfer pricing cases.

Indeed, the drafters of the 1968 482 regulations and the 1979 guidelines recognized this problem when they expressly authorized the use of unspecified methods in cases in which the traditional methods were inadequate. Congress also recognized the problem in 1986 when it observed that the existing approaches to transfers of intangible property were inadequate.

The United States is not alone in this regard. There has been a similar evolution in many other countries. We have seen non-traditional applications of the arm's length standard in competent authority proceedings and in APAs concluded with many of our most significant trading partners. The global trading APAs are a prime example of this trend.

Because this evolution has not occurred at the same rate, we have seen increasing tension in the system. Different approaches in different countries have resulted in disputes over the definition of the arm's length standard. This is very dangerous. It creates potential for abuse by those taxpayers bent on reducing their overall tax burden through inappropriate transfer pricing. At the same time it is difficult for taxpayers to comply with the rules of each country if inconsistent approaches are adopted. This raises the specter of double taxation.

This is why OECD guidelines are so important. They represent broad acceptance by all our major trading partners of the reality that the traditional methods are appropriate when the data to apply them is adequate. But the traditional methods must be supplemented and tested by new methods when the data is not adequate.

If the report is accepted in its current form, it will ensure the future viability of the arm's length standard. A consensus interpretation of the arm's length standard will go far to avoid the double taxation that would result if inconsistent approaches to transfer pricing were adopted by different countries. At the same time, when the approaches in various countries are reasonably consistent, it will be more difficult for taxpayers to shift income inappropriately. And taxpayers interested in complying with one country's rules will be able to do so without fear of violating another's.

Thus, the strengths of the report are both obvious and important. As I said, the Treasury Department strongly supports prompt finalization of the report in its current form.

* * * * *

There seems to be a wariness in certain quarters about revising the 1979 guidelines. This wariness reflects the interests of two groups at opposite poles from one another. One group suspects that attempts to revise the guidelines are thinly veiled attempts to overturn the arm's length standard. They reject virtually any application of methods other than those specifically sanctioned in the 1979 guidelines. The other group draws an opposite conclusion from the report -- they see it as endorsing and perpetuating the arm's length standard, which they view as obsolete and unworkable.

To the group that suspects a plot to undermine the arm's length standard, I say that it is necessary to update the OECD guidelines -- not to overturn the arm's length standard, but to save it.

Inflexible adherence to dogma would forfeit one of the chief advantages of the arm's length standard. That advantage is flexibility. Its ability to adopt different approaches depending on the available data permits a variety of applications -- all of which are intended to achieve the same economically desirable result of treating related and unrelated taxpayers similarly. Formulary apportionment, based on a predetermined formula that disregards individual facts and circumstances, does not enjoy this important advantage. If we do not permit taxpayers and tax administrators to employ the method that is most likely to yield an arm's length result, then the results achieved under the arm's length standard will begin to look as arbitrary as those achieved under formulary apportionment.

Moreover, even the opponents of new methods should consider the fact that from their point of view the draft report represents an improvement over the 1979 guidelines. Those guidelines provided that so-called profit methods "normally" should be used only as pointers to further investigation. This language leaves open the possibility to use such methods in cases that are not "normal." Since the guidelines do not distinguish normal cases from those that are not, the 1979 guidelines created substantial ambiguity as to the scope of these methods. The draft report, on the other hand, provides extensive guidance on the proper scope and -- equally important, the appropriate application -- of these methods. The overwhelming majority of taxpayers and tax administrators recognize the need to reflect our experience over the last fifteen years and define approaches, suggested, but only vaguely and incompletely, in the old Report.

We need further definitions of how and when new methods should be used, all within the framework of the arm's length standard. This has been done with a view to maximizing the similarities of worldwide transfer pricing rules, while at the same time recognizing the differing economies and political and administrative structures of the member countries. We must not retreat from this reality by rejecting the draft report. Such rejection would contribute to lack of consensus and an increase in double taxation and related problems. More fundamentally, lack of consensus over the definition of the

arm's length standard endangers the unanimous commitment to the arm's length standard represented by the draft report.

* * * * *

There is a second group that opposes the report. Like the Treasury Department, this group has closely observed the turmoil in the area of transfer pricing over the last decade. But it has proposed a very different solution to the problem. It has concluded that the arm's length standard cannot be saved, and a new standard is required; formulary apportionment being the leading candidate. Most authorities, including supporters of a formulary method, agree that neither the United States nor any country should attempt to adopt any method of allocating income of multinational enterprises unilaterally. There is a current overwhelming consensus internationally not only in favor of the arm's length principle in general, but also on its interpretation and application. Formulary apportionment is not accepted on the international level. For those who doubt my conclusion, I refer you to the draft report which, while forcefully rejecting formulary apportionment, supports a newly defined arm's length methodology.

As I have indicated, we support and anticipate final approval of this report later this year, after some extremely useful modifications reflecting comments from the private sector and others, but without major changes. The report enumerates a number of serious problems that would be encountered if formulary apportionment were adopted on the international level. Many of these problems would exist even if the international community decided that a formulary approach made sense as a theoretical matter. I would also add that the report is not an isolated list of concerns by a group of stubborn bureaucrats. Much of the scholarly literature on this subject, including that written by proponents of the approach, identifies difficult problems that would have to be resolved before the approach could be introduced internationally. I refer you to that literature for a detailed exposition of these problems, and only can briefly outline them today.

The choice of the formula and the definition of the factors in the formula are obvious areas where basic agreement would be necessary. This process would not be easy, and in my opinion would not be successful in today's international environment. While most U.S. states employ formulary apportionment, even they do not all use the same formula.

The economic and political differences between states in the U.S. that result in differing formulae are much more pronounced between countries: while the corporate tax accounts for less than 4% of U.S. state-raised revenue, it measures about 10% in OECD countries on the national level. Another key requirement for a workable formulary system is an internationally agreed upon tax base. Every country has unique accounting and tax rules. These rules regulate definitions of income, timing of income recognition, as well as deductions for everything from depreciation to pension contributions.

The differences in these rules reflect choices arising out of each country's unique set of cultural, political and economic characteristics. But they would need to be standardized throughout the world to arrive at a uniform definition of the tax base subject to apportionment. Of course in the United States where we have nationally accepted accounting systems and a nationwide uniform tax base provided by the federal corporate tax system, this issue does not arise. Some U.S. supporters of a formulary system seem to overlook these basic differences when they urge adoption of a formulary system internationally.

In addition, the three factor formula used by many states would not likely be acceptable on the international level, or at least it would not be acceptable to the United States. Significant income generated by US multinationals is attributable not to the three factors of property, payroll and sales, but to intangible property. Congress recognized this fact when it amended section 482 in 1986.

Obviously, reaching agreement on these and other important issues would require a great deal of coordination among tax administrations. At the state level the forum for resolution of this type of issue is the Multistate Tax Commission. The MTC does an outstanding job of developing common guidelines for use by its members. Having to deal with only one currency, one language, one accounting system, and no economically distorting cross border restrictions also help. Determination of tax under a formulary system requires access by each member of the unitary group to all the key financial data of the group. Enforcement of such systems obviously not only require the data to be available, but that it be verifiable. The amount of and need for this cross border data is a multiple of that required for the arm's length system.

All these advantages and more attached to our domestic formulary system would be lost on the international level, because the MTC has no counterpart at the international level. Some new multinational organization would have to be created to perform its function. Composed of all the countries that would sign on to a formulary system, a new Multinational Tax Commission would have to be delegated the authority to resolve issues such as the definition of the taxable base, the definition of the factors in the formula, and the other issues that I have described.

This delegation of authority to this Multinational Tax Commission might prove quite troublesome. For the system to work, the United States effectively would have to agree that the Internal Revenue Code (and of course all of our tax treaties) would be modified to achieve a worldwide standardized definition of taxable income. Along with the rest of the world, we effectively would forfeit control over a major portion of our domestic tax policy. I think you will agree that Congress would be very reluctant to permit our tax policy to be developed in this way.

* * * * *

Transfer pricing rules, in conjunction with our tax treaties, serve two principal purposes. First, they divide the income of multinationals among the jurisdictions in which the multinationals do business. Second, they seek to avoid either double taxation or no taxation of such income. These purposes can be achieved only with consensus. For this reason alone formulary apportionment is not a feasible alternative at this time or in the foreseeable future.

Nevertheless, although highly unlikely, it is theoretically conceivable that at some undetermined point in the future most of the world could decide to move to formulary apportionment. None of these problems is insoluble as a theoretical matter, although solving them would be a very painful process that would entail difficult choices. If these problems could be resolved in a practical way, a system of formulary apportionment could achieve a consistent allocation of income among the jurisdictions that sign on to the international agreement. It would not achieve an allocation of income that resembles the allocation achieved under the arm's length standard. But it could allocate income on an objective basis and might not give rise to either double taxation or no taxation.

Nevertheless, it must be emphasized that even with consensus, a shift to formulary apportionment would be irresponsible without resolution of the kinds of issues I have described as well as the many others described in the literature on this subject. And it is important to remember that the inflexible results obtained under a predetermined formula would not resemble the results under the arm's length standard, where the method used is tailored to the individual facts and circumstances.

All of this theoretically could happen, but there is no assurance that it ever will. Nor do I believe that it necessarily should. If the arm's length standard can be made to operate effectively, then the wrenching changes and compromises of autonomy necessitated by a shift to formulary apportionment or any other system would be unnecessary.

* * * * *

In their obsession with the details of the draft report, both groups that question the report overlook the need for broad international acceptance of any approach to transfer pricing. Without this consensus, no approach, regardless of its theoretical purity, can be seriously considered. The report represents a possibly unique opportunity to achieve this consensus.

The primary advantage that the arm's length standard currently enjoys in relation to formulary apportionment is the simple fact that most of the world agrees that it

should be the international norm. The report sets forth a common understanding of how the arm's length standard is to be applied. If the report is rejected or shelved, the arm's length standard loses a major advantage over formulary apportionment. Without the common bond represented by the report, there is a risk that the major countries in the world would drift apart in their applications of the arm's length standard. Cases of double and under taxation would proliferate. It would be ironic indeed if those who present themselves as the truest believers in the arm's length standard were a chief cause of its downfall. For this reason every taxpayer and government that is interested in improving the arm's length standard should support the finalization of the report as soon as possible and in its current form.

I would ask those who prefer formulary apportionment to recognize that it can be a realistic alternative only if the problems I have described can be resolved and if there is a consensus in favor of its adoption. If we were to move to formulary apportionment before these conditions were satisfied, we would find that the cure would be worse than the disease. On the other hand, if we cannot fix the system and make the arm's length standard work in a reasonable way, the sickness will worsen, and we will have to consider our alternatives.

I am, however, optimistic that we can improve on the arm's length standard and that the OECD's draft report will be finalized. At that point the international community can be proud that it is facilitating international trade and investment without undue concern over double taxation.

Thank you.

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Adv 3 p.m. EST
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January 10, 1995

STATEMENT OF ACTING TREASURY SECRETARY FRANK NEWMAN
FINANCIAL SERVICES AGREEMENT WITH JAPAN

The United States and the Government of Japan announced today that we have reached a comprehensive financial services agreement under the U.S.- Japan Framework Agreement of July 1993 that will further open Japan's financial markets to foreign competition.

We are very pleased with this agreement. It represents the most comprehensive set of market-opening actions in the Japanese financial sector in a decade. It is a major accomplishment for both governments, and it demonstrates how we can work together effectively to resolve the economic challenges in our relationship.

The agreement will ensure that U.S. financial institutions, which are world-class competitors, have the opportunity to compete more effectively in the Japanese financial market.

- o The agreement opens the \$1 trillion Japanese pension market to effective participation by foreign fund managers.
- o It creates greater opportunities for foreign financial firms to participate in the \$500 billion Japanese corporate securities market by permitting greater scope for the introduction of new financial instruments.
- o It will promote the further integration of Japan's capital market with the global capital markets, and that will create significant opportunities for competitive foreign financial institutions to help the Japanese invest abroad and Japanese firms to offer securities in offshore markets.



- o It provides greater transparency and procedural protections for foreign financial institutions operating in what has always been a challenging regulatory environment.
- o It includes a comprehensive set of qualitative and quantitative criteria to allow us to assess progress made under the agreement.
- o It also provides a means to encourage further liberalization and deregulation in the Tokyo market to ensure that, as markets evolve and priorities change, foreign firms will continue to be able to compete fairly with the domestic industry.

This is an important agreement for the United States. We have a large stake in maintaining an open and competitive financial market. The financial services industry accounts for nearly 7 percent of our GDP, and over \$400 billion in revenues each year.

The United States has devoted a significant amount of effort over the years to gaining access to global financial markets. And opening financial markets on a multilateral basis in the Uruguay Round remains an important objective for this Administration.

But this also is an important agreement for other countries with a stake in the international financial system and the multilateral trading system.

This agreement with Japan improves the prospects for an MFN-based agreement in the financial sector in the World Trade Organization, although much remains to be done to get there. The United States will not be prepared to remove our MFN exemption in financial services in the WTO unless we receive adequate commitments from a number of key emerging market countries to open their financial markets over time.

This month in Geneva we will begin a more concentrated negotiating effort focused on those markets where U.S. financial firms are still denied the opportunity to compete effectively. We hope to be able to build on this agreement with Japan to achieve a more comprehensive multilateral agreement on the principles of MFN, national treatment, and market access.

This agreement makes it clear that we are prepared to extend MFN and national treatment commitments to countries that give us the opportunity to compete in their financial markets. We hope that by doing so in this context with Japan we will encourage other countries to commit in the negotiations in Geneva over the next several months to eliminate the remaining restrictions they place on foreign financial institutions in their markets.

I would also like to make reference to the important contribution former Secretary Lloyd Bentsen made to this agreement. He did the heavy lifting early on, and at critical points in the negotiations. And Under Secretary Larry Summers was also a key participant in the development of this agreement.

In addition, I would like to compliment Finance Minister Masayoshi Takemura and his negotiators for concluding what is a very good agreement.

Financial Market Deregulation and Market Access Measures Agreed to by the United States and Japan

Japanese commitments to liberalization and deregulation of the financial market include:

Asset Management

- * Complete, unrestricted access to the \$200 billion public pension fund market for foreign investment advisory companies (IACs).
- * Substantial expansion in access for foreign IACs to the private pension market. \$130 billion in new assets opened to management by IACs.
- * Elimination of balanced fund requirements on bulk of pension assets open to IACs, thus enabling foreign IACs and foreign trust banks to sell specialized fund management services.
- * Commitment to move toward market value accounting for pension liability calculations and disclosure of fund manager performance on a market value basis.
- * Deregulation of the investment trust (mutual fund) business to reduce entry and operating costs, permit greater flexibility in investment instruments, require increased disclosure of performance data and relax restrictions of sales of foreign funds into Japan.

Corporate Securities

- * Liberalization of restrictions on the introduction of new financial instruments, and commitment to future liberalization to allow introduction of products developed in other major financial centers.
- * Commitment to introduce a domestic asset-backed securities market to Japan and to eliminate restrictions on offshore securitization of Japanese assets.
- * Transparency and procedural protections analogous to the U.S. Securities and Exchange Commission "no action" procedure for new financial instruments.

Cross Border Financial Services

- * Elimination of restrictions on securities offerings by residents and non-residents, and elimination of the seasoning period on non-resident Euroyen issues.

- * Unlimited access by resident corporate investors to virtually all financial instruments available outside Japan.
- * Elimination of restrictions on specific cross border transactions, such as offshore issuance of derivatives on Japanese stock indices and offshore securitization of Japanese assets.
- * Expanded scope for foreign securities companies to engage directly in foreign exchange related business.

Transparency and Procedural Protection

- * Comprehensive obligations, building on the new Japanese Administrative Procedures Law (APL), to provide transparency in financial regulations and protection from administrative abuse.

The agreement also includes a commitment to regular consultations between Treasury and the Ministry of Finance to monitor implementation of the accord and to address other issues affecting foreign financial institutions in the U.S. and Japanese financial markets.

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
January 10, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$26,800 million, to be issued January 19, 1995. This offering will result in a paydown for the Treasury of about \$13,125 million, as maturing bills total \$39,926 million (including the 16-day cash management bills issued January 3, 1995, in the amount of \$14,009 million).

Federal Reserve Banks hold \$6,572 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,543 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

FN-25

**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JANUARY 19, 1995**

		January 10, 1995
<u>Offering Amount</u>	\$13,400 million	\$13,400 million
<u>Description of Offering:</u>		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R6 3	912794 U2 8
Auction date	January 17, 1995	January 17, 1995
Issue date	January 19, 1995	January 19, 1995
Maturity date	April 20, 1995	July 20, 1995
Original issue date	October 20, 1994	January 19, 1995
Currently outstanding	\$13,128 million	- - -
Minimum bid amount	\$10,000	\$10,000
Multiples	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- | | |
|-------------------------------|--|
| Noncompetitive bids | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids |
| Competitive bids | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. |
| | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
| | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders. |

**Maximum Recognized Bid
at a Single Yield**

35% of public offering

Maximum Award

35% of public offering

Receipt of Tenders:

- | | |
|----------------------------------|--|
| Noncompetitive tenders | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders | Prior to 1:00 p.m. Eastern Standard time on auction day |

Payment Terms

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 10, 1995

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN

I consider it a great privilege and honor to have been confirmed today by the United States Senate as Secretary of the Treasury.

I would like to thank President Clinton for nominating me to this position, and for his confidence in my ability to serve the American public. I promise him, the Congress and, most of all, the American people that I will do my utmost to live up to that confidence.

I am also grateful to the members of the Senate Finance Committee, Chairman Packwood, Senator Moynihan, and Senate Majority Leader Dole, Minority Leader Daschle for their willingness to act so expeditiously on my nomination. I look forward to working with all Members of Congress in a productive, bipartisan fashion.

As Treasury Secretary, I look forward to continuing to promote the spirit of teamwork that has defined the National Economic Council. This teamwork and cooperation has promoted the President's comprehensive strategy to create an economic prosperity that can be shared by all Americans.

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
January 11, 1995

Contact: Michelle Smith
(202) 622-2960

TREASURY, STATE TO BRIEF ON FINANCING INSTITUTIONS
FOR ECONOMIC DEVELOPMENT IN THE MIDDLE EAST

Treasury Under Secretary for International Affairs Lawrence Summers and Joan Spero, Under Secretary of State for Economic, Business and Agricultural Affairs, will brief on-the-record at 3:30 p.m. **TODAY**, Wednesday, January 11, in the State Department press briefing room, Room 2118.

The briefing will focus on the January 10-11 meeting "Financing Institutions for Economic Development in the Middle East." This meeting was a key element of the follow-up to the October 1994 Middle East/North Africa Economic Summit in Casablanca, Morocco, which called for a group of experts to examine different funding mechanisms to support the peace process, including the creation of a Middle East Bank for Economic Cooperation and Development.

Press without State Department press credentials should call the State press office at (202) 647-2492 for clearance into the building.

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 11, 1995

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODS IN CALIFORNIA

The Bureau of Public Debt took action to assist victims of the flooding that struck California 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 in those areas of California hit by floods. These procedures are effective immediately and will remain in effect through February 28, 1995.

Public Debt's action waives the normal six-month minimum holding period for Series EE savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

The counties included in the initial declaration are Butte, Colusa, Contra Costa, Del Norte, Glenn, Humboldt, Lake, Lassen, Los Angeles, Mendocino, Monterey, Napa, Orange, Placer, Plumas, San Luis Obispo, Santa Barbara, Santa Clara, Santa Cruz, Sonoma, Tehama, Ventura, Yolo, and Yuba. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or the Federal Reserve Bank. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bonds Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "Floods" on the front of their envelopes to help expedite the processing of claims.

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PA-171

(RR-03)

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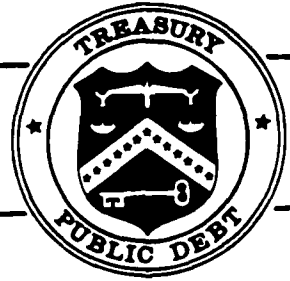
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PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 12, 1995

Contact: Peter Hollenbach
(202) 219-3302

DECEMBER SAVINGS BONDS SALES TOTAL \$ 784 MILLION

Savings Bonds sales for December totaled \$784 million, pushing the value of U.S. Savings Bonds held by Americans to \$180.5 billion, up 5 percent over a year ago.

Series EE Savings Bonds issued on or after March 1, 1993, and held five years or longer, earn the market-based interest rate if it averages more than the guaranteed minimum of 4 percent. If redeemed during the first five years, bonds earn 4 percent. Bonds issued before March 1993 retain their existing guaranteed minimum rates until they enter a new extended maturity period. The current semiannual market-based rate effective Nov. 1, 1994, through April 30, 1995, is 5.92 percent.

Interest earnings on Savings Bonds are exempt from State and local income taxes, and Federal income taxes on the interest earnings can be deferred.

Current rate information can be obtained by calling the Savings Bonds Marketing Office's toll-free number, 1-800-4US-BOND.

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(RR-04)

PA-172

STATISTICAL SUMMARY
 Series EE and HH U. S. Savings Bonds
 Month of December 1994

ISSUES, REDEMPTIONS AND OUTSTANDING	December 1994	December 1993
	(In millions of dollars)	
Sales: Series EE	\$ 784	\$ 983
Accrued Discount (Interest earned and added to Amount	735	730
Redemptions (Including Accrued Discount) All Series	970	807
Cash Adjustments from Series HH Savings Bonds Exchanges	1	4
Amount Outstanding Net Decrease December	550	910
Total Outstanding	1994	1993
Series E & EE	\$ 169,038	\$ 160,752
Series H & HH	11,431	11,168
Total All Series	\$ 180,469	\$ 171,920

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January 17, 1995

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of November 1994.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$105.7 billion on November 30, 1994, posting a decrease of \$1,273.6 million from the level on October 31, 1994. This net change was the result of a decrease in holdings of agency debt of \$1,092.4 million, in holdings of agency assets of \$157.6 million, and in holdings of agency-guaranteed loans of \$23.6 million. FFB made 20 disbursements during the month of November, and 7 buydown transactions were executed on behalf of REA-guaranteed borrowers. FFB also received 69 prepayments in November.

Attached to this release are tables presenting FFB November loan activity and FFB holdings as of November 30, 1994.

FEDERAL FINANCING BANK
NOVEMBER 1994 ACTIVITY

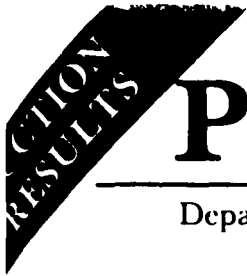
BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
U.S. Postal Service	11/7	\$300,000,000.00	2/15/95	5.541% S/A
U.S. Postal Service	11/15	\$300,000,000.00	2/15/95	5.582% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
HCFA Headquarters	11/8	\$17,301.46	7/1/25	8.330% S/A
Foley Square Courthouse	11/10	\$6,958,810.00	12/11/95	6.565% S/A
HCFA Services	11/10	\$78,117.00	6/30/95	6.162% S/A
Foley Services Contract	11/15	\$190,950.00	12/11/95	6.677% S/A
HCFA Services	11/18	\$78,117.00	6/30/95	6.350% S/A
Memphis IRS Service Cent.	11/18	\$4,772,784.90	1/3/95	5.623% S/A
HCFA Headquarters	11/21	\$5,181,235.00	6/30/95	6.346% S/A
Foley Services Contract	11/22	\$210,196.37	12/11/95	6.857% S/A
GSA/PADC				
ICTC Building	11/4	\$300,000.00	11/2/26	8.287% S/A
ICTC Building	11/14	\$300,000.00	11/2/26	8.321% S/A
ICTC Building	11/15	\$9,745,841.67	11/2/26	8.258% S/A
ICTC Building	11/18	\$300,000.00	11/2/26	8.323% S/A
RURAL UTILITIES SERVICE				
Amelia Telephone #394	11/9	\$71,000.00	1/3/28	8.186% Qtr.
@Plains Elec. #149	11/10	\$2,144,661.38	12/31/15	8.122% Qtr.
@Plains Elec. #149	11/10	\$1,671,481.38	12/31/15	8.122% Qtr.
@Plains Elec. #158	11/10	\$6,902,734.87	12/31/14	8.104% Qtr.
@Plains Elec. #158	11/10	\$5,576,374.40	12/31/14	8.104% Qtr.
@Plains Elec. #158	11/10	\$44,348,484.76	12/31/15	8.122% Qtr.
@Plains Elec. #158	11/10	\$14,153,417.62	12/31/15	8.122% Qtr.
@Plains Elec. #158	11/10	\$15,117,737.17	12/31/15	8.122% Qtr.
Citizens Utilities #387	11/21	\$2,394,000.00	6/30/95	6.293% Qtr.
Oglethorpe Power #335	11/22	\$40,000,000.00	12/31/96	7.395% Qtr.
United Farmers Tele. #392	11/23	\$98,000.00	12/31/96	7.382% Qtr.
Beaver Creek Coop. #391	11/29	\$1,120,000.00	12/31/13	7.957% Qtr.
Tex-La Electric #389	11/29	\$1,500,000.00	3/31/04	7.897% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
@ interest rate buydown

FEDERAL FINANCING BANK
(in millions)

<u>Program</u>	<u>November 30, 1994</u>	<u>October 31, 1994</u>	<u>Net Change 11/1/94-11/30/94</u>	<u>FY '94 Net Change 10/1/94-11/30/94</u>
Agency Debt:				
Department of Transportation	\$ 664.7	\$ 664.7	\$ 0.0	\$ 0.0
Export-Import Bank	3,926.4	3,926.4	0.0	0.0
Resolution Trust Corporation	24,328.8	25,721.2	-1,392.4	-2,190.3
Tennessee Valley Authority	3,200.0	3,200.0	0.0	-200.0
U.S. Postal Service	<u>8,073.1</u>	<u>7,773.1</u>	<u>300.0</u>	<u>-900.0</u>
sub-total*	40,193.0	41,285.4	-1,092.4	-3,290.3
Agency Assets:				
FmHA-ACIF	6,063.0	6,063.0	0.0	0.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	23,981.0	24,131.0	-150.0	-410.0
DHHS-Health Maintenance Org.	18.4	25.3	-6.9	-6.9
DHHS-Medical Facilities	33.8	34.5	-0.7	-1.9
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	<u>1.0</u>	<u>1.0</u>	<u>0.0</u>	<u>-0.1</u>
sub-total*	38,371.1	38,528.7	-157.6	-418.9
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,761.3	3,778.9	-17.6	-24.1
DHUD-Community Dev. Block Grant	105.1	106.4	-1.3	-4.8
DHUD-Public Housing Notes	1,688.5	1,746.5	-58.0	-58.0
General Services Administration +	2,099.3	2,079.0	20.3	69.7
DOI-Virgin Islands	21.9	21.9	0.0	0.0
DON-Ship Lease Financing	1,479.6	1,479.6	0.0	0.0
Rural Utilities Service	17,364.6	17,321.8	42.8	48.0
SBA-Small Business Investment Cos.	48.8	53.8	-5.0	-7.8
SBA-State/Local Development Cos.	514.4	518.9	-4.5	-8.6
DOT-Section 511	<u>14.2</u>	<u>14.6</u>	<u>-0.4</u>	<u>-0.4</u>
sub-total*	27,097.8	27,121.4	-23.6	14.0
grand-total*	=====	=====	=====	=====
	\$105,661.9	\$106,935.6	\$-1,273.6	\$-3,695.2

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



PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 17, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,453 million of 13-week bills to be issued January 19, 1995 and to mature April 20, 1995 were accepted today (CUSIP: 912794R63).

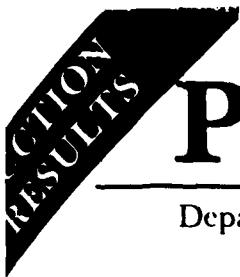
RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.77%	5.94%	98.541
High	5.78%	5.95%	98.539
Average	5.77%	5.94%	98.541

Tenders at the high discount rate were allotted 6%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$70,942,884	\$13,452,915
Type		
Competitive	\$65,535,539	\$8,045,570
Noncompetitive	<u>1,549,285</u>	<u>1,549,285</u>
Subtotal, Public	\$67,084,824	\$9,594,855
Federal Reserve	3,221,760	3,221,760
Foreign Official		
Institutions	<u>636,300</u>	<u>636,300</u>
TOTALS	\$70,942,884	\$13,452,915



PUBLIC DEBT NEWS



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FOR IMMEDIATE RELEASE
January 17, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,499 million of 26-week bills to be issued January 19, 1995 and to mature July 20, 1995 were accepted today (CUSIP: 912794U28).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount Rate</u>	<u>Investment Rate</u>	<u>Price</u>
Low	6.18%	6.47%	96.876
High	6.19%	6.48%	96.871
Average	6.19%	6.48%	96.871

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

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$47,321,886	\$13,498,766
Type		
Competitive	\$40,716,966	\$6,893,846
Noncompetitive	<u>1,692,420</u>	<u>1,692,420</u>
Subtotal, Public	\$42,409,386	\$8,586,266
Federal Reserve	3,350,000	3,350,000
Foreign Official Institutions	<u>1,562,500</u>	<u>1,562,500</u>
TOTALS	\$47,321,886	\$13,498,766

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
January 17, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$26,800 million, to be issued January 26, 1995. This offering will provide about \$525 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$26,277 million.

Federal Reserve Banks hold \$6,282 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$2,907 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-08



**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JANUARY 26, 1995**

January 17, 1995

Offering Amount \$13,400 million \$13,400 million

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R7 1	912794 S9 6
Auction date	January 23, 1995	January 23, 1995
Issue date	January 26, 1995	January 26, 1995
Maturity date	April 27, 1995	July 27, 1995
Original issue date	October 27, 1994	July 28, 1994
Currently outstanding	\$13,670 million	\$16,963 million
Minimum bid amount	\$10,000	\$10,000
Multiples	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids

Competitive bids

- (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
- (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid

at a Single Yield 35% of public offering

Maximum Award 35% of public offering

Receipt of Tenders:

Noncompetitive tenders Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY



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OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 18, 1995

Contact: Jon Murchinson
(202) 622-2960

PRESIDENT TO ADDRESS MEXICAN FINANCIAL SITUATION AT TREASURY

President Clinton and Treasury Secretary Robert E. Rubin will discuss the U.S. response to the financial situation in Mexico at the Treasury Department today, Wednesday, January 18, at 3:30 p.m.

The event, with Washington representatives of trade associations and businesses, will take place in the Cash Room, Main Treasury, 1500 Pennsylvania Avenue NW.

Cameras should set up between 1 and 1:30 p.m. Media without Treasury, White House, State, Defense or Congressional credentials wishing to attend should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, social security number and date of birth, by noon today. This information may be faxed to (202) 622-1999.

-30-

RR-09



DEPARTMENT OF THE TREASURY

TREASURY



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FOR RELEASE AT 2:30 P.M.
January 18, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING \$28,250 MILLION

The Treasury will auction \$17,250 million of 2-year notes and \$11,000 million of 5-year notes to refund \$15,841 million of publicly-held securities maturing January 31, 1995, and to raise about \$12,400 million new cash.

In addition to the public holdings, Federal Reserve Banks hold \$737 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include \$934 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-10



HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED JANUARY 31, 1995

January 18, 1995

<u>Offering Amount</u>	\$17,250 million	\$11,000 million
<u>Description of Offering:</u>		
Term and type of security	2-year notes	5-year notes
Series	Z-1997	G-2000
CUSIP number	912827 S5 2	912827 S6 0
Auction date	January 24, 1995	January 25, 1995
Issue date	January 31, 1995	January 31, 1995
Dated date	January 31, 1995	January 31, 1995
Maturity date	January 31, 1997	January 31, 2000
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest payment dates	July 31 and January 31	July 31 and January 31
Minimum bid amount	\$5,000	\$1,000
Multiples	\$1,000	\$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

- Noncompetitive bids . . . Accepted in full up to \$5,000,000 at the highest accepted yield
- Competitive bids (1) Must be expressed as a yield with two decimals, e.g., 7.10%
- (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is \$2 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid

at a Single Yield . . . 35% of public offering

Maximum Award 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY



NEWS

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TEXT AS PREPARED FOR DELIVERY
January 18, 1995

JAN 18 1995 876

DEPT. OF THE TREASURY

REMARKS BY U.S. TREASURER MARY ELLEN WITHROW
TEACHERS' SEMINAR - THE MONEY STORY
UTICA, NY

It's a pleasure for me to be back among teachers to talk about money. I was the first woman to be president of my school board back in my home state of Ohio. As Ohio State Treasurer I placed \$100 million in education bonds, established a conservative investment fund for teachers, and was custodian of the teachers' pension fund. So I feel like I'm back among colleagues talking about a familiar subject. It's a good feeling.

It says a lot about someone when they choose a career in education. I don't know whether a good teacher is made or born. But I do know that once you've been a teacher, you're never quite anything else. Whatever other job you go into after teaching, you're always looking for a way to teach.

Two federal agencies I oversee -- the Mint and Bureau of Engraving & Printing -- also have a commitment to educating the public. That's how we got involved in the Money Story. To my knowledge, it's the largest public education project in the history of my two agencies, and it's certainly one of the most worthy. We're inviting all of you to help make it even more worthy by using it in your classrooms.

We're also asking you to make financial education in a child's early years the priority it should be. For children who are exposed to its lessons, the video is truly lasting, lifetime education.

I know you'll be impressed with the quality, usefulness, and comprehensiveness of these materials. We're offering teachers the video itself, the teacher's guide, and a raft of classroom aids. It's a self-contained educational module that you can insert into your curriculum as you need it.

The money story is not only curriculum-approved -- it's kid-approved. Two hundred grade schoolers who attended the premier at the Treasury Department in Washington last January said it was the highlight of the school year. We think it can be the highlight of your school year, too.

(more)



I want to close by thanking First Source for its role in sponsoring your ownership of the Money Story. It's one thing for a member-owned credit union to accept deposits and make loans. But it's a different and higher level of involvement for a credit union to make this kind of investment in its members, in its communities, and in the educational future of its children. Thank you all.

-30-

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
January 19, 1995

SUMMERS TO SPEAK ON MEXICO AT GEORGETOWN LAW CENTER

Treasury Under Secretary for International Affairs Lawrence Summers will speak on Mexico's financial situation at a symposium at 12:30 p.m. tomorrow, Friday, January 20 in the 12th floor reception room of the Gewirz Student Center, 120 F Street, NW.

The symposium is sponsored by "Law and Policy in International Business," a journal published by Georgetown University Law Center.

-30-

Treasury contact:	Michelle Smith	(202) 622-2960
Georgetown contact:	John Wilson	(202) 662-9693

TREASURY



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AS PREPARED FOR DELIVERY

Our Mexican Challenge
Remarks by
Lawrence H. Summers
Under Secretary of the Treasury
Georgetown University Law Center
January 20, 1994

Introduction

When people talk about this period in history, they highlight the end of the Cold War. That means that some of the principle threats we face are no longer to our military security, but to our economic security. That suggests that the task of creating prosperity is to our foreign policy today, what containment was to our foreign policy of a few years ago.

When people talk about this period in history, they talk about the capitalist revolution sweeping the world. They see what is happening in Russia, and in Poland. But they also see the changes underway in China, in South Africa, in India, in Argentina, in Mexico, and in Brazil. They witness a growing awareness worldwide that states cannot direct economic activity, but must rely on private markets and competition to find the way forward.

People will continue to speak with tremendous optimism about this period. They will marvel at how, if this capitalist revolution continues, this will have been the era during which 3 billion people got on a rapid escalator to modernity. When the history books are written that change will rank with the industrial revolution, and with the renaissance, in terms of its



significance to human affairs.

The issue that I want to talk about today, the financial problem in Mexico, and the American response to it, brings together these elements. It is an issue of economic security.

Because the Mexican model has been so widely watched, and so widely emulated, and is so salient in the minds of investors, what happens in Mexico has implications that go far beyond Mexico, or even Latin America. Indeed all you have to do is sit at a Reuters screen, and see that the Thai baht has done such and such because of changing views about investor confidence in Mexico, or that South African interest rates have moved thus and so, or that Argentine bank stocks have performed a certain way -- to see that the stakes involved in what happens in Mexico go far beyond Mexico, and go far beyond Latin America.

Responding to a New International Era

The problem we face is in many ways a defining problem of a new international era, in which foreign policy and economic policy are joined together. That is why I think the rather remarkable response of the American political system to Mexico's difficulties is so appropriate. Once the gravity of the situation became clear, the President of the United States called on the Majority Leader and the Minority Leader of the Senate, and the Speaker and the Minority leader of the House of Representatives. He explained the situation to them, and arranged for them to be briefed by the Chairman of the Federal Reserve and the Secretary of the Treasury. Within 60 hours, he brought them together at the White House, to announce a common bi-partisan commitment, to put politics aside, and to deal with a financial issue of profound importance.

That was of course the proposal now being considered by the Congress to make available loan guarantees, to assure liquidity in the context of Mexico's financial difficulties.

If anyone doubted the systemic importance of our response, they need only have watched markets around the world over the last few days, and observed the co-movements of markets in other countries with markets in Mexico, as perceptions about this program have fluctuated.

What I'd like to do tonight is talk for a few minutes about our stake in assisting Mexico, a few minutes about what's happening in Mexico, and then talk about the guarantees in a little bit more detail. I will conclude with why I think this episode is so important.

Our Stake in Mexico

I've spoken in abstract terms so far about the importance of our proposal to the financial system and to the capitalist model. Let me emphasize that America's stake in Mexico's financial health is clear.

Working Americans are important investors in Mexico. No firm data is available, but experts believe that as much as 90 percent of short-term Mexican debt held by foreigners is held by Americans. That includes millions of Americans with interests in pension funds or mutual funds that have emerging market holdings.

Mexico is our third largest trading partner. In relative size, our exports to Mexico are 8 times as important as Japan's exports to Mexico, and 16 times as important as Europe's exports to Mexico. Exports to Mexico support 700,000 American jobs. The existence of those exports depends upon a growing Mexican economy, upon a reasonable price for American goods in Mexico, and upon a Mexican economy that can attract finance in order to import.

The flow of immigration from Mexico to the United States is inevitably responsive to economic conditions. We all know what the effect of a weaker economy in Mexico and a

weaker peso will be on those immigration flows.

And if devaluation were to spread to many markets, we can only imagine what the consequences would be for our economy's capacity to export, and to prosper.

That is not to mention the important security implications for this country of maintaining steady, stable growth in our nearest neighbor, with whom we share a 2,000 mile border.

What Happened in Mexico?

The stake then is clear. What is it that happened in Mexico? I think the observers who have watched the Mexican economy over the last 6 or 7 years have seen profound change. They have seen the bulk of state enterprises transferred to the private sector. They have seen tariffs slashed back enormously, to zero on more than half of U.S. exports. They have seen all sorts of quantitative restrictions cut way back, openness to foreign investment, and a budget balanced last year -- giving Mexico the smallest budget deficit in the OECD. They've seen real and profound change that makes the Mexico of today a very different Mexico from the Mexico of 5 or 10 years ago.

Mexico, to be sure, made what in retrospect were critical errors in macroeconomic policy -- in maintaining an exchange rate that ultimately proved not to be defensible, and perhaps in some of the macroeconomic policies pursued in recent months. In retrospect, the Mexican authorities have made it clear that they would have handled the devaluation of the peso differently from how it was in fact handled.

But fundamentally, Mexico is a solvent country, with a strong foundation for growth. There is no question that it has the capacity to grow and to meet its obligations. The problem Mexico faces is that in the context of the attempt to defend the peso that I referred to, Mexico's reserves were drawn down, and Mexico issued a substantial quantity of short-term,

foreign-currency indexed securities. That creates the possibility for what might be called self-fulfilling prophecies, or what might be called virtuous circles and vicious cycles.

With confidence, confidence is justified. If investors' capital continues to flow into Mexico, Mexico can build on that foundation of growth, and confidence will prove to have been warranted.

Unfortunately, lack of confidence can also prove to be a self-fulfilling prophecy. The common expectation that no capital will flow, that no securities will be rolled over, that very difficult economic circumstances will result -- that expectation also can prove to be self-fulfilling.

The Administration's Package

The world has a very strong stake in which kind of expectation proves to be self-fulfilling. That is why the United States is going to take the extraordinary step of making available a sufficient quantity of loan guarantees, so that there can be no doubt about Mexico's ability to meet its short-term obligations, and so that self-fulfilling confidence will prevail.

This action would be a grievous error if Mexico were not solvent. If Mexico could not in fact meet its obligations, this would be the wrong policy. But we are convinced -- as I believe economists around the world, and businessmen around the world are convinced -- that if this liquidity problem can be addressed Mexico can grow, and can service its obligation.

Certainly -- and this is a critical point -- any and all loan guarantees that the United States extends will be predicated on Mexico's compliance with strict macroeconomic conditions. These will involve fiscal policy, monetary policy, the extension of credit, and structural policy. They will ensure the attraction of private capital.

Protecting the United States Budget

What about the guarantee program? Even with the gravity of this situation, President Clinton made it very clear that he would not be prepared to widen our current budget deficit in order to meet this problem. A mechanism had to be found that would not enlarge the current American budget deficit. The mechanism that has been selected to avoid any impact on the current budget deficit, and to maximize private sector participation, is the provision by the U.S. of loan guarantees financed by an up front fee to be paid by the Mexican government. That up front fee will be set in accordance with the judgement of what the cost of that guarantee is, as assessed by the technicians at the Office of Management and Budget, and the Congressional Budget Office. It will be supplemented by a substantial extra fee, in order to give Mexico every incentive to return to the market for private sector finance.

The maturity of the guarantee is not specified precisely in the legislation, but it is anticipated to be between 5 to 10 years. The size of the fee for the guarantee of course will vary with the guarantees' maturity.

This mechanism, if successful, will actually lead to a profit for taxpayers, because we will collect the fee, and Mexico will meet its obligations.

The United States government has at many times in the past and in many different contexts extended official credit to Mexico. For reasons that should be clear enough, to Mexico the United States is not just another creditor. And while the Mexican economy over the last 50 years has had its ups and its downs, Mexico's obligations to the United States have always been paid in full.

We will rely on an up front fee. We will impose strict conditions. And we will rely on other devices to ensure that we have access to revenue streams that can finance payments, in

the extremely unlikely event that Mexico fails to service its obligations.

I think it is clear from the market's response that this program is providing the kind of assurance that investors need if they are to be prepared to rollover paper, and thereby enable Mexico to do what any troubled debtor must do, and extend the maturity of its debt.

As you are aware from reports in the press, this program is the subject of active discussion in the Congress, in both the House and the Senate. There will be those who will say that the United States should not do something like this for another country. Make no mistake -- this program is grounded in the self-interest of the United States. It is grounded in a judgement about what kind of world we want to live in. Do we seek a world of prosperous, opening, growing democracies that can finance greater and greater interaction with the United States? Or do we choose a world of frustrated economies, unable to attract finance, and suffering the inevitable political ramifications.

I think the a policy that calls for no expenditure of taxpayers' money, and yet can make a difference and lead to the self-fulfilling prophecy of confidence, rather than despair -- I think that policy is the right choice.

I am convinced that this will be the Congress' choice as well. As someone said to me today, this will be a difficult vote, but it will not be a difficult choice, for those who want to do what is in the interest of this country.

NAFTA

I'd like to say a word here about NAFTA. I know that there are a number of people out there using Mexico's difficulties to revive old attacks on NAFTA. Let's be perfectly clear on one point. The challenge we face today is not a referendum on NAFTA. Whatever you thought about NAFTA, none of us want to see a falling peso, a shrinking Mexican market,

and a drying up of finance for the purchase of American goods.

I think the NAFTA critics have the argument precisely backwards. Without NAFTA Mexico's problems would be much worse, both for Mexico and the United States. NAFTA ensures that Mexico can never again close its borders to American products. NAFTA ensures that Mexico must continue to provide safeguards for our investors. NAFTA bolsters investor confidence, helping to contain Mexico's difficulties.

In short, NAFTA is what ultimately will protect the capitalist revolution underway in Mexico. NAFTA has and will continue to consolidate the progress Mexico has made. And NAFTA will ensure that Mexico remain a dynamic model for other developing nations, once Mexico's short-term difficulties have passed.

A Unique Challenge

You know, important though this situation is, significant though the risks of financial problems can be, this situation is very special. The United States cannot be, and will not be any kind of general lender of last resort. What compels action in this special situation is the fact that Mexico is a country with which we share a 2,000 mile border. And the fact is that the Mexican situation raises unique systemic issues, because Mexico seems to be so powerful an example for investors in many other nations.

I think that this experience then is not a precedent for American action. But I hope it will serve as a wake-up call for thinking about our institutions of international finance. At the Naples summit of last summer, President Clinton led the G-7 leaders' call for a review of the international economic and financial architecture. If ever there was any question as to whether such a review was needed, I think that this experience has answered it. I think it has revealed with crystal clarity the need for thinking about what kind of institutional mechanisms we can forge to deal with problems of this kind in the future, and much more

importantly, to prevent problems of this kind from arising in the future. That has to be at the top of the agenda. It must be a top priority for all those from the private and the public sector, concerned with maintaining the momentum of these tremendous changes that we've seen in the post-cold war world.

The last two years have in many ways been the two most productive years for United States international economic policy in decades. We have seen the NAFTA, and we have seen the GATT. We have seen the commencement of a process leading beyond the NAFTA, in the Summit of the Americas. And we have seen a coming together of nations to address commercial concerns in the context of APEC. We have certainly done more over the last two years to open this world to trade and finance, than in any two years since the Second World War.

If we are going to build forward on the momentum of that, there is, I would suggest to you, no alternative. Thank you.

Mexico Fact Sheet

If we do not act now, Mexico faces a protracted economic crisis that would have severe consequences for the United States.

- o Such a crisis would hit the U.S. economy hard. Mexico is our third largest export destination.
- o Nearly 700,000 U.S. jobs depend directly on sales to Mexico.
- o California sells \$5 billion dollars worth of goods to Mexico yearly. Michigan sells \$6 billion, nearly 20 percent of its export sales. Arizona and New Mexico also sell near 20 percent of their export sales to Mexico. Texas sells Mexico \$13 billion worth of products, more than 1/3 of its export sales. These and other states which rely heavily on trade with Mexico could see declines in income, as well as job losses.

A Mexican crisis would cause severe immigration and social problems along our southern border.

- o We estimate that illegal immigration could rise by more than 30 percent -- an additional half-million economic refugees could come into the United States this year.
- o California could see some 330,000 additional illegal Mexican immigrants flood into the state, while 100,000 might go to Texas.

A Mexican crisis could spread to other emerging market economies, which are the fastest-growing customers for U.S. products, thereby hindering the U.S. economic recovery.

- o Investors in other developing countries could withdraw the funds that are fueling growth in these new markets. Because Mexico is a prototype for developing markets, the risks in this case are unique.
- o Annual U.S. exports of manufactured products to developing countries rose by about 65 percent -- adding more than 1 million new U.S. jobs -- between 1989 and 1993.
- o Recession in these countries would be a major blow to U.S. and world growth prospects over the next decade. Slowed demand for exports could cause the United States to lose 1 percentage point of real GDP by the end of 1996.

A protracted Mexican economic crisis is preventable because Mexico is currently facing a financial loss of confidence -- not fundamental problems in its economy.

- o Mexico's economy is fundamentally strong. The Mexicans are pursuing disciplined economic and fiscal policies. Their ratio of debt to national income is moderate, at about 40 percent.
- o Mexico has taken substantial steps over the past several years to reform its economy. Mexico has slashed government spending, moving from a budget deficit to a surplus. Tariffs were reduced substantially when Mexico joined GATT, and are being phased out on U.S. products as part of NAFTA. Substantial portions of the economy have been privatized, including banking and telecommunications. Many barriers to foreign investment have been removed.
- o The new measures announced by Mexico -- including wage restraint, more budget cuts, tight monetary policies, and faster privatization -- will help keep Mexico's economy healthy once confidence is restored.

Mexico's main problem is a credit squeeze, or loss of liquidity, brought on because fearful investors have halted new lending to Mexico.

- o Mexico has been depending on money brought in by foreign investment to help cover its current account deficit -- roughly the amount Mexico earns on exports minus what it spends on foreign goods, services and interest payments.
- o Under Mexico's ambitious reform program and NAFTA prospects, flows sufficient to cover this modest deficit seemed likely. However, political problems and growing concerns about the size of the deficit caused these flows to taper off last year.
- o As investment tapered off, demand for Mexico's currency, the peso, also declined. This undermined investor confidence further, and generated concerns that Mexico could not afford to pay off some \$40 billion worth of short-term obligations -- including dollar-indexed bonds, CDs, and bank credits -- coming due over the next 6 months.
- o As long as investors and lenders stay out of Mexico, it will not be able to pay its bills. However, if the United States backs loans to Mexico to stretch out maturities, renewed confidence should be sufficient to soon bring investors back without guarantees.

To help Mexico through its liquidity crisis, the Administration is working with Congressional leadership and Chairman Greenspan on a loan guarantee of up to \$40 billion.

- o Under the program, the United States will guarantee up to \$40 billion of new borrowing by Mexico.
- o The U.S. guarantee will convince investors to resume lending to Mexico, and restore confidence in Mexico's prospects.
- o Mexico will use the money raised to pay off the loans falling due over the next 12 to 18 months, helping to avert a default and a protracted economic crisis.

The United States guarantee is designed to have no effect on the current U.S. budget. The United States may even make a profit on the transaction.

- o Mexico will pay the United States government up front and in cash for the right to use our guarantee.
- o The Mexican government will provide backing in the form of proceeds from Mexico's petroleum sales, to help ensure that the United States is repaid.

The United States is imposing very strict conditions for Mexican use of a guarantee facility:

- o The U.S. will set strict conditions on Mexico's use of funds obtained through the guarantee facility.
- o The guarantee will also be conditioned on Mexico's pursuing disciplined economic and fiscal policies.
- o Mexico will speed up the process of reforming its economy, by selling off more state industries and giving even greater access to U.S. and other foreign investors.
- o Steps like these will keep Mexico's economy strong, and restore market confidence quickly. They will also ensure that Mexico pays off the funds it borrows with our guarantees.

The international financial institutions and other countries will also provide support for Mexico.

- o Canada is already providing about \$1 billion dollars in swap credits. Other countries' central banks are offering \$5 billion through the Bank for International Settlements.
- o President Clinton has called on the International Monetary Fund, the World Bank, and the Inter-American Development Bank to develop a multilateral package of support for Mexico.
- o Because the United States has the greatest stake in Mexico, we are leading the world effort.

This support package is a one-time event -- not a precedent.

- o Mexico's difficulties represent exceptional circumstances for the United States -- because of our 2,000 mile border with Mexico, and because of our two countries' large trade and economic ties.

Mobilizing Private Resources to Restore Financial Stability to Mexico through a Guarantee Program

America has a vital interest in Mexico's economic future. A protracted economic crisis in Mexico would decrease U.S. exports, increase illegal immigration to the U.S. and, potentially, spread to other emerging markets.

The Administration and the Congressional Leadership have agreed to "do what is necessary to restore financial confidence in Mexico without affecting the current budget at home."

We are now discussing a proposal designed to mobilize private resources that will have no effect on the current U.S. budget.

Under this proposal, the Government of Mexico will pay up front the budget costs of up to \$40 billion of loan guarantees issued by the United States.

These guarantees will allow Mexico to go to the private capital markets to raise longer term loans to pay off its short-term financial obligations, which will help restore financial stability and prevent Mexico's problems from spreading to other markets.

This is not foreign aid. This is not a loan. The Mexicans will pay for the cost of the program.

The United States will impose strict conditions on the issuance of guarantees to help ensure that Mexico is able to generate the resources necessary to meet its obligations, and that our economic interests in Mexico are protected and advanced.

- The Mexican Government will be required to provide adequate security to insure against any potential future budget costs to the United States.
- The Mexican Government will commit to implement an economic and financial program to contain inflation, reduce Mexico's external deficit, restore stability to the peso, and prevent further reduction in Mexican wages.
- The Mexican Government will commit to adopt other economic policies to protect and advance U.S. economic interests in a strong Mexico.

The guarantees will be issued for a series of separate transactions, each requiring the approval of the President, which will enable us to ensure that Mexico is complying with the conditions.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

MEXICO BRIEFING FOR SENIOR EXECUTIVES
Wednesday, January 18, 1995
Department of Treasury
Cash Room

WELCOME AND INTRODUCTION

Secretary Robert Rubin
United States Department of the Treasury

Ambassador Mickey Kantor
United States Trade Representative

The President of the United States

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- o Investors in other developing countries could withdraw the funds that are fueling growth in these new markets. Because Mexico is a prototype for developing markets, the risks in this case are unique.
- o Annual U.S. exports of manufactured products to developing countries rose by about 65 percent -- adding more than 1 million new U.S. jobs -- between 1989 and 1993.
- o Recession in these countries would be a major blow to U.S. and world growth prospects over the next decade. Slowed demand for exports could cause the United States to lose 1 percentage point of real GDP by the end of 1996.

A protracted Mexican economic crisis is preventable because Mexico is currently facing a financial loss of confidence -- not fundamental problems in its economy.

- o Mexico's economy is fundamentally strong. The Mexicans are pursuing disciplined economic and fiscal policies. Their ratio of debt to national income is moderate, at about 40 percent.
- o Mexico has taken substantial steps over the past several years to reform its economy. Mexico has slashed government spending, moving from a budget deficit to a surplus. Tariffs were reduced substantially when Mexico joined GATT, and are being phased out on U.S. products as part of NAFTA. Substantial portions of the economy have been privatized, including banking and telecommunications. Many barriers to foreign investment have been removed.
- o The new measures announced by Mexico -- including wage restraint, more budget cuts, tight monetary policies, and faster privatization -- will help keep Mexico's economy healthy once confidence is restored.

Mexico's main problem is a credit squeeze, or loss of liquidity, brought on because fearful investors have halted new lending to Mexico.

- o Mexico has been depending on money brought in by foreign investment to help cover its current account deficit -- roughly the amount Mexico earns on exports minus what it spends on foreign goods, services and interest payments.
- o Under Mexico's ambitious reform program and NAFTA prospects, flows sufficient to cover this modest deficit seemed likely. However, political problems and growing concerns about the size of the deficit caused these flows to taper off last year.
- o As investment tapered off, demand for Mexico's currency, the peso, also declined. This undermined investor confidence further, and generated concerns that Mexico could not afford to pay off some \$40 billion worth of short-term obligations -- including dollar-indexed bonds, CDs, and bank credits -- coming due over the next 6 months.
- o As long as investors and lenders stay out of Mexico, it will not be able to pay its bills. However, if the United States backs loans to Mexico to stretch out maturities, renewed confidence should be sufficient to soon bring investors back without guarantees.

To help Mexico through its liquidity crisis, the Administration is working with Congressional leadership and Chairman Greenspan on a loan guarantee of up to \$40 billion.

- o Under the program, the United States will guarantee up to \$40 billion of new borrowing by Mexico.
- o The U.S. guarantee will convince investors to resume lending to Mexico, and restore confidence in Mexico's prospects.
- o Mexico will use the money raised to pay off the loans falling due over the next 12 to 18 months, helping to avert a default and a protracted economic crisis.

The United States guarantee is designed to have no effect on the current U.S. budget. The United States may even make a profit on the transaction.

- o Mexico will pay the United States government up front and in cash for the right to use our guarantee.
- o The Mexican government will provide backing in the form of proceeds from Mexico's petroleum sales, to help ensure that the United States is repaid.

The United States is imposing very strict conditions for Mexican use of a guarantee facility.

- o The U.S. will set strict conditions on Mexico's use of funds obtained through the guarantee facility.
- o The guarantee will also be conditioned on Mexico's pursuing disciplined economic and fiscal policies.
- o Mexico will speed up the process of reforming its economy, by selling off more state industries and giving even greater access to U.S. and other foreign investors.
- o Steps like these will keep Mexico's economy strong, and restore market confidence quickly. They will also ensure that Mexico pays off the funds it borrows with our guarantees.

The international financial institutions and other countries will also provide support for Mexico.

- o Canada is already providing about \$1 billion dollars in swap credits. Other countries' central banks are offering \$5 billion through the Bank for International Settlements.
- o President Clinton has called on the International Monetary Fund, the World Bank, and the Inter-American Development Bank to develop a multilateral package of support for Mexico.
- o Because the United States has the greatest stake in Mexico, we are leading the world effort.

This support package is a one-time event -- not a precedent.

- o Mexico's difficulties represent exceptional circumstances for the United States -- because of our 2,000 mile border with Mexico, and because of our two countries' large trade and economic ties.

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 21, 1995

Contact: Michelle Smith
(202) 622-2960

NEARLY 770,000 U.S. JOBS DEPEND ON EXPORTS TO MEXICO

Nearly 770,000 U.S. workers have jobs that depend on exports to Mexico, according to an analysis released Saturday by the U.S. Treasury Department.

"This study demonstrates how important it is to the American people that the U.S. government act decisively to restore confidence in the Mexican economy," Treasury Secretary Robert E. Rubin said. "A robust Mexican economy provides a large market for our exports, which translates into jobs for American workers."

The Treasury Department study indicates that from 1987 to 1993 exports to Mexico increased by over 180 percent. Nearly 770,000 workers in 1993, the most recent annual figures available, owed their jobs to exports to Mexico.

Export-related jobs are relatively high-wage, typically paying between 10 and 20 percent more than the average U.S. wage, according to various estimates.

The Treasury analysis, based on Commerce Department figures, reports that in 1993 exports from the United States to Mexico were more than \$41 billion.

"If Mexico's problems continue, Mexicans won't be able to afford as many of our products and our workers will lose out," Rubin said. "The loan guarantees are clearly in our national interest and would help protect hundreds of thousands of American jobs. In addition, stabilizing the Mexican economy now will help prevent spillover effects in other emerging markets which buy U.S. goods."

Copies of the Treasury Department analysis are available from the Public Affairs Office by calling the 24-hour automated fax service at (202) 622-2040 and requesting document number 015, or by calling the office at (202) 622-2960.

America's Stake in the Mexican Loan Guarantee Program: A State-by-State Analysis

The Problem:

- The U.S. and Mexican economies are closely linked. We have a unique economic stake in Mexican stability. Nearly 770,000 Americans are employed producing and distributing products destined for Mexico. A protracted crisis would harm Mexican demand for products made by American workers.
- The Mexican economy faces a short-run liquidity squeeze: a substantial amount of dollar-denominated short-term obligations comes due in the near future, and Mexico is having a hard time borrowing additional funds.
- Mexico's economy is fundamentally strong. Over the long term its prospects are good.

The Solution:

- If the U.S. guarantees loans to Mexico, Mexico will be able to refinance its debt.
- Once confidence is restored, Mexico should regain its normal access to capital markets, and the liquidity crisis should end.
- Mexico will pay the U.S. government up front and in cash for the right to use our guarantees.
- The Mexican government will provide full backing in the form of proceeds from petroleum sales.

What's at Stake:

- If the loan guarantee program is not adopted, it is unlikely that Mexico will sustain strong demand for products made by American workers.
- Nearly 770,000 U.S. workers are now employed producing and exporting products to Mexico. A prolonged crisis would threaten continued demand for the products made by American workers.

If the Problem Spreads:

- U.S. exports to Mexico are only one-quarter of total U.S. exports to emerging markets.
- If the problem spreads, it will harm other emerging market economies. They would then buy less U.S. machinery and capital goods. Many more U.S. export-sector jobs would be affected.
- Stopping the liquidity squeeze now--while it is confined to Mexico--should prevent it from spreading to other emerging markets.

The United States and the Mexican Economy

Exports to Mexico from the United States

- The Commerce Department reports that in 1993 exports from the United States to Mexico were some \$41.1 billion.
- The 1993 figures represented a 184 percent boost in exports to Mexico since 1987, as Mexico's economic reform program has led to double-digit rates of growth of U.S. exports to Mexico.
- Results from 1994 are not yet completely in, but so far nationwide results are running more than ten percent above the 1993 pace.

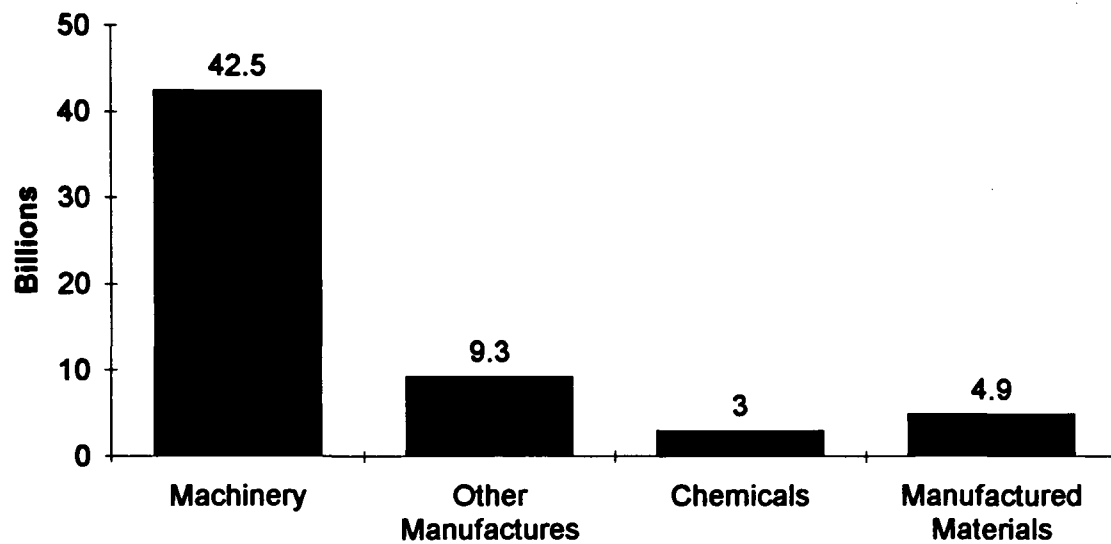
Exports to Mexico and Employment in the United States

- At the 1993 pace of exports to Mexico, some 769,800 workers in the United States were employed producing products ultimately destined for Mexico.
- The bulk of these 769,800 jobs in the United States are relatively high-wage jobs. Depending on the estimate, typical export-sector jobs pay between 10 and 20 percent more than the average American job.
- The number of workers in the United States employed producing and distributing exports to Mexico has grown by 184 percent since 1987. Since 1987, the expansion of U.S. exports to Mexico has led to the employment of an additional 498,300 in the export sector in the United States.
- A serious economic crisis in Mexico would limit its ability to continue purchasing American goods and services at its current pace, placing the United States export-related jobs at risk.

What If the Crisis Spreads?

- Over the last five years, U.S. exports to emerging markets have grown by more than sixty percent: U.S. manufactured goods exports to emerging markets are more than \$60 billion a year greater than in the late 1980s.

Growth 1989-1993 in U.S. Manufactures Exports to Emerging Markets



- U.S. exports to other emerging markets are almost three times the size of U.S. exports to Mexico.
- A spread of the Mexican peso crisis would damage the economies of other emerging markets, and reduce their demand for U.S. exports.

America's Stake in the Mexican Loan Guarantee Program

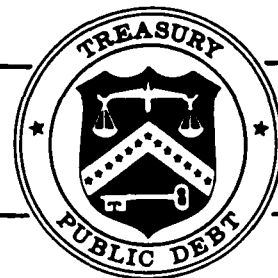
State	Exports to Mexico, 1987 (millions)	Exports to Mexico, 1993 (millions)	Export Growth, 1987- 1993*	Employment Supported by Exports to Mexico, 1987	Employment Supported by Exports to Mexico, 1993	Employment Growth 1987 to 1993
United States	\$14,505	\$41,130	184%	271,500	769,800	498,300
Alabama	\$64	\$202	215%	1,200	3,800	2,600
Alaska	\$.5	\$.7	25%	(a)	(a)	(a)
Arizona	\$569	\$1,185	108%	10,700	22,200	11,500
Arkansas	\$19	\$75	298%	300	1,400	1,100
California	\$2,256	\$5,578	147%	42,200	104,400	62,200
Colorado	\$255	\$659	158%	4,800	12,300	7,500
Connecticut	\$124	\$365	195%	2,300	6,800	4,500
Delaware	\$105	\$173	66%	1,900	3,200	1,300
Florida	\$337	\$838	149%	6,300	15,700	9,400
Georgia	\$61	\$353	480%	1,100	6,600	5,500
Hawaii	\$.2	\$.3	56%	(a)	(a)	(a)
Idaho	\$4	\$39	834%	100	700	600
Illinois	\$340	\$1,487	337%	6,400	27,800	21,400
Indiana	\$659	\$1,273	93%	12,300	23,800	11,500
Iowa	\$21	\$85	305%	400	1,600	1,200
Kansas	\$100	\$204	104%	1,900	3,800	1,900
Kentucky	\$58	\$207	259%	1,100	3,900	2,800
Louisiana	\$32	\$67	111%	500	1,200	700
Maine	\$1	\$32	3664%	(a)	600	600
Maryland	\$50	\$105	108%	1,000	2,000	1,000
Massachusetts	\$103	\$408	296%	1,900	7,600	5,700
Michigan	\$1,046	\$6,138	487%	19,600	114,900	95,300
Minnesota	\$158	\$250	59%	3,000	4,700	1,700
Mississippi	\$22	\$27	24%	400	500	100
Missouri	\$254	\$589	132%	4,700	11,000	6,300
Montana	\$.1	\$1.4	1250%	(a)	(a)	(a)

State	Exports to Mexico, 1987 (millions)	Exports to Mexico, 1993 (millions)	Export Growth, 1987-1993	Employment Supported by Exports to Mexico, 1987	Employment Supported by Exports to Mexico, 1993	Employment Growth 1987 to 1993
Nebraska	\$14	\$67	387%	200	1,200	1,000
Nevada	\$4	\$14	237%	100	300	200
New Hampshire	\$7	\$44	493%	100	800	700
New Jersey	\$200	\$860	331%	3,700	16,100	12,400
New Mexico	\$6	\$116	1734%	(a)	2,200	2,200
New York	\$666	\$1,277	92%	12,500	23,900	11,400
North Carolina	\$67	\$398	492%	1,200	7,400	6,200
North Dakota	\$6	\$3	-48%	100	100	(a)
Ohio	\$363	\$999	175%	6,800	18,700	11,900
Oklahoma	\$23	\$172	646%	400	3,200	2,800
Oregon	\$17	\$119	607%	300	2,200	1,900
Pennsylvania	\$249	\$684	175%	4,700	12,800	8,100
Rhode Island	\$13	\$40	220%	300	800	500
South Carolina	\$27	\$319	1070%	500	6,000	5,500
South Dakota	\$1	\$4	731%	(a)	100	100
Tennessee	\$113	\$708	524%	2,100	13,200	11,100
Texas	\$5,830	\$14,022	141%	109,100	262,400	153,300
Utah	\$37	\$33	-11%	700	600	(a)
Vermont	\$2	\$13	731%	(a)	200	200
Virginia	\$44	\$329	647%	900	6,200	5,300
Washington	\$83	\$227	173%	1,500	4,200	2,700
West Virginia	\$22	\$23	4%	400	400	(a)
Wisconsin	\$72	\$314	333%	1,400	5,900	4,500
Wyoming	\$1	\$5	346%	(a)	100	100
Puerto Rico	\$33	\$141	326%	600	2,600	2,000

*Computed from unrounded data.
(a) Less than 100.

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE

January 23, 1995

Contact: Peter Hollenbach

(202) 219-3302

PUBLIC DEBT STREAMLINES SUBSCRIPTION PROCEDURES FOR STATE AND LOCAL GOVERNMENT SERIES SECURITIES

Treasury's Bureau of the Public Debt moved to improve customer service by streamlining the procedures for purchasing State and Local Government Series Securities (SLGS). Public Debt announced that investors in these special securities, available only to State and local government entities, will now have a single service center for subscriptions and other transactions at the Bureau's operations center in Parkersburg, West Virginia. Subscriptions for SLGS requesting issue dates of January 30, 1995 or later should be sent directly to Public Debt in Parkersburg.

For the first time, investors will be able to telefax their subscriptions directly to the Bureau's Division of Special Investments in Parkersburg instead of delivering their subscriptions to one of 12 Federal Reserve Offices that are now designated to process SLG purchases. The introduction of the telefax option makes SLG purchase more convenient for investors while allowing Public Debt staff to process securities issues more promptly.

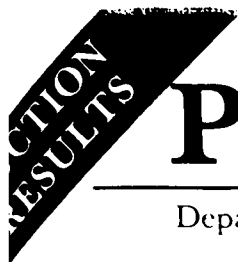
Investors will pay for the securities by directing their financial institutions to transfer the funds by FedWire directly to Public Debt. This change eliminates a process where payment was effected by charge to the Reserve account of a financial institution.

State and local governments hold more than \$132 billion of these special non-marketable securities. State and Local Government Series securities are designed to allow State and local government entities to invest excess funds with the U.S. Government while complying with IRS arbitrage rules. The new procedures are described in 31 CFR Part 344 and appear in today's Federal Register.

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PA 173

(RR-016)



PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 23, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,410 million of 13-week bills to be issued January 26, 1995 and to mature April 27, 1995 were accepted today (CUSIP: 912794R71).

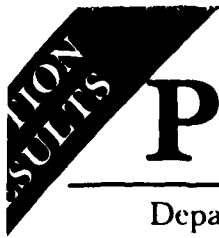
RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	5.77%	5.94%	98.541
High	5.80%	5.97%	98.534
Average	5.80%	5.97%	98.534

Tenders at the high discount rate were allotted 69%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$46,332,111	\$13,409,896
Type		
Competitive	\$40,894,912	\$7,972,697
Noncompetitive	<u>1,266,499</u>	<u>1,266,499</u>
Subtotal, Public	\$42,161,411	\$9,239,196
Federal Reserve	3,181,500	3,181,500
Foreign Official		
Institutions	<u>989,200</u>	<u>989,200</u>
TOTALS	\$46,332,111	\$13,409,896



PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 23, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,465 million of 26-week bills to be issued January 26, 1995 and to mature July 27, 1995 were accepted today (CUSIP: 912794S96).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	6.23%	6.52%	96.850
High	6.24%	6.53%	96.845
Average	6.24%	6.53%	96.845

\$1,250,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 77%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$55,337,045	\$13,465,456
Type		
Competitive	\$49,746,808	\$7,875,219
Noncompetitive	<u>1,284,137</u>	<u>1,284,137</u>
Subtotal, Public	\$51,030,945	\$9,159,356
Federal Reserve	3,100,000	3,100,000
Foreign Official		
Institutions	<u>1,206,100</u>	<u>1,206,100</u>
TOTALS	\$55,337,045	\$13,465,456

The United States Mint

Mint News



From the Office of Public Affairs

Washington, D.C. 20220

FOR IMMEDIATE RELEASE
JANUARY 24, 1995

FOR FURTHER INFORMATION:
DONALD R. NICHOLS (202) 874-6450

MINT CUSTOMER SERVICE CENTER INTRODUCES AUTOMATED VOICE RESPONSE TELEPHONE SYSTEM

- New Telephone Number for Mint Customers -
- Is (202) 283-COIN -

On January 30 the U.S. Mint will activate a new voice response telephone system at its Customer Service Center in Lanham, MD, as part of what Mint Director Philip N. Diehl calls "a continuing wave of customer service improvements that started last year." The new phone number will be (202) 283-COIN.

"Customers will discover two things," said Director Diehl. "One, we have a new phone number. Two, they will encounter a more sophisticated level of interaction."

Beginning January 30, customers can use touch-tone telephones for 24-hour access to a five-option main menu on Mint's automated voice response system.

Callers may press [1] for general information about the Mint; [2] for information regarding annual Proof, Uncirculated, Silver Proof, American Eagle Bullion Coin Programs or medals; [3] to hear information about current commemorative coin programs; [4] to update or add their names to the Mint's mailing list using an interactive voice-address form; and [5] to receive literature or an order form for a particular coin.

Customers also will have the option of speaking with a customer service specialist during normal business hours or leave a call-back request if they phone after normal business hours or if all specialists are attending other callers.

"Upgrading our telephone system is a top priority, and we plan to shift this system to an 800 number by the end of 1995," Mr. Diehl added. "Last year we pledged to make major improvements in customer service, and better phone service won't be the only changes we're making this year to honor that pledge."

- over -

Among customer service improvements implemented in 1994, he cited:

- o Reducing turnaround time for filling orders from 50 percent filled in eight weeks to more than 95 percent in four weeks
- o Liberalizing cancellation and return policies
- o Implementing one-stop customer service at Matland

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TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

January 24, 1995

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of December 1994.

As indicated in this table, U.S. reserve assets amounted to \$74,335 million at the end of December 1994, up from \$74,000 million in November 1994.

U.S. Reserve Assets (in millions of dollars)					
End of Month	Total Reserve Assets	Gold Stock <u>1/</u>	Special Drawing Rights <u>2/3/</u>	Foreign Currencies <u>4/</u>	Reserve Position in IMF <u>2/</u>
<u>1994</u>					
November	74,000	11,052	10,017	40,894	12,037
December	74,335	11,051	10,039	41,215	12,030

1/ Valued at \$42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Valued at current market exchange rates.



DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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January 24, 1995

TREASURY'S OFFICE OF FOREIGN ASSETS CONTROL IMPLEMENTS EXECUTIVE ORDER #12947 (List of Terrorist Organizations and Individuals whose Assets has been blocked)

RR-021





DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Treasury's Office of Foreign Assets Control Implements E.O. 12947

The following bulletin was sent out by Fedwire to all on-line financial institutions before the opening of business on January 24, 1995 and electronically echoed across the United States through various Clearing Houses, banking organizations, and computer bulletin boards between 06:30 a.m. Eastern Standard Time and 08:30 a.m. Eastern Standard Time:

["FOR IMMEDIATE ATTENTION--A BULLETIN FROM THE OFFICE OF FOREIGN ASSETS CONTROL"]

PRES. CLINTON HAS SIGNED AN EXECUTIVE ORDER "PROHIBITING TRANSACTIONS WITH TERRORISTS WHO THREATEN TO DISRUPT THE MIDDLE EAST PEACE PROCESS." TREASURY'S OFFICE OF FOREIGN ASSETS CONTROL HAS, THEREFORE, ADDED VARIATIONS ON THE NAMES OF 12 MIDDLE EAST TERRORIST ORGANIZATIONS AND 18 INDIVIDUALS TO ITS LISTING OF SPECIALLY DESIGNATED NATIONALS AND BLOCKED PERSONS AS "[SDT]s"--SPECIALLY DESIGNATED TERRORISTS. ALL OF THEIR PROPERTY AND PROPERTY INTERESTS, INCLUDING ACCOUNTS AND FUNDS TRANSFERS, ARE BLOCKED. FINANCIAL INSTITUTIONS SHOULD URGENTLY CHECK USUAL COMPUTER BULLETIN BOARDS FOR DETAILS. THE INFORMATION HAS ALSO BEEN FILED WITH AND WILL BE AVAILABLE IN PRINTED FORMAT IN THE FEDERAL REGISTER. QUESTIONS, CALL OFAC COMPLIANCE AT 202/622-2490.

COMPL 95300]

The actual listings follow:

[SDT] Organizations -

ABU NIDAL ORGANIZATION (a.k.a. ANO; a.k.a. BLACK SEPTEMBER; a.k.a. FATAH REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY BRIGADES; a.k.a. REVOLUTIONARY ORGANIZATION OF SOCIALIST MUSLIMS) Libya; Lebanon; Algeria; Sudan; Iraq [SDT]

AL-GAMA'A AL-ISLAMIYYA (a.k.a. ISLAMIC GAMA'AT; a.k.a. GAMA'AT; a.k.a. GAMA'AT AL-ISLAMIYYA; a.k.a. THE ISLAMIC GROUP), Egypt [SDT]

AL-JIHAD (a.k.a. JIHAD GROUP; a.k.a. VANGUARDS OF CONQUEST; a.k.a. TALAA'AL AL-FATEH), Egypt [SDT]

ANO (a.k.a. ABU NIDAL ORGANIZATION; a.k.a. BLACK SEPTEMBER; a.k.a. FATAH REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY

COUNCIL; a.k.a. ARAB REVOLUTIONARY BRIGADES; a.k.a. REVOLUTIONARY ORGANIZATION OF SOCIALIST MUSLIMS), Libya; Lebanon; Algeria; Sudan; Iraq [SDT]

ANSAR ALLAH (a.k.a. PARTY OF GOD; a.k.a. HIZBALLAH; a.k.a. ISLAMIC JIHAD; a.k.a. REVOLUTIONARY JUSTICE ORGANIZATION; a.k.a. ORGANIZATION OF THE OPPRESSED ON EARTH; a.k.a. ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE; a.k.a. FOLLOWERS OF THE PROPHET MUHAMMAD), Lebanon [SDT]

ARAB REVOLUTIONARY BRIGADES (a.k.a. ANO; a.k.a. ABU NIDAL ORGANIZATION; a.k.a. BLACK SEPTEMBER; a.k.a. FATAH REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY COUNCIL; a.k.a. REVOLUTIONARY ORGANIZATION OF SOCIALIST MUSLIMS), Libya; Lebanon; Algeria; Sudan; Iraq [SDT]

ARAB REVOLUTIONARY COUNCIL (a.k.a. ANO; a.k.a. ABU NIDAL ORGANIZATION; a.k.a. BLACK SEPTEMBER; a.k.a. FATAH REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY BRIGADES; a.k.a. REVOLUTIONARY ORGANIZATION OF SOCIALIST MUSLIMS), Libya; Lebanon; Algeria; Sudan; Iraq [SDT]

BLACK SEPTEMBER (a.k.a. ANO; a.k.a. ABU NIDAL ORGANIZATION; a.k.a. FATAH REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY BRIGADES; a.k.a. REVOLUTIONARY ORGANIZATION OF SOCIALIST MUSLIMS), Libya; Lebanon; Algeria; Sudan; Iraq [SDT]

DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE (a.k.a. DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE - HAWATMEH FACTION; a.k.a. DFLP), Lebanon; Syria; Israel [SDT]

DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE - HAWATMEH FACTION (a.k.a. DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE; a.k.a. DFLP), Lebanon; Syria; Israel [SDT]

DFLP (a.k.a. DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE - HAWATMEH FACTION; a.k.a. DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE), Lebanon; Syria; Israel [SDT]

FATAH REVOLUTIONARY COUNCIL (a.k.a. ANO; a.k.a. ABU NIDAL ORGANIZATION; a.k.a. BLACK SEPTEMBER; a.k.a. ARAB REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY BRIGADES; a.k.a. REVOLUTIONARY ORGANIZATION OF SOCIALIST MUSLIMS), Libya; Lebanon; Algeria; Sudan; Iraq [SDT]

FOLLOWERS OF THE PROPHET MUHAMMAD (a.k.a. PARTY OF GOD; a.k.a. HIZBALLAH; a.k.a. ISLAMIC JIHAD; a.k.a. REVOLUTIONARY JUSTICE ORGANIZATION; a.k.a. ORGANIZATION OF THE OPPRESSED ON EARTH; a.k.a. ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE; a.k.a. ANSAR ALLAH), Lebanon [SDT]

GAMA'AT (a.k.a. ISLAMIC GAMA'AT; a.k.a. GAMA'AT AL-ISLAMIYYA; a.k.a. THE ISLAMIC GROUP; a.k.a. AL-GAMA'A AL-ISLAMIYYA), Egypt [SDT]

GAMA'AT AL-ISLAMIYYA (a.k.a. ISLAMIC GAMA'AT; a.k.a. GAMA'AT; a.k.a. THE ISLAMIC GROUP; a.k.a. AL-GAMA'A AL-ISLAMIYYA), Egypt [SDT]

HAMAS (a.k.a. ISLAMIC RESISTANCE MOVEMENT), Gaza; West Bank Territories; Jordan [SDT]

HIZBALLAH (a.k.a. PARTY OF GOD; a.k.a. ISLAMIC JIHAD; a.k.a. REVOLUTIONARY JUSTICE ORGANIZATION; a.k.a. ORGANIZATION OF THE OPPRESSED ON EARTH; a.k.a. ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE; a.k.a. ANSAR ALLAH; a.k.a. FOLLOWERS OF THE PROPHET MUHAMMAD), Lebanon [SDT]

ISLAMIC GAMA'AT (a.k.a. GAMA'AT; a.k.a. GAMA'AT AL-ISLAMIYYA; a.k.a. THE ISLAMIC GROUP; a.k.a. AL-GAMA'A AL-ISLAMIYYA), Egypt [SDT]

ISLAMIC JIHAD (a.k.a. PARTY OF GOD; a.k.a. HIZBALLAH; a.k.a. REVOLUTIONARY JUSTICE ORGANIZATION; a.k.a. ORGANIZATION OF THE OPPRESSED ON EARTH; a.k.a. ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE; a.k.a. ANSAR ALLAH; a.k.a. FOLLOWERS OF THE PROPHET MUHAMMAD), Lebanon [SDT]

ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE (a.k.a. PARTY OF GOD; a.k.a. HIZBALLAH; a.k.a. ISLAMIC JIHAD; a.k.a. REVOLUTIONARY JUSTICE ORGANIZATION; a.k.a. ORGANIZATION OF THE OPPRESSED ON EARTH; a.k.a. ANSAR ALLAH; a.k.a. FOLLOWERS OF THE PROPHET MUHAMMAD), Lebanon [SDT]

ISLAMIC JIHAD OF PALESTINE (a.k.a. PIJ; a.k.a. PALESTINIAN ISLAMIC JIHAD - SHIQAQI; a.k.a. PIJ SHIQAQI/AWDA FACTION; a.k.a. PALESTINIAN ISLAMIC JIHAD), Israel; Jordan; Lebanon [SDT]

ISLAMIC RESISTANCE MOVEMENT (a.k.a. HAMAS), Gaza; West Bank Territories; Jordan [SDT]

JIHAD GROUP (a.k.a. AL-JIHAD; a.k.a. VANGUARDS OF CONQUEST; a.k.a. TALAA'AL AL-FATEH), Egypt [SDT]

KACH; Israel [SDT]

KAHANE CHAI, Israel [SDT]

ORGANIZATION OF THE OPPRESSED ON EARTH (a.k.a. PARTY OF GOD, a.k.a. HIZBALLAH; a.k.a. ISLAMIC JIHAD; a.k.a. REVOLUTIONARY JUSTICE ORGANIZATION; a.k.a. ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE; a.k.a. ANSAR ALLAH; a.k.a. FOLLOWERS OF THE PROPHET MUHAMMAD), Lebanon [SDT]

PALESTINE LIBERATION FRONT (a.k.a. PALESTINE LIBERATION FRONT - ABU ABBAS FACTION; a.k.a. PLF-ABU ABBAS; a.k.a. PLF), Iraq [SDT]

PALESTINE LIBERATION FRONT - ABU ABBAS FACTION (a.k.a. PLF-ABU ABBAS; a.k.a. PLF; a.k.a. PALESTINE LIBERATION FRONT), Iraq [SDT]

PALESTINIAN ISLAMIC JIHAD - SHIQAQI (a.k.a. PIJ; a.k.a. ISLAMIC JIHAD OF PALESTINE; a.k.a. PIJ SHIQAQI/AWDA FACTION; a.k.a. PALESTINIAN ISLAMIC JIHAD), Israel; Jordan; Lebanon [SDT]

PARTY OF GOD (a.k.a. HIZBALLAH; a.k.a. ISLAMIC JIHAD; a.k.a. REVOLUTIONARY JUSTICE ORGANIZATION; a.k.a. ORGANIZATION OF THE OPPRESSED ON EARTH; a.k.a. ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE; a.k.a. ANSAR ALLAH; a.k.a. FOLLOWERS OF THE PROPHET MUHAMMAD), Lebanon [SDT]

PFLP (a.k.a. POPULAR FRONT FOR THE LIBERATION OF PALESTINE), Lebanon; Syria; Israel [SDT]

PFLP-GC (a.k.a. POPULAR FRONT FOR THE LIBERATION OF PALESTINE - GENERAL COMMAND), Lebanon; Syria; Jordan [SDT]

PIJ (a.k.a. PALESTINIAN ISLAMIC JIHAD - SHIQAQI; a.k.a. ISLAMIC JIHAD OF PALESTINE; a.k.a. PIJ SHIQAQI/AWDA FACTION; a.k.a. PALESTINIAN ISLAMIC JIHAD), Israel; Jordan; Lebanon [SDT]

PIJ SHIQAQI/AWDA FACTION (a.k.a. PIJ; a.k.a. PALESTINIAN ISLAMIC JIHAD - SHIQAQI; a.k.a. ISLAMIC JIHAD OF PALESTINE; a.k.a. PALESTINIAN ISLAMIC JIHAD), Israel; Jordan; Lebanon [SDT]

PLF (a.k.a. PLF-ABU ABBAS; a.k.a. PALESTINE LIBERATION FRONT - ABU ABBAS FACTION; a.k.a. PALESTINE LIBERATION FRONT), Iraq [SDT]

PLF-ABU ABBAS (a.k.a. PALESTINE LIBERATION FRONT - ABU ABBAS FACTION; a.k.a. PLF; a.k.a. PALESTINE LIBERATION FRONT), Iraq [SDT]

POPULAR FRONT FOR THE LIBERATION OF PALESTINE (a.k.a. PFLP), Lebanon; Syria; Israel [SDT]

POPULAR FRONT FOR THE LIBERATION OF PALESTINE - GENERAL COMMAND (a.k.a. PFLP-GC), Lebanon; Syria; Jordan [SDT]

REVOLUTIONARY JUSTICE ORGANIZATION (a.k.a. PARTY OF GOD; a.k.a. HIZBALLAH; a.k.a. ISLAMIC JIHAD; a.k.a. ORGANIZATION OF THE OPPRESSED ON EARTH; a.k.a. ISLAMIC JIHAD FOR THE LIBERATION OF PALESTINE; a.k.a. ANSAR ALLAH; a.k.a. FOLLOWERS OF THE PROPHET MUHAMMAD), Lebanon [SDT]

REVOLUTIONARY ORGANIZATION OF SOCIALIST MUSLIMS (a.k.a. ANO; a.k.a. ABU NIDAL ORGANIZATION; a.k.a. BLACK SEPTEMBER; a.k.a. FATAH REVOLUTIONARY COUNCIL; a.k.a. ARAB REVOLUTIONARY COUNCIL;

a.k.a. ARAB REVOLUTIONARY BRIGADES), Libya; Lebanon; Algeria; Sudan; Iraq [SDT]

TALAA'AL AL-FATEH (a.k.a. JIHAD GROUP; a.k.a. AL-JIHAD; a.k.a. VANGUARDS OF CONQUEST), Egypt [SDT]

THE ISLAMIC GROUP (a.k.a. ISLAMIC GAMA'AT; a.k.a. GAMA'AT; a.k.a. GAMA'AT AL-ISLAMIYYA; a.k.a. AL-GAMA'A AL-ISLAMIYYA), Egypt [SDT]

VANGUARDS OF CONQUEST (a.k.a. JIHAD GROUP; a.k.a. AL-JIHAD; a.k.a. TALAA'AL AL-FATEH), Egypt [SDT]

[SDT] Individuals -

ABBAS, Abu (a.k.a. ZAYDAN, Muhammad); Director of PALESTINE LIBERATION FRONT - ABU ABBAS FACTION; DOB 10 Dec 1948 (individual) [SDT]

AL BANNA, Sabri Khalil Abd Al Qadir (a.k.a. NIDAL, Abu); Founder and Secretary General of ABU NIDAL ORGANIZATION; DOB May 1937 or 1940; POB Jaffa, Israel (individual) [SDT]

AL RAHMAN, Shaykh Umar Abd; Chief Ideological Figure of ISLAMIC GAMA'AT; DOB 03 May 1938; POB Egypt (individual) [SDT]

AL ZAWAHIRI, Dr. Ayman; Operational and Military Leader of JIHAD GROUP; DOB 19 Jun 1951; POB Giza, Egypt; Passport No. 1084010 (Egypt) (individual) [SDT]

AL-ZUMAR, Abbud (a.k.a. ZUMAR, Colonel Abbud); Factional Leader of JIHAD GROUP; Egypt; POB Egypt (individual) [SDT]

AWDA, Abd Al Aziz; Chief Ideological Figure of PALESTINIAN ISLAMIC JIHAD - SHIQAQI; DOB 1946 (individual) [SDT]

FADLALLAH, Shaykh Muhammad Husayn; Leading Ideological Figure of HIZBALLAH; DOB 1938 or 1936; POB Najf Al Ashraf (Najaf), Iraq (individual) [SDT]

HABASH, George (a.k.a. HABBASH, George); Secretary General of POPULAR FRONT FOR THE LIBERATION OF PALESTINE (individual) [SDT]

HABBASH, George (a.k.a. HABASH, George); Secretary General of POPULAR FRONT FOR THE LIBERATION OF PALESTINE (individual) [SDT]

HAWATMA, Nayif (a.k.a. HAWATMEH, Nayif; a.k.a. HAWATMAH, Nayif; a.k.a. KHALID, Abu); Secretary General of DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE - HAWATMEH FACTION; DOB 1933 (individual) [SDT]

HAWATMAH, Nayif (a.k.a. HAWATMA, Nayif; a.k.a. HAWATMEH, Nayif; a.k.a. KHALID, Abu); Secretary General of DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE - HAWATMEH FACTION; DOB 1933 (individual) [SDT]

HAWATMEH, Nayif (a.k.a. HAWATMA, Nayif; a.k.a. HAWATMAH, Nayif; a.k.a. KHALID, Abu); Secretary General of DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE - HAWATMEH FACTION; DOB 1933 (individual) [SDT]

ISLAMBOULI, Mohammad Shawqi; Military Leader of ISLAMIC GAMA'AT; DOB 15 Jan 1955; POB Egypt; Passport No. 304555 (Egypt) (individual) [SDT]

JABRIL, Ahmad (a.k.a. JIBRIL, Ahmad); Secretary General of POPULAR FRONT FOR THE LIBERATION OF PALESTINE - GENERAL COMMAND; DOB 1938; POB Ramleh, Israel (individual) [SDT]

JIBRIL, Ahmad (a.k.a. JABRIL, Ahmad); Secretary General of POPULAR FRONT FOR THE LIBERATION OF PALESTINE - GENERAL COMMAND; DOB 1938; POB Ramleh, Israel (individual) [SDT]

KHALID, Abu (a.k.a. HAWATMEH, Nayif; a.k.a. HAWATMA, Nayif; a.k.a. HAWATMAH, Nayif); Secretary General of DEMOCRATIC FRONT FOR THE LIBERATION OF PALESTINE - HAWATMEH FACTION; DOB 1933 (individual) [SDT]

MUGHNIYAH, Imad Fa'iz (a.k.a. MUGHNIYAH, Imad Fayiz); Senior Intelligence Officer of HIZBALLAH; DOB 07 Dec 1962; POB Tayr Dibba, Lebanon; Passport No. 432298 (Lebanon) (individual) [SDT]

MUGHNIYAH, Imad Fayiz (a.k.a. MUGHNIYAH, Imad Fa'iz); Senior Intelligence Officer of HIZBALLAH; DOB 07 Dec 1962; POB Tayr Dibba, Lebanon; Passport No. 432298 (Lebanon) (individual) [SDT]

NAJI, Talal Muhammad Rashid; Principal Deputy of POPULAR FRONT FOR THE LIBERATION OF PALESTINE - GENERAL COMMAND; DOB 1930; POB Al Nasiria, Palestine (individual) [SDT]

NASRALLAH, Hasan; Secretary General of HIZBALLAH; DOB 31 Aug 1960 or 1953 or 1955 or 1958; POB Al Basuriyah, Lebanon; Passport No. 042833 (Lebanon) (individual) [SDT]

NIDAL, Abu (a.k.a. AL BANNA, Sabri Khalil Abd Al Qadir); Founder and Secretary General of ABU NIDAL ORGANIZATION; DOB May 1937 or 1940; POB Jaffa, Israel (individual) [SDT]

QASEM, Talat Fouad; Propaganda Leader of ISLAMIC GAMA'AT; DOB 02 Jun 1957 or 03 Jun 1957; POB Al Mina, Egypt (individual) [SDT]

SHAQAQI, Fathi; Secretary General of PALESTINIAN ISLAMIC JIHAD - SHIQAQI (individual) [SDT]

TUFAYLI, Subhi; Former Secretary General and Current Senior Figure of HIZBALLAH; DOB 1947; POB Biqa Valley, Lebanon (individual) [SDT]

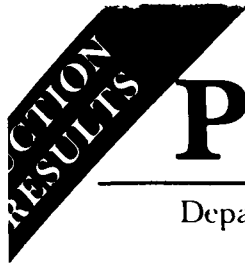
YASIN, Shaykh Ahmad; Founder and Chief Ideological Figure of HAMAS; DOB 1931 (individual) [SDT]

ZAYDAN, Muhammad (a.k.a. ABBAS, Abu); Director of PALESTINE LIBERATION FRONT - ABU ABBAS FACTION; DOB 10 Dec 1948 (individual) [SDT]

ZUMAR, Colonel Abbud (a.k.a. AL-ZUMAR, Abbud); Factional Leader of JIHAD GROUP; Egypt; POB Egypt (individual) [SDT]

[01-24-95]

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PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 24, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for \$17,257 million of 2-year notes, Series Z-1997, to be issued January 31, 1995 and to mature January 31, 1997 were accepted today (CUSIP: 912827S52).

The interest rate on the notes will be 7 1/2%. All competitive tenders at yields lower than 7.57% were accepted in full. Tenders at 7.57% were allotted 77%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 7.57%, with an equivalent price of 99.872. The median yield was 7.55%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 7.52%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$50,277,411	\$17,257,214

The \$17,257 million of accepted tenders includes \$2,165 million of noncompetitive tenders and \$15,092 million of competitive tenders from the public.

In addition, \$998 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$375 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
January 24, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$26,800 million, to be issued February 2, 1995. This offering will provide about \$300 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$26,498 million.

Federal Reserve Banks hold \$6,973 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$1,985 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment



**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED FEBRUARY 2, 1995**

		January 24, 1995
<u>Offering Amount</u>	\$13,400 million	\$13,400 million
<u>Description of Offering:</u>		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R8 9	912794 U3 6
Auction date	January 30, 1995	January 30, 1995
Issue date	February 2, 1995	February 2, 1995
Maturity date	May 4, 1995	August 3, 1995
Original issue date	May 5, 1994	February 2, 1995
Currently outstanding	\$30,643 million	- - -
Minimum bid amount	\$10,000	\$10,000
Multiples	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- | | |
|-------------------------------|--|
| Noncompetitive bids | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids |
| Competitive bids | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. |
| | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
| | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders. |

**Maximum Recognized Bid
at a Single Yield**

35% of public offering

Maximum Award 35% of public offering

Receipt of Tenders:

- | | |
|----------------------------------|--|
| Noncompetitive tenders | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders | Prior to 1:00 p.m. Eastern Standard time on auction day |

Payment Terms Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date



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Monthly Treasury Statement

of Receipts and Outlays
of the United States Government

For Fiscal Year 1995 Through December 31, 1994, and Other Periods

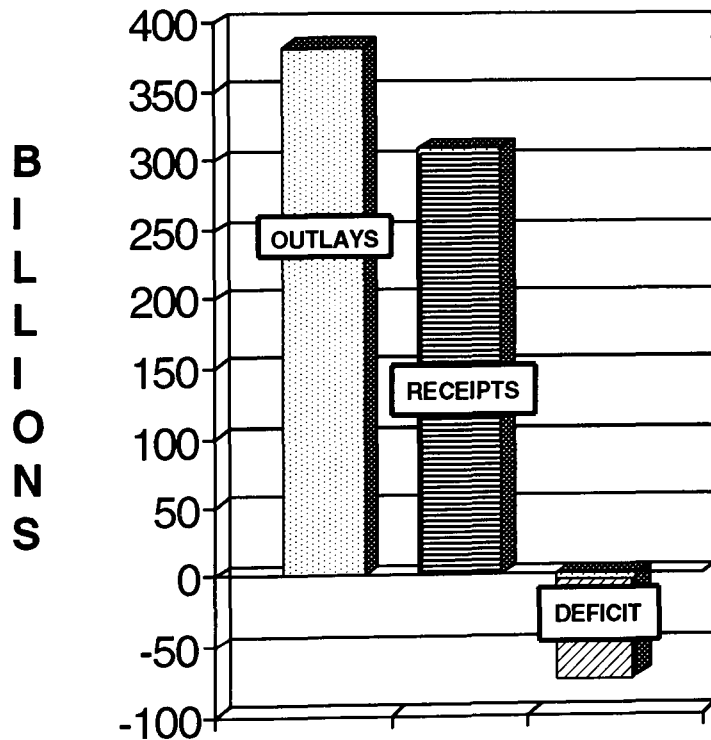
RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT

Highlight

Military active duty pay, veterans benefits, and supplemental security income payments for January 1, 1995 were accelerated to December 30, 1994.

This issue includes the semi-annual interest payment to trust funds investing in government securities.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH DECEMBER 1994



Contents

- Summary, page 2
- Receipts, page 6
- Outlays, page 7
- Means of financing, page 20
- Receipts/outlays by month, page 26
- Federal trust funds/securities, page 28
- Receipts by source/outlays by function, page 29
- Explanatory notes, page 30

Compiled and Published by

Department of the Treasury
Financial Management Service



Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds

of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*.

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1994 and 1995, by Month

[\$ millions]			
Period	Receipts	Outlays	Deficit/Surplus (-)
FY 1994			
October	78,662	124,085	45,422
November	83,102	121,483	38,381
December	125,403	133,108	7,705
January	122,961	107,713	-15,248
February	73,186	114,752	41,566
March	193,107	125,422	32,315
April	141,321	123,867	-17,454
May	83,541	115,597	32,057
June	138,119	123,269	-14,850
July	84,822	118,020	33,198
August	97,333	121,617	24,284
September	135,895	132,133	-3,762
Year-to-Date	1,257,452	1,461,067	203,615
FY 1995			
October	89,024	121,480	32,457
November	87,673	125,131	37,458
December	130,810	134,874	4,063
Year-to-Date	307,507	381,485	73,979

¹The receipts and outlays in March 1994 have been decreased by \$1 million to reflect the reclassification of intrabudgetary transactions previously reported as governmental receipts for the "Wildlife Conservation and Appreciation Fund".

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, December 1994 and Other Periods

[\$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year ¹	Prior Fiscal Year to Date (1994)	Budget Estimates Next Fiscal Year (1996) ¹
Total on-budget and off-budget results:					
Total receipts	130,810	307,507	1,354,333	287,167	1,425,699
On-budget receipts	103,860	231,327	1,000,459	214,262	1,052,086
Off-budget receipts	26,950	76,179	353,874	72,905	373,613
Total outlays	134,874	381,485	1,521,447	378,676	1,604,939
On-budget outlays	123,491	318,262	1,229,419	318,707	1,298,044
Off-budget outlays	11,382	63,224	292,028	59,969	306,895
Total surplus (+) or deficit (-)	-4,063	-73,979	-167,114	-91,509	-179,240
On-budget surplus (+) or deficit (-)	-19,631	-86,934	-228,960	-104,445	-245,958
Off-budget surplus (+) or deficit (-)	+15,568	+12,956	+61,846	+12,936	+66,718
Total on-budget and off-budget financing	4,063	73,979	167,114	91,509	179,240
Means of financing:					
Borrowing from the public	-13,316	59,669	175,699	88,731	192,078
Reduction of operating cash, increase (-)	476	9,362	.....	2,783	.....
By other means	16,904	4,948	-8,585	-6	-12,838

¹These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

... No Transactions.
Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1993 and 1994

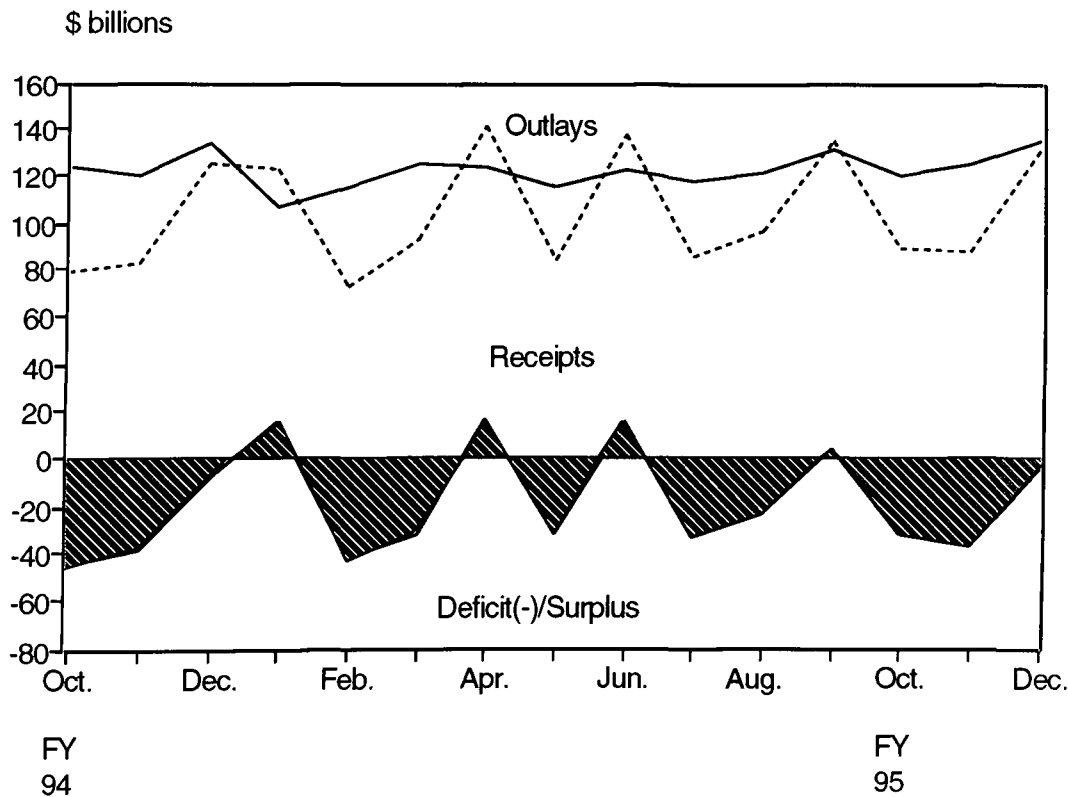


Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1994 and 1995

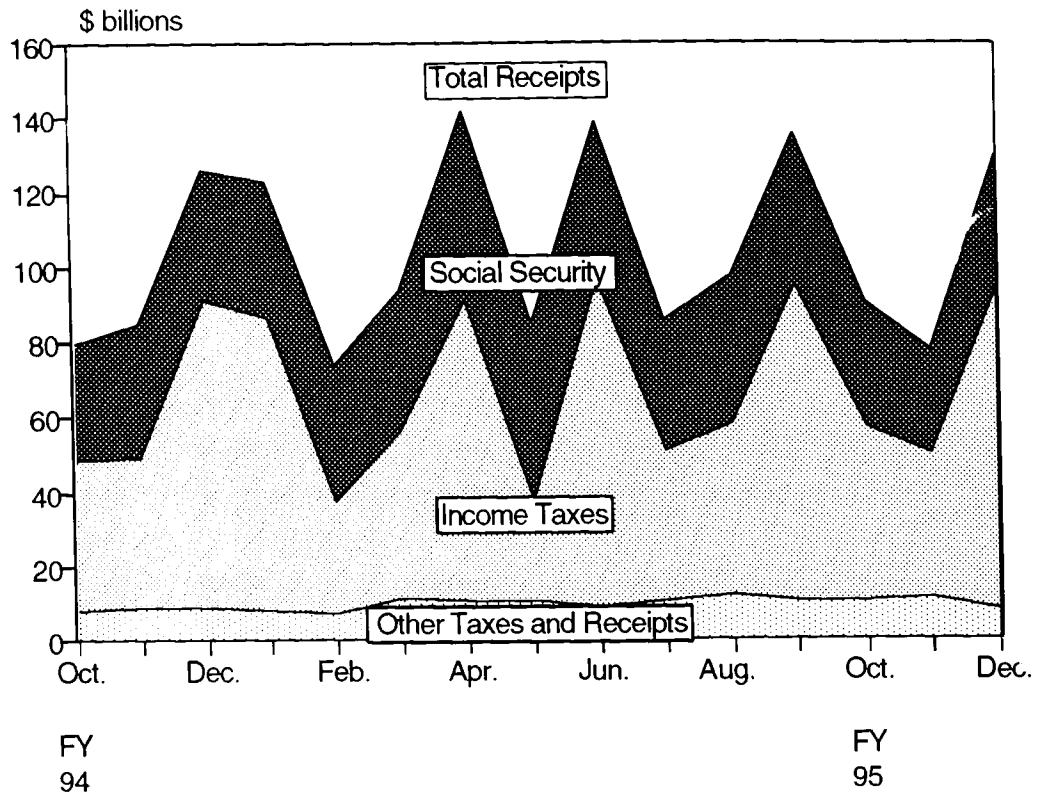


Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1994 and 1995

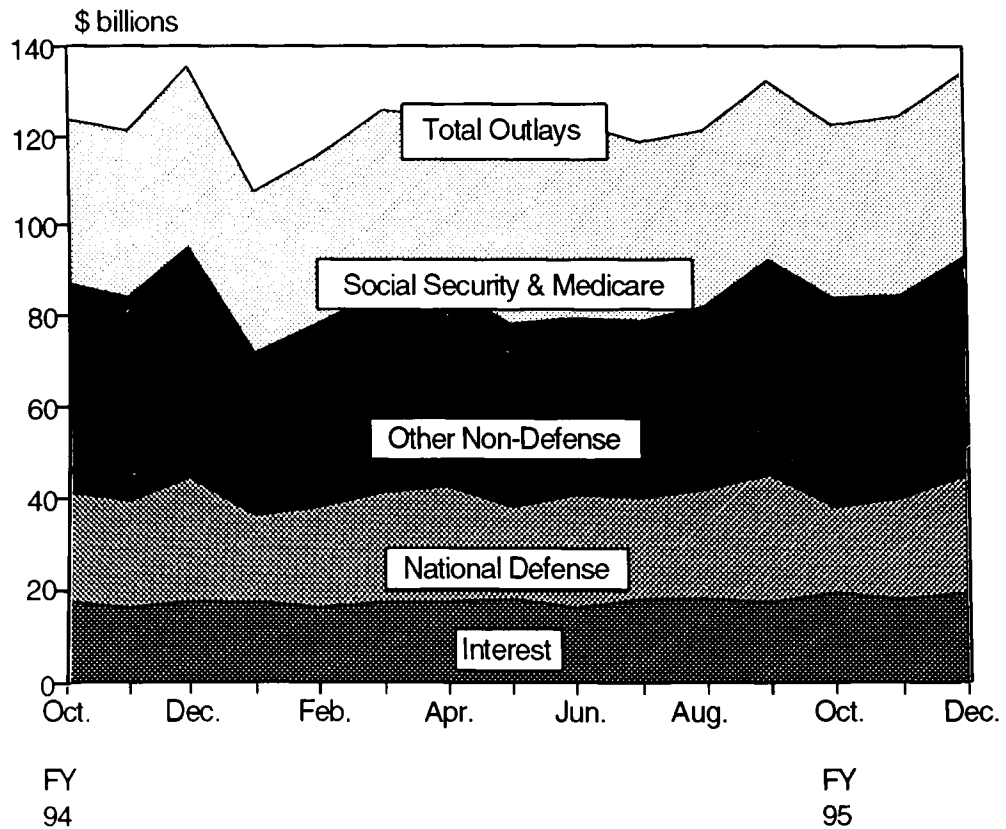


Table 3. Summary of Receipts and Outlays of the U.S. Government, December 1994 and Other Periods

[\$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year ¹
Budget Receipts				
Individual income taxes	53,736	² 134,809	129,497	603,065
Corporation income taxes	31,915	² 36,468	32,604	143,950
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	26,950	76,179	72,905	353,874
Employment taxes and contributions (on-budget)	8,758	24,578	21,332	103,063
Unemployment insurance	230	4,552	4,078	27,756
Other retirement contributions	420	1,122	1,150	4,578
Excise taxes	4,587	² 14,377	13,101	55,975
Estate and gift taxes	1,092	³ 3,513	3,475	14,706
Customs duties	1,747	5,421	4,980	21,986
Miscellaneous receipts	1,375	6,486	³ 4,046	25,380
Total Receipts	130,810	307,507	287,167	1,354,333
(On-budget)	103,860	231,327	214,262	1,000,459
(Off-budget)	26,950	76,179	72,905	353,874
Budget Outlays				
Legislative Branch	333	903	787	2,931
The Judiciary	303	656	568	3,078
Executive Office of the President	26	61	53	197
Funds Appropriated to the President	732	5,463	5,713	11,143
Department of Agriculture	5,506	19,938	18,449	61,277
Department of Commerce	304	909	823	3,690
Department of Defense—Military	25,178	64,294	70,695	258,894
Department of Defense—Civil	2,553	7,848	7,614	31,159
Department of Education	3,888	8,159	7,697	30,302
Department of Energy	1,743	4,756	4,925	15,663
Department of Health and Human Services, except Social Security	30,127	79,826	79,420	341,677
Department of Health and Human Services, Social Security	27,141	79,817	76,007	331,313
Department of Housing and Urban Development	2,394	7,723	7,368	27,755
Department of the Interior	558	2,025	1,633	7,306
Department of Justice	749	2,475	2,427	11,641
Department of Labor	2,471	6,507	10,003	32,720
Department of State	664	1,993	1,908	5,394
Department of Transportation	3,056	9,999	9,463	37,495
Department of the Treasury:				
Interest on the Public Debt	57,320	101,964	92,611	324,235
Other	1,336	1,062	956	16,970
Department of Veterans Affairs	4,253	9,265	10,412	37,737
Environmental Protection Agency	538	1,450	1,394	6,658
General Services Administration	462	451	134	895
National Aeronautics and Space Administration	1,203	3,190	3,484	14,439
Office of Personnel Management	3,460	9,988	9,293	40,437
Small Business Administration	64	274	209	752
Other independent agencies:				
Resolution Trust Corporation	-2,001	-3,974	1,310	-11,113
Other	1,401	6,860	3,119	7,935
Allowances				-1,075
Undistributed offsetting receipts:				
Interest	-38,216	-44,555	-41,560	-91,780
Other	-2,671	-7,842	-8,240	-38,279
Total outlays	134,874	381,485	378,676	1,521,447
(On-budget)	123,491	318,262	318,707	1,229,419
(Off-budget)	11,382	63,224	59,969	292,028
Surplus (+) or deficit (-)	-4,063	-73,979	-91,509	-167,114
(On-budget)	-19,631	-86,934	-104,445	-228,960
(Off-budget)	+15,568	+12,956	+12,936	+61,846

¹These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

²Includes a prior period adjustment to reflect the reclassification of refunds previously reported by the Internal Revenue Service.

³The receipts and outlays in March 1994 have been decreased to reflect the reclassification of intrabudgetary transactions previously reported as governmental receipts for the "Wildlife Conservation and Appreciation Fund".

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

Table 4. Receipts of the U.S. Government, December 1994 and Other Periods

[\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts
Individual income taxes:									
Withheld	50,680			129,042			123,291		
Presidential Election Campaign Fund	(*)			2			(*)		
Other	3,635			9,410			9,499		
Total—Individual income taxes	54,315	579	53,736	138,454	13,645	134,809	132,791	3,294	128,497
Corporation income taxes	32,616	700	31,915	40,811	14,343	36,468	36,088	3,484	32,604
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	22,863		22,863	50,962		50,962	65,891		65,891
Self-Employment Contributions Act taxes				-110		-110			
Deposits by States	2		2	2		2	-45		-45
Other	(*)		(*)	(*)		(*)	(*)		(*)
Total—FOASI trust fund	22,865		22,865	50,854		50,854	65,846		65,846
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	4,086		4,086	24,841		24,841	7,059		7,059
Self-Employment Contributions Act taxes				484		484			
Receipts from railroad retirement account									
Deposits by States				(*)		(*)	(*)		(*)
Other									
Total—FDI trust fund	4,086		4,086	25,325		25,325	7,059		7,059
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	8,441		8,441	23,564		23,564	20,426		20,426
Self-Employment Contributions Act taxes				90		90			
Receipts from Railroad Retirement Board									
Deposits by States				(*)		(*)	(*)		(*)
Total—FHI trust fund	8,441		8,441	23,654		23,654	20,426		20,426
Railroad retirement accounts:									
Rail industry pension fund	158	(*)	158	467	7	460	492	21	471
Railroad Social Security equivalent benefit	159		159	464		464	436		436
Total—Employment taxes and contributions	35,708	(*)	35,708	100,764	7	100,758	94,259	21	94,238
Unemployment insurance:									
State taxes deposited in Treasury	185		185	3,790		3,790	3,369		3,369
Federal Unemployment Tax Act taxes	49	4	45	768	11	757	709	10	700
Railroad unemployment taxes	(*)		(*)	6		6	7		7
Railroad debt repayment							1		1
Total—Unemployment insurance	234	4	230	4,564	11	4,552	4,087	10	4,078
Other retirement contributions:									
Federal employees retirement — employee contributions	413		413	1,098		1,098	1,128		1,128
Contributions for non-federal employees	7		7	24		24	22		22
Total—Other retirement contributions	420		420	1,122		1,122	1,150		1,150
Total—Social insurance taxes and contributions	36,362	4	36,358	106,451	18	106,432	99,496	31	99,466
Excise taxes:									
Miscellaneous excise taxes ²	1,217	255	962	7,162	1316	6,845	7,638	415	7,223
Airport and airway trust fund	480		480	1,376	6	1,371	1,344	2	1,342
Highway trust fund	3,092		3,092	5,993	1	5,992	4,301	-85	4,387
Black lung disability trust fund	52		52	169		169	149		149
Total—Excise taxes	4,842	255	4,587	14,700	323	14,377	13,432	332	13,101
Estate and gift taxes	1,119	28	1,092	3,616	103	3,513	3,569	94	3,475
Customs duties	1,835	88	1,747	5,761	340	5,421	5,228	248	4,980
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	836		836	5,377		5,377	3,326		3,326
All other	540	(*)	539	1,114	6	1,108	3723	2	720
Total — Miscellaneous receipts	1,375	(*)	1,375	6,492	6	6,486	4,048	2	4,046
Total — Receipts	132,464	1,654	130,810	316,285	8,779	307,507	294,652	7,485	287,167
Total — On-budget	105,514	1,654	103,860	240,106	8,779	231,327	221,746	7,485	214,282
Total — Off-budget	26,950		26,950	76,179		76,179	72,905		72,905

¹Includes a prior period adjustment to reflect the reclassification of refunds previously reported by the Internal Revenue Service.

²Includes amounts for the windfall profits tax pursuant to P.L. 96-223.

³The receipts and outlays in March 1994 have been decreased by \$1 million to reflect the reclassification of intrabudgetary transactions previously reported as governmental receipts for the "Wildlife Conservation and Appreciation Fund".

... No Transactions.

(*) Less than \$500,000.

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

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods
[\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	36	(*)	36	105	1	104	104	(*)	103
House of Representatives	63	(*)	63	192	1	192	192	2	189
Joint items	6	.....	6	19	.....	19	20	.....	20
Congressional Budget Office	2	.....	2	5	.....	5	5	.....	5
Architect of the Capitol	13	(*)	12	54	2	52	54	2	52
Library of Congress	174	.....	174	372	.....	372	247	.....	247
Government Printing Office:									
Revolving fund (net)	3	.....	3	35	.....	35	34	.....	34
General fund appropriations	7	.....	7	22	.....	22	22	.....	22
General Accounting Office	31	.....	31	93	.....	93	103	.....	103
United States Tax Court	2	.....	2	8	.....	8	8	.....	8
Other Legislative Branch agencies	3	.....	3	9	.....	9	7	.....	7
Proprietary receipts from the public .....	.....	5	-5	.....	6	-6	.....	1	-1
Intrabudgetary transactions	-2	.....	-2	-4	.....	-4	-3	.....	-3
Total—Legislative Branch	339	6	333	912	9	903	793	6	787
The Judiciary:									
Supreme Court of the United States	3	.....	3	7	.....	7	6	.....	6
Courts of Appeals, District Courts, and other judicial services	297	(*)	296	629	1	628	534	1	534
Other	3	.....	3	22	.....	22	28	.....	28
Total—The Judiciary	304	(*)	303	658	1	656	568	1	568
Executive Office of the President:									
Compensation of the President and the White House Office	2	.....	2	8	.....	8	11	.....	11
Office of Management and Budget	4	.....	4	14	.....	14	14	.....	14
Other	20	.....	20	39	.....	39	28	.....	28
Total—Executive Office of the President	26	.....	26	61	.....	61	53	.....	53
Funds Appropriated to the President:									
International Security Assistance:									
Guaranty reserve fund	55	37	19	192	91	102	196	89	106
Foreign military financing grants	37	.....	37	2,062	.....	2,062	2,378	.....	2,378
Economic support fund	207	.....	207	1,670	.....	1,670	1,575	.....	1,575
Military assistance .....	(*)	.....	(*)	(*)	.....	(*)	3	.....	3
Peacekeeping Operations	5	.....	5	13	.....	13	19	.....	19
Other	3	.....	3	6	.....	6	8	.....	8
Proprietary receipts from the public .....	.....	1	-1	.....	16	-16	.....	25	-25
Total—International Security Assistance	309	38	271	3,943	106	3,837	4,179	114	4,065
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association .....	.....	.....	.....	246	.....	246	194	.....	194
International organizations and programs	4	.....	4	173	.....	173	114	.....	114
Other	2	.....	2	204	.....	204	199	.....	199
Total—Multilateral Assistance	6	.....	6	624	.....	624	507	.....	507
Agency for International Development:									
Functional development assistance program	185	.....	185	405	.....	405	276	.....	276
Sub-Saharan Africa development assistance	56	.....	56	188	.....	188	163	.....	163
Operating expenses	56	.....	56	130	.....	130	129	.....	129
Payment to the Foreign Service retirement and disability fund	45	.....	45	45	.....	45	.....	.....	.....
Other	132	3	129	312	10	302	198	13	185
Proprietary receipts from the public .....	.....	43	-43	.....	176	-176	.....	146	-146
Intrabudgetary transactions .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total—Agency for International Development	474	46	428	1,080	186	895	767	158	608
Peace Corps	17	.....	17	57	.....	57	61	.....	61
Overseas Private Investment Corporation	6	15	-9	11	65	-54	9	61	-52
Other	2	(*)	2	17	1	16	25	(*)	25
Total—International Development Assistance	504	61	443	1,788	251	1,537	1,369	219	1,150
International Monetary Programs	-26	.....	-26	63	.....	63	364	.....	364
Military Sales Programs:									
Special defense acquisition fund	24	26	-2	56	70	-13	54	73	-19
Foreign military sales trust fund	1,399	.....	1,399	3,384	.....	3,384	3,346	.....	3,346
Kuwait civil reconstruction trust fund .....	(*)	.....	(*)	(*)	.....	(*)	(*)	.....	(*)
Proprietary receipts from the public .....	.....	1,355	-1,355	.....	3,350	-3,350	.....	3,193	-3,193
Other	1	.....	1	5	.....	5	1	.....	1
Total—Funds Appropriated to the President	2,212	1,480	732	9,241	3,778	5,463	9,312	3,599	5,713

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Agriculture:									
Agricultural Research Service	54	.....	54	174	.....	174	175	.....	175
Cooperative State Research Service	48	.....	48	122	.....	122	114	.....	114
Extension Service	34	.....	34	104	.....	104	102	.....	102
Animal and Plant Health Inspection Service	39	.....	39	125	.....	125	106	.....	106
Food Safety and Inspection Service	38	.....	38	115	.....	115	116	.....	116
Agricultural Marketing Service	74	.....	74	302	.....	302	234	1	234
Soil Conservation Service:									
Watershed and flood prevention operations	27	.....	27	81	.....	81	72	.....	72
Conservation operations	49	.....	49	126	.....	126	136	.....	136
Other	7	.....	7	20	.....	20	20	.....	20
Agricultural Stabilization and Conservation Service:									
Conservation programs	29	.....	29	1,773	.....	1,773	1,773	.....	1,773
Other	65	.....	65	179	.....	179	168	.....	168
Farmers Home Administration:									
Credit accounts:									
Agricultural credit insurance fund	15	204	-188	180	401	-221	299	478	-179
Rural housing insurance fund	113	256	-143	752	674	78	677	871	-194
Other .....	.....	.....	.....	.....	.....	.....	(* *)	.....	(* *)
Salaries and expenses	47	.....	47	155	.....	155	143	.....	143
Other	8	(* *)	8	29	(* *)	29	28	1	27
Total—Farmers Home Administration	183	460	-277	1,116	1,076	40	1,147	1,350	-203
Foreign assistance programs	29	.....	29	272	.....	272	272	.....	272
Rural Development Administration:									
Rural development insurance fund	34	47	-13	184	140	44	214	151	63
Rural water and waste disposal grants	35	.....	35	98	.....	98	84	.....	84
Other	5	.....	5	13	.....	13	8	.....	8
Rural Electrification Administration	117	250	-133	261	590	-329	172	694	-521
Federal Crop Insurance Corporation	102	39	63	279	441	-162	860	296	563
Commodity Credit Corporation:									
Price support and related programs	2,527	699	1,828	7,572	1,265	6,307	7,413	1,909	5,503
National Wool Act Program .....	(* *)	.....	(* *)	2	.....	2	1	.....	1
Food and Nutrition Service:									
Food stamp program	2,181	.....	2,181	6,528	.....	6,528	6,364	.....	6,364
State child nutrition programs	733	.....	733	1,908	.....	1,908	1,764	.....	1,764
Women, infants and children programs	307	.....	307	900	.....	900	809	.....	809
Other	29	.....	29	165	.....	165	142	.....	142
Total—Food and Nutrition Service	3,250	.....	3,250	9,500	.....	9,500	9,079	.....	9,079
Forest Service:									
National forest system	137	.....	137	390	.....	390	414	.....	414
Forest and rangeland protection	37	.....	37	275	.....	275	117	.....	117
Forest service permanent appropriations	94	.....	94	341	.....	341	119	.....	119
Other	47	.....	47	143	.....	143	143	.....	143
Total—Forest Service	314	.....	314	1,149	.....	1,149	794	.....	794
Other	50	3	46	144	9	135	164	9	155
Proprietary receipts from the public .....	.....	107	-107	.....	251	-251	.....	367	-367
Intrabudgetary transactions .....	(* *)	.....	(* *)	(* *)	.....	(* *)	1	.....	1
Total—Department of Agriculture	7,111	1,605	5,506	23,710	3,772	19,938	23,226	4,776	18,449
Department of Commerce:									
Economic Development Administration	27	1	26	81	4	77	74	6	68
Bureau of the Census	32	.....	32	107	.....	107	78	.....	78
Promotion of Industry and Commerce	37	.....	37	92	.....	92	68	.....	68
Science and Technology:									
National Oceanic and Atmospheric Administration	176	1	175	518	7	511	515	4	511
Patent and Trademark Office	6	.....	6	13	.....	13	16	.....	16
National Institute of Standards and Technology	31	.....	31	96	.....	96	65	.....	65
Other	6	2	3	23	8	15	27	9	18
Total—Science and Technology	218	3	215	650	16	635	623	12	611
Other	2	(* *)	2	28	(* *)	28	29	.....	29
Proprietary receipts from the public .....	.....	9	-9	.....	30	-30	.....	30	-30
Intrabudgetary transactions .....	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total—Department of Commerce	316	13	304	958	50	909	872	48	823

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:									
Military personnel:									
Department of the Army	3,045	.....	3,045	6,158	.....	6,158	7,717	.....	7,717
Department of the Navy	2,785	.....	2,785	6,509	.....	6,509	7,382	.....	7,382
Department of the Air Force	2,373	.....	2,373	4,951	.....	4,951	5,518	.....	5,518
Total—Military personnel	8,203	.....	8,203	17,617	.....	17,617	20,617	.....	20,617
Operation and maintenance:									
Department of the Army	1,777	.....	1,777	5,368	.....	5,368	4,873	.....	4,873
Department of the Navy	1,931	.....	1,931	4,991	.....	4,991	5,141	.....	5,141
Department of the Air Force	2,083	.....	2,083	6,217	.....	6,217	5,423	.....	5,423
Defense agencies	1,520	.....	1,520	4,691	.....	4,691	4,978	.....	4,978
Total—Operation and maintenance	7,312	.....	7,312	21,267	.....	21,267	20,415	.....	20,415
Procurement:									
Department of the Army	685	.....	685	1,813	.....	1,813	2,354	.....	2,354
Department of the Navy	1,863	.....	1,863	5,803	.....	5,803	6,503	.....	6,503
Department of the Air Force	1,802	.....	1,802	5,032	.....	5,032	6,083	.....	6,083
Defense agencies	377	.....	377	1,089	.....	1,089	1,068	.....	1,068
Total—Procurement	4,727	.....	4,727	13,736	.....	13,736	16,009	.....	16,009
Research, development, test, and evaluation:									
Department of the Army	478	.....	478	1,213	.....	1,213	1,423	.....	1,423
Department of the Navy	743	.....	743	1,992	.....	1,992	1,619	.....	1,619
Department of the Air Force	1,283	.....	1,283	3,435	.....	3,435	3,780	.....	3,780
Defense agencies	707	.....	707	1,969	.....	1,969	1,989	.....	1,989
Total—Research, development, test and evaluation	3,211	.....	3,211	8,609	.....	8,609	8,810	.....	8,810
Military construction:									
Department of the Army	38	.....	38	186	.....	186	258	.....	258
Department of the Navy	59	.....	59	157	.....	157	90	.....	90
Department of the Air Force	117	.....	117	352	.....	352	278	.....	278
Defense agencies	223	.....	223	702	.....	702	556	.....	556
Total—Military construction	436	.....	436	1,398	.....	1,398	1,182	.....	1,182
Family housing:									
Department of the Army	104	.....	104	265	.....	265	256	.....	256
Department of the Navy	86	.....	86	231	.....	231	162	.....	162
Department of the Air Force	105	.....	105	267	.....	267	240	.....	240
Defense agencies	12	2	10	41	10	31	24	7	16
Revolving and management funds:									
Department of the Army	10	.....	10	-17	.....	-17	-58	.....	-58
Department of the Navy	8	.....	8	49	.....	49	143	.....	143
Department of the Air Force .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Defense agencies:									
Defense business operations fund	882	.....	882	744	.....	744	2,588	.....	2,588
Other	43	1	42	3	2	1	-13	1	-14
Trust funds:									
Department of the Army .....	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)
Department of the Navy	2	(* *)	1	9	3	6	7	4	3
Department of the Air Force	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	3	3	(* *)
Defense agencies	25	.....	25	52	.....	52	103	.....	103
Proprietary receipts from the public:									
Department of the Army .....	.....	73	-73	.....	216	-216	.....	144	-144
Department of the Navy .....	.....	-50	50	.....	33	-33	.....	121	-121
Department of the Air Force .....	.....	19	-19	.....	198	-198	.....	162	-162
Defense agencies .....	.....	-83	83	.....	109	-109	.....	57	-57
Intrabudgetary transactions:									
Department of the Army	-23	.....	-23	102	.....	102	136	.....	136
Department of the Navy	-10	.....	-10	416	.....	416	539	.....	539
Department of the Air Force	-4	.....	-4	99	.....	99	96	.....	96
Defense agencies	14	.....	14	-25	.....	-25	-64	.....	-64
Offsetting governmental receipts:									
Department of the Army .....	.....	.....	.....	.....	.....	.....	.....	3	-3
Defense agencies .....	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)
Total—Department of Defense—Military	25,142	-37	25,178	64,863	569	64,294	71,197	502	70,695

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Civil									
Corps of Engineers									
Construction, general	91		91	306		306	270		270
Operation and maintenance, general	134		134	438		438	277		277
Other	124		124	371		371	453		453
Proprietary receipts from the public		10	-10		32	-32		40	-40
Total—Corps of Engineers	349	10	339	1,114	32	1,082	1,000	40	961
Military retirement:									
Payment to military retirement fund				11,470		11,470	11,908		11,908
Retired pay									
Military retirement fund	2,192		2,192	6,747		6,747	6,588		6,588
Intrabudgetary transactions				-11,470		-11,470	-11,908		-11,908
Education benefits	16		16	6		6	50		50
Other	7	(*)	7	17	1	16	20	1	19
Proprietary receipts from the public		1	-1		4	-4		3	-3
Total—Department of Defense—Civil	2,565	12	2,553	7,885	37	7,848	7,657	43	7,614
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	710		710	1,566		1,566	1,765		1,765
Impact aid	488		488	555		555	562		562
School improvement programs	173		173	384		384	363		363
Indian education	5		5	17		17	17		17
Other	5		5	9		9	5		5
Total—Office of Elementary and Secondary Education	1,382		1,382	2,531		2,531	2,711		2,711
Office of Bilingual Education and Minority Languages Affairs	17		17	50		50	51		51
Office of Special Education and Rehabilitative Services:									
Special education	425		425	889		889	697		697
Rehabilitation services and disability research	106		106	471		471	560		560
Special institutions for persons with disabilities	10		10	32		32	30		30
Office of Vocational and Adult Education	183		183	446		446	311		311
Office of Postsecondary Education:									
College housing loans	(*)	4	-4	6	27	-22	1	22	-21
Student financial assistance	525		525	1,841		1,841	1,963		1,963
Federal family education loans	1,077		1,077	1,440		1,440	993		993
Higher education	69		69	195		195	170		170
Howard University	16		16	48		48	50		50
Other	24		24	37		37	5		5
Total—Office of Postsecondary Education	1,710	4	1,707	3,567	27	3,540	3,182	22	3,160
Office of Educational Research and Improvement	34		34	109		109	97		97
Departmental management	29		29	105		105	98		98
Proprietary receipts from the public		5	-5		13	-13		17	-17
Total—Department of Education	3,897	9	3,888	8,199	40	8,159	7,735	39	7,697
Department of Energy:									
Atomic energy defense activities	1,114		1,114	3,171		3,171	3,224		3,224
Energy programs:									
General science and research activities	101		101	508		508	355		355
Energy supply, R and D activities	295		295	843		843	762		762
Uranium supply and enrichment activities	10		10	26		26	192		192
Fossil energy research and development	36		36	113		113	107		107
Energy conservation	32		32	130		130	122		122
Strategic petroleum reserve	22		22	59		59	53		53
Clean coal technology									
Nuclear waste disposal fund	25		25	80		80	77		77
Other	130	(*)	130	277	(*)	277	95	(*)	95
Total—Energy programs	652	(*)	652	2,038	(*)	2,037	1,763	(*)	1,763
Power Marketing Administration	127	230	-103	482	487	-4	477	324	153
Departmental administration	40		40	115		115	108		108
Proprietary receipts from the public		1-39	39		418	-418		148	-148
Intrabudgetary transactions	1		1	-140		-140	-159		-159
Offsetting governmental receipts		1	-1		5	-5		15	-15
Total—Department of Energy	1,935	192	1,743	5,666	911	4,756	5,413	487	4,925

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, except Social Security:									
Public Health Service:									
Food and Drug Administration	66	1	65	205	1	204	190	1	190
Health Resources and Services Administration	255	.....	255	603	.....	603	474	.....	474
Indian Health Services	151	.....	151	481	.....	481	445	.....	445
Centers for Disease Control and Prevention	164	.....	164	455	.....	455	371	.....	371
National Institutes of Health	818	.....	818	2,510	.....	2,510	2,685	.....	2,685
Substance Abuse and Mental Health Services Administration	226	.....	226	586	.....	586	557	.....	557
Agency for Health Care Policy and Research	4	.....	4	25	.....	25	18	.....	18
Assistant secretary for health	78	.....	78	88	.....	88	59	.....	59
Total—Public Health Service	1,761	1	1,761	4,953	1	4,951	4,799	1	4,799
Health Care Financing Administration:									
Grants to States for Medicaid	7,321	.....	7,321	21,488	.....	21,488	21,107	.....	21,107
Payments to health care trust funds	3,048	.....	3,048	9,152	.....	9,152	11,302	.....	11,302
Federal hospital insurance trust fund:									
Benefit payments	9,645	.....	9,645	26,232	.....	26,232	24,485	.....	24,485
Administrative expenses	112	.....	112	301	.....	301	273	.....	273
Interest on normalized tax transfers .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total—FHI trust fund	9,757	.....	9,757	26,533	.....	26,533	24,758	.....	24,758
Federal supplementary medical insurance trust fund:									
Benefit payments	5,676	.....	5,676	15,530	.....	15,530	14,918	.....	14,918
Administrative expenses	162	.....	162	396	.....	396	415	.....	415
Total—FSMI trust fund	5,837	.....	5,837	15,926	.....	15,926	15,334	.....	15,334
Other	-34	.....	-34	10	.....	10	64	.....	64
Total—Health Care Financing Administration	25,931	.....	25,931	73,108	.....	73,108	72,565	.....	72,565
Social Security Administration:									
Payments to Social Security trust funds	17	.....	17	654	.....	654	1,005	.....	1,005
Special benefits for disabled coal miners	63	.....	63	185	.....	185	199	.....	199
Supplemental security income program	4,059	.....	4,059	6,415	.....	6,415	7,719	.....	7,719
Total—Social Security Administration	4,138	.....	4,138	7,255	.....	7,255	8,923	.....	8,923
Administration for children and families:									
Family support payments to States	1,354	.....	1,354	4,364	.....	4,364	4,075	.....	4,075
Low income home energy assistance	183	.....	183	354	.....	354	804	.....	804
Refugee and entrant assistance	33	.....	33	105	.....	105	93	.....	93
Community Services Block Grant	28	.....	28	75	.....	75	82	.....	82
Payments to States for afdc work programs	82	.....	82	222	.....	222	194	.....	194
Interim assistance to States for legalization	101	.....	101	136	.....	136	573	.....	573
Payments to States for child care assistance	73	.....	73	217	.....	217	192	.....	192
Social services block grant	259	.....	259	726	.....	726	658	.....	658
Children and families services programs	399	.....	399	1,125	.....	1,125	922	.....	922
Payments to States for foster care and adoption assistance	299	.....	299	733	.....	733	755	.....	755
Other	2	.....	2	3	.....	3	.....	.....	.....
Total—Administration for children and families	2,812	.....	2,812	8,059	.....	8,059	8,348	.....	8,348
Administration on aging	82	.....	82	214	.....	214	202	.....	202
Office of the Secretary	36	.....	36	95	.....	95	63	.....	63
Proprietary receipts from the public .....	.....	1,585	-1,585	.....	4,705	-4,705	.....	4,177	-4,177
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Federal supplementary medical insurance trust fund ..	-3,048	.....	-3,048	-9,151	.....	-9,151	-11,302	.....	-11,302
Payments for tax and other credits:									
Federal hospital insurance trust fund .....	.....	.....	.....	-1	.....	-1	.....	.....	.....
Other .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total—Department of Health and Human Services, except Social Security	31,712	1,585	30,127	84,533	4,706	79,826	83,598	4,178	79,420

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Benefit payments	23,641		23,641	70,354		70,354	67,562		67,562
Administrative expenses and construction	169		169	237		237	465		465
Payment to railroad retirement account									
Interest expense on interfund borrowings									
Interest on normalized tax transfers									
Total—FOASI trust fund	23,810		23,810	70,591		70,591	68,027		68,027
Federal disability insurance trust fund:									
Benefit payments	3,277		3,277	9,651		9,651	8,758		8,758
Administrative expenses and construction	71		71	230		230	223		223
Payment to railroad retirement account									
Interest on normalized tax transfers									
Total—FDI trust fund	3,348		3,348	9,881		9,881	8,981		8,981
Proprietary receipts from the public		(*)	(*)		(*)	(*)		(*)	(*)
Intrabudgetary transactions ²	-17		-17	-654		-654	-1,001		-1,001
Total—Department of Health and Human Services, Social Security(off-budget)	27,141	(*)	27,141	79,818	(*)	79,817	76,007	(*)	76,007
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	16	9	6	39	27	12	41	28	13
Credit accounts:									
Federal housing administration fund	456	452	4	1,496	1,461	35	1,683	1,334	349
Housing for the elderly or handicapped fund	-18	57	-76	308	168	140	374	175	198
Other	48		48	140		140	117	(*)	117
Rent supplement payments	9		9	31		31	14		14
Homeownership assistance	10		10	31		31	28		28
Rental housing assistance	62		62	172		172	162		162
Rental housing development grants	(*)		(*)	(*)		(*)	(*)		(*)
Low-rent public housing	67		67	317		317	327		327
Public housing grants	308		308	958		958	867		867
College housing grants	2		2	5	(*)	5	5		5
Lower income housing assistance	803		803	2,473		2,473	2,631		2,631
Section 8 contract renewals	426		426	1,159		1,159	811		811
Other	11		11	31		31	10		10
Total—Housing programs	2,199	518	1,681	7,160	1,656	5,504	7,069	1,537	5,532
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	2	(*)	1	243	197	46	264	192	73
Payments for operation of low-income housing projects	230		230	665		665	642		642
Community Partnerships Against Crime	14		14	38		38	42		42
Other	1		1	2		2	(*)		(*)
Total—Public and Indian Housing programs	247	(*)	247	948	197	751	948	192	756
Government National Mortgage Association:									
Management and liquidating functions fund								1	-1
Guarantees of mortgage-backed securities	23	56	-33	115	181	-66	300	396	-96
Total—Government National Mortgage Association	23	56	-33	115	181	-66	300	397	-97
Community Planning and Development:									
Community Development Grants	411		411	1,070		1,070	921		921
Home investment partnerships program	113		113	300		300	140		140
Other	25	8	16	72	34	38	90	40	51
Total—Community Planning and Development	548	8	540	1,442	34	1,409	1,151	40	1,111
Management and Administration									
Other	-44		-44	116		116	125		125
Proprietary receipts from the public	4		4	15		15	6		6
Offsetting governmental receipts		1	-1		4	-4		66	-66
Total—Department of Housing and Urban Development	2,978	584	2,394	9,795	2,072	7,723	9,598	2,230	7,368

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	51	.....	51	168	.....	168	159	.....	159
Other	27	.....	27	191	.....	191	73	.....	73
Minerals Management Service	55	.....	55	199	.....	199	185	.....	185
Office of Surface Mining Reclamation and Enforcement	28	.....	28	90	.....	90	77	.....	77
Total—Land and minerals management	162	.....	162	648	.....	648	495	.....	495
Water and science:									
Bureau of Reclamation:									
Construction program	28	.....	28	99	.....	99	66	.....	66
Operation and maintenance	22	.....	22	61	.....	61	56	.....	56
Other	39	7	31	102	30	72	118	64	55
Central Utah Project .....	(* *)	.....	(* *)	23	.....	23	15	.....	15
Geological Survey	27	.....	27	108	.....	108	127	.....	127
Bureau of Mines	15	2	13	42	6	36	46	6	39
Total—Water and science	131	9	121	435	36	399	428	70	358
Fish and wildlife and parks:									
United States Fish and Wildlife Service	57	.....	57	273	.....	273	278	.....	278
National Biological Survey	5	.....	5	25	.....	25	22	.....	22
National Park Service	116	.....	116	362	.....	362	353	.....	353
Total—Fish and wildlife and parks	179	.....	179	660	.....	660	653	.....	653
Bureau of Indian Affairs:									
Operation of Indian programs	145	.....	145	381	.....	381	319	.....	319
Indian tribal funds	23	.....	23	17	.....	17	-22	.....	-22
Other	37	1	36	156	2	153	139	2	137
Total—Bureau of Indian Affairs	205	1	204	554	2	551	436	2	434
Territorial and international affairs	34	.....	34	272	.....	272	121	.....	121
Departmental offices	14	.....	14	77	.....	77	32	.....	32
Proprietary receipts from the public .....	.....	143	-143	.....	488	-488	.....	438	-438
Intrabudgetary transactions	-14	.....	-14	-95	.....	-95	3-21	.....	-21
Offsetting governmental receipts .....	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)
Total—Department of the Interior	711	153	558	2,551	526	2,025	2,143	510	1,633
Department of Justice:									
Legal activities	148	.....	148	538	.....	538	579	.....	579
Federal Bureau of Investigation	173	.....	173	449	.....	449	498	.....	498
Drug Enforcement Administration	77	.....	77	225	.....	225	200	.....	200
Immigration and Naturalization Service	136	.....	136	388	.....	388	335	.....	335
Federal Prison System	246	11	235	667	32	635	557	29	528
Office of Justice Programs	71	.....	71	255	.....	255	223	.....	223
Other	-47	.....	-47	122	.....	122	147	.....	147
Intrabudgetary transactions	-2	.....	-2	-6	.....	-6	-2	.....	-2
Offsetting governmental receipts .....	.....	43	-43	.....	131	-131	.....	81	-81
Total—Department of Justice	803	54	749	2,638	163	2,475	2,538	110	2,427
Department of Labor:									
Employment and Training Administration:									
Training and employment services	379	.....	379	1,117	.....	1,117	1,020	.....	1,020
Community Service Employment for Older Americans	37	.....	37	96	.....	96	94	.....	94
Federal unemployment benefits and allowances	23	.....	23	65	.....	65	42	.....	42
State unemployment insurance and employment service operations	24	.....	24	37	.....	37	-11	.....	-11
Payments to the unemployment trust fund .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Advances to the unemployment trust fund and other funds .....	.....	.....	.....	.....	.....	.....	2,296	.....	2,296

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Labor:—Continued									
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	1,690		1,690	4,614		4,614	7,580		7,580
State administrative expenses	278		278	802		802	860		860
Federal administrative expenses	9		9	24		24	113		113
Veterans employment and training	17		17	46		46	43		43
Repayment of advances from the general fund									
Railroad unemployment insurance	5		5	14		14	17		17
Other	2		2	5		5	5		5
Total—Unemployment trust fund	2,001		2,001	5,506		5,506	8,617		8,617
Other	8		8	21		21	18		18
Total—Employment and Training Administration	2,473		2,473	6,841		6,841	12,075		12,075
Pension Benefit Guaranty Corporation	74	23	51	219	129	91	473	-16	489
Employment Standards Administration:									
Salaries and expenses	20		20	58		58	51		51
Special benefits	-106		-106	-717		-717	-557		-557
Black lung disability trust fund	50		50	144		144	150		150
Other	9		9	40		40	37		37
Occupational Safety and Health Administration	25		25	70		70	66		66
Bureau of Labor Statistics	22		22	50		50	59		59
Other	32		32	95		95	113		113
Proprietary receipts from the public		(*)	(*)		1	-1		1	-1
Intrabudgetary transactions	-104		-104	-163		-163	-2,480		-2,480
Total—Department of Labor	2,494	24	2,471	6,637	130	6,507	9,988	-15	10,003
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	169		169	499		499	430		430
Acquisition and maintenance of buildings abroad	65		65	142		142	156		156
Payment to Foreign Service retirement and disability fund				129		129	125		125
Foreign Service retirement and disability fund	37		37	110		110	102		102
Other	9		9	14		14	34		34
Total—Administration of Foreign Affairs	279		279	893		893	847		847
International organizations and Conferences	306		306	1,021		1,021	977		977
Migration and refugee assistance	111		111	220		220	165		165
International narcotics control	10		10	22		22	33		33
Other	9		9	18		18	11		11
Proprietary receipts from the public									
Intrabudgetary transactions	-52		-52	-182		-182	-125		-125
Offsetting governmental receipts									
Total—Department of State	664		664	1,993		1,993	1,908		1,908
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,404		1,404	4,934		4,934	4,863		4,863
Other	12		12	38		38	27		27
Other programs	19		19	60		60	86		86
Total—Federal Highway Administration	1,435		1,435	5,033		5,033	4,977		4,977
National Highway Traffic Safety Administration	20		20	64		64	68		68
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation				344		344	214		214
Other	20	2	18	52	3	48	95	3	93
Total—Federal Railroad Administration	20	2	18	396	3	392	309	3	307

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Transportation—Continued									
Federal Transit Administration:									
Formula grants	-97	.....	-97	144	.....	144	257	.....	257
Discretionary grants	152	.....	152	488	.....	488	369	.....	369
Other	335	.....	335	419	.....	419	209	.....	209
Total—Federal Transit Administration	390	.....	390	1,050	.....	1,050	836	.....	836
Federal Aviation Administration:									
Operations	141	.....	141	423	.....	423	563	.....	563
Airport and airway trust fund:									
Grants-in-aid for airports	178	.....	178	533	.....	533	500	.....	500
Facilities and equipment	210	.....	210	638	.....	638	455	.....	455
Research, engineering and development	15	.....	15	53	.....	53	50	.....	50
Operations	204	.....	204	708	.....	708	574	.....	574
Total—Airport and airway trust fund	608	.....	608	1,932	.....	1,932	1,578	.....	1,578
Other	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)
Total—Federal Aviation Administration	749	(* *)	749	2,355	(* *)	2,355	2,141	(* *)	2,141
Coast Guard:									
Operating expenses	258	.....	258	625	.....	625	669	.....	669
Acquisition, construction, and improvements	14	.....	14	86	.....	86	63	.....	63
Retired pay	51	.....	51	132	.....	132	114	.....	114
Other	33	(* *)	32	64	1	63	27	1	25
Total—Coast Guard	355	(* *)	355	907	1	906	872	1	871
Maritime Administration	64	2	62	153	41	112	197	56	141
Other	29	(* *)	28	99	(* *)	99	127	(* *)	127
Proprietary receipts from the public .....	.....	1	-1	.....	1	-1	.....	(* *)	(* *)
Intrabudgetary transactions .....	.....	.....	.....	.....	.....	.....	13	.....	13
Offsetting governmental receipts .....	.....	(* *)	(* *)	.....	11	-11	.....	16	-16
Total—Department of Transportation	3,061	5	3,056	10,058	59	9,999	9,541	78	9,463
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	-134	2	-135	-559	5	-564	-194	3	-197
Other	37	.....	37	65	.....	65	72	.....	72
Financial Management Service:									
Salaries and expenses	17	.....	17	54	.....	54	49	.....	49
Payment to the Resolution Funding Corporation .....	.....	.....	.....	587	.....	587	587	.....	587
Claims, judgements, and relief acts	64	.....	64	199	.....	199	116	.....	116
Net interest paid to loan guarantee financing accounts .....	.....	.....	.....	83	.....	83	2	.....	2
Other	18	.....	18	22	.....	22	39	.....	39
Total—Financial Management Service	98	.....	98	946	.....	946	793	.....	793
Federal Financing Bank	560	.....	560	337	.....	337	337	.....	337
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	24	.....	24	90	.....	90	92	.....	92
Internal revenue collections for Puerto Rico	18	.....	18	56	.....	56	58	.....	58
United States Customs Service	145	.....	145	448	.....	448	445	.....	445
Bureau of Engraving and Printing	-12	.....	-12	-8	.....	-8	-24	.....	-24
United States Mint	-6	.....	-6	-48	.....	-48	-8	.....	-8
Bureau of the Public Debt	16	.....	16	74	.....	74	73	.....	73
Internal Revenue Service:									
Processing tax returns and assistance	105	.....	105	355	.....	355	343	.....	343
Tax law enforcement	319	.....	319	952	.....	952	885	.....	885
Information systems	104	.....	104	340	.....	340	237	.....	237
Payment where earned income credit exceeds liability for tax	11	.....	11	51	.....	51	34	.....	34
Health insurance supplement to earned income credit .....	.....	.....	.....	.....	.....	.....	7	.....	7
Refunding internal revenue collections, interest	413	.....	413	639	.....	639	789	.....	789
Other	15	.....	15	41	.....	41	35	.....	35
Total—Internal Revenue Service	966	.....	966	2,379	.....	2,379	2,330	.....	2,330

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:—Continued									
United States Secret Service	42	.....	42	137	.....	137	117	.....	117
Comptroller of the Currency	47	3	44	105	10	95	91	14	78
Office of Thrift Supervision	15	1	13	37	3	34	52	5	48
Interest on the public debt:									
Public issues (accrual basis)	19,317	.....	19,317	56,278	.....	56,278	51,429	.....	51,429
Special issues (cash basis)	38,003	.....	38,003	45,685	.....	45,685	41,182	.....	41,182
Total—Interest on the public debt	57,320	.....	57,320	101,964	.....	101,964	92,611	.....	92,611
Other	5	.....	5	12	.....	12	17	.....	17
Proprietary receipts from the public .....	.....	243	-243	.....	693	-693	.....	586	-586
Receipts from off-budget federal entities .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Intrabudgetary transactions	-143	.....	-143	-2,041	.....	-2,041	-2,492	.....	-2,492
Offsetting governmental receipts .....	.....	95	-95	.....	255	-255	.....	196	-196
Total—Department of the Treasury	58,999	344	58,656	103,992	966	103,026	94,369	803	93,567
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,317	.....	1,317	3,802	.....	3,802	3,583	.....	3,583
Other	63	26	37	172	70	102	177	70	107
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	1	43	-42	196	132	64	230	195	35
Loan guaranty revolving fund	-78	31	-109	129	93	36	394	119	275
Other	6	31	-25	59	40	19	200	108	92
Compensation and pensions	2,824	.....	2,824	4,386	.....	4,386	5,553	.....	5,553
Readjustment benefits	144	.....	144	332	.....	332	323	.....	323
Post-Vietnam era veterans education account	10	.....	10	18	.....	18	27	.....	27
Insurance funds:									
National service life	103	.....	103	285	.....	285	286	.....	286
United States government life	2	.....	2	5	.....	5	5	.....	5
Veterans special life	13	75	-62	30	80	-49	29	88	-58
Other	4	.....	4	8	.....	8	-18	.....	-18
Total—Veterans Benefits Administration	3,030	180	2,850	5,449	344	5,105	7,030	510	6,521
Construction	50	.....	50	151	(* *)	151	170	(* *)	170
Departmental administration	85	.....	85	352	.....	352	304	.....	304
Proprietary receipts from the public:									
National service life .....	.....	20	-20	.....	68	-68	.....	88	-88
United States government life .....	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)
Other .....	.....	65	-65	.....	176	-176	.....	175	-175
Intrabudgetary transactions	-1	.....	-1	-3	.....	-3	-8	.....	-8
Total—Department of Veterans Affairs	4,545	291	4,253	9,923	658	9,265	11,256	844	10,412
Environmental Protection Agency:									
Program and research operations	75	.....	75	202	.....	202	203	.....	203
Abatement, control, and compliance	96	.....	96	348	.....	348	286	.....	286
Water infrastructure financing	200	.....	200	507	.....	507	502	.....	502
Hazardous substance superfund	144	.....	144	324	.....	324	345	.....	345
Other	37	(* *)	37	369	(* *)	369	111	2	109
Proprietary receipts from the public .....	.....	14	-14	.....	49	-49	.....	47	-47
Intrabudgetary transactions .....	.....	.....	.....	-250	.....	-250	.....	.....	.....
Offsetting governmental receipts .....	.....	(* *)	(* *)	.....	2	-2	.....	3	-3
Total—Environmental Protection Agency	552	15	538	1,501	51	1,450	1,446	52	1,394
General Services Administration:									
Real property activities	456	.....	456	394	.....	394	126	.....	126
Personal property activities	-24	.....	-24	-110	.....	-110	-99	.....	-99
Information Resources Management Service	17	.....	17	104	.....	104	47	.....	47
Other	14	.....	14	65	.....	65	61	.....	61
Proprietary receipts from the public .....	.....	(* *)	(* *)	.....	2	-2	.....	1	-1
Total—General Services Administration	463	(* *)	462	453	2	451	135	1	134

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
 [\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
National Aeronautics and Space Administration:									
Human space flight	166	.....	166	216	.....	216	.....	.....	.....
Science, aeronautics and technology	214	.....	214	349	.....	349	.....	.....	.....
Mission support	141	.....	141	332	.....	332	.....	.....	.....
Research and development	425	.....	425	1,277	.....	1,277	1,764	.....	1,764
Space flight, control and data communications	209	.....	209	857	.....	857	1,226	.....	1,226
Construction of facilities	35	.....	35	74	.....	74	115	.....	115
Research and program management	12	.....	12	82	.....	82	375	.....	375
Other	1	.....	1	4	.....	4	4	.....	4
Total—National Aeronautics and Space Administration	1,203	.....	1,203	3,190	.....	3,190	3,484	.....	3,484
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	295	.....	295	870	.....	870	873	.....	873
Payment to civil service retirement and disability fund .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Civil service retirement and disability fund	3,164	.....	3,164	9,393	.....	9,393	8,895	.....	8,895
Employees health benefits fund	1,247	1,417	-170	3,765	3,913	-148	3,684	3,882	-198
Employees life insurance fund	312	135	177	540	676	-136	339	647	-308
Retired employees health benefits fund	1	1	(* *)	2	2	(* *)	2	2	(* *)
Other	-5	.....	-5	17	.....	17	40	.....	40
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other	-3	.....	-3	-8	.....	-8	-9	.....	-9
Total—Office of Personnel Management	5,012	1,552	3,460	14,579	4,591	9,988	13,824	4,531	9,293
Small Business Administration:									
Public enterprise funds:									
Business loan fund	48	40	8	125	81	44	214	120	94
Disaster loan fund	44	24	20	173	66	107	80	88	-8
Other	2	1	1	6	4	2	9	4	5
Other	35	(* *)	35	121	(* *)	121	117	(* *)	117
Total—Small Business Administration	130	66	64	426	152	274	420	212	209
Other independent agencies:									
Action	15	.....	15	49	.....	49	25	.....	25
Board for International Broadcasting	32	.....	32	59	.....	59	50	.....	50
Corporation for National and Community Service	18	.....	18	44	.....	44	1	.....	1
Corporation for Public Broadcasting .....	.....	.....	.....	286	.....	286	275	.....	275
District of Columbia:									
Federal payment .....	.....	.....	.....	714	.....	714	698	.....	698
Other	4	.....	4	11	12	-1	3	12	-9
Equal Employment Opportunity Commission	18	(* *)	18	57	(* *)	57	56	(* *)	56
Export-Import Bank of the United States	145	120	25	575	82	493	307	904	-597
Federal Communications Commission	13	9	4	31	15	16	30	10	21
Federal Deposit Insurance Corporation:									
Bank insurance fund	125	621	-496	541	1,373	-832	799	2,251	-1,452
Savings association insurance fund	2	2	(* *)	16	30	-15	9	2	7
FSLIC resolution fund	117	84	33	695	320	375	822	954	-133
Affordable housing and bank enterprise	1	.....	1	1	.....	1	1	.....	1
Federal Emergency Management Agency:									
Public enterprise funds	84	15	69	183	78	105	198	66	132
Disaster relief	228	.....	228	693	.....	693	465	.....	465
Emergency management planning and assistance	27	.....	27	65	.....	65	65	.....	65
Other	40	1	39	66	1	65	47	.....	47
Federal Trade Commission	-2	.....	-2	13	.....	13	21	.....	21
Interstate Commerce Commission	2	.....	2	11	.....	11	10	.....	10
Legal Services Corporation	68	.....	68	124	.....	124	96	.....	96
National Archives and Records Administration	12	(* *)	12	46	(* *)	46	40	(* *)	39
National Credit Union Administration:									
Credit union share insurance fund	-1	1	-2	-2	4	-6	14	27	-12
Central liquidity facility .....	.....	.....	.....	5	5	(* *)	26	26	.....
Other	6	(* *)	6	10	1	9	7	1	6

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
[\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
National Endowment for the Arts	12	.....	12	42	.....	42	49	.....	49
National Endowment for the Humanities	12	.....	12	39	.....	39	39	.....	39
National Labor Relations Board	12	.....	12	41	.....	41	40	.....	40
National Science Foundation	225	.....	225	619	.....	619	600	.....	600
Nuclear Regulatory Commission	39	3	35	123	148	-24	116	119	-3
Panama Canal Commission	43	54	-10	133	148	-15	125	136	-12
Postal Service:									
Public enterprise funds (off-budget)	4,812	4,626	186	12,662	11,938	724	12,410	13,010	-600
Payment to the Postal Service fund	.....	.....	.....	61	.....	61	61	.....	61
Railroad Retirement Board:									
Federal windfall subsidy	21	.....	21	65	.....	65	69	.....	69
Federal payments to the railroad retirement accounts	(* *)	.....	(* *)	46	.....	46	12	.....	12
Rail industry pension fund:									
Advances from FOASDI fund	-90	.....	-90	-271	.....	-271	-268	.....	-268
OASDI certifications	90	.....	90	271	.....	271	268	.....	268
Administrative expenses	8	.....	8	18	.....	18	20	.....	20
Interest on refunds of taxes	(* *)	.....	(* *)	17	.....	17	18	.....	18
Other	1	.....	1	2	.....	2	2	.....	2
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other	.....	.....	.....	-46	.....	-46	-12	.....	-12
Supplemental annuity pension fund	241	.....	241	729	.....	729	719	.....	719
Railroad Social Security equivalent benefit account	397	.....	397	1,195	.....	1,195	1,171	.....	1,171
Other	(* *)	.....	(* *)	1	.....	1	1	.....	1
Total—Railroad Retirement Board	668	.....	668	2,026	.....	2,026	1,999	.....	1,999
Resolution Trust Corporation	125	2,126	-2,001	1,050	5,024	-3,974	5,218	3,909	1,310
Securities and Exchange Commission	8	.....	8	32	.....	32	37	.....	37
Smithsonian Institution	32	.....	32	79	.....	79	66	.....	66
Tennessee Valley Authority	558	591	-33	2,375	1,904	471	2,528	2,154	374
United States Information Agency	99	(* *)	99	277	(* *)	277	252	(* *)	252
Other	244	192	52	642	527	114	652	246	406
Total—Other independent agencies	7,846	8,446	-600	24,497	21,611	2,886	28,257	23,828	4,429
Undistributed offsetting receipts:									
Other interest	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	.....	.....	.....	(* *)	.....	(* *)	(* *)	.....	(* *)
The Judiciary:									
Judicial survivors annuity fund	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Defense—Civil:									
Military retirement fund	-1,018	.....	-1,018	-3,044	.....	-3,044	-3,192	.....	-3,192
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund:									
Federal employer contributions	-158	.....	-158	-475	.....	-475	-476	.....	-476
Postal Service employer contributions	-45	.....	-45	-134	.....	-134	-110	.....	-110
Payments for military service credits	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	-394	.....	-394	-1,182	.....	-1,182	-1,275	.....	-1,275
Payments for military service credits	517	.....	17	17	.....	17	.....	.....	.....
Federal disability insurance trust fund:									
Federal employer contributions	-71	.....	-71	-212	.....	-212	-138	.....	-138
Payments for military service credits	5-17	.....	-17	-17	.....	-17	.....	.....	.....
Department of State:									
Foreign Service retirement and disability fund	-8	.....	-8	-25	.....	-25	-26	.....	-26
Office of Personnel Management:									
Civil service retirement and disability fund	-871	.....	-871	-2,352	.....	-2,352	-2,397	.....	-2,397
Independent agencies:									
Court of veterans appeals retirement fund	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total—Employer share, employee retirement	-2,564	.....	-2,564	-7,422	.....	-7,422	-7,613	.....	-7,613

Table 5. Outlays of the U.S. Government, December 1994 and Other Periods—Continued
[\$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund .....	(* *)	.....	(* *)	-4	.....	-4	-4	.....	-4
Department of Defense—Civil:									
Corps of Engineers	-1	.....	-1	-1	.....	-1	-1	.....	-1
Military retirement fund	18	.....	18	-5,373	.....	-5,373	-4,925	.....	-4,925
Education benefits fund .....	(* *)	.....	(* *)	-15	.....	-15	-17	.....	-17
Soldiers' and airmen's home permanent fund	-1	.....	-1	-3	.....	-3	-8	.....	-8
Other .....	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund	-5,305	.....	-5,305	-5,318	.....	-5,318	-5,249	.....	-5,249
Federal supplementary medical insurance trust fund ..	-828	.....	-828	-903	.....	-903	-1,003	.....	-1,003
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund ...	-14,684	.....	-14,684	-15,102	.....	-15,102	-13,660	.....	-13,660
Federal disability insurance trust fund	-796	.....	-796	-823	.....	-823	-364	.....	-364
Department of Labor:									
Unemployment trust fund	-1,210	.....	-1,210	-1,287	.....	-1,287	-1,257	.....	-1,257
Department of State:									
Foreign Service retirement and disability fund	-298	.....	-298	-299	.....	-299	-280	.....	-280
Department of Transportation:									
Highway trust fund	-436	.....	-436	-508	.....	-508	-701	.....	-701
Airport and airway trust fund	-340	.....	-340	-371	.....	-371	-416	.....	-416
Oil spill liability trust fund .....	(* *)	.....	(* *)	-2	.....	-2	-2	.....	-2
Department of Veterans Affairs:									
National service life insurance fund	-531	.....	-531	-535	.....	-535	-536	.....	-536
United States government life Insurance Fund	-4	.....	-4	-4	.....	-4	-5	.....	-5
Environmental Protection Agency .....	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)
National Aeronautics and Space Administration .....	(* *)	.....	(* *)	(* *)	.....	(* *)	(* *)	.....	(* *)
Office of Personnel Management:									
Civil service retirement and disability fund	-13,740	.....	-13,740	-13,801	.....	-13,801	-12,908	.....	-12,908
Independent agencies:									
Railroad Retirement Board	-58	.....	-58	-158	.....	-158	-188	.....	-188
Other .....	(* *)	.....	(* *)	-2	.....	-2	-3	.....	-3
Other	-3	.....	-3	-44	.....	-44	-31	.....	-31
Total—Interest received by trust funds	-38,216	.....	-38,216	-44,555	.....	-44,555	-41,560	.....	-41,560
Rents and royalties on the outer continental shelf lands ..	.....	106	-106	.....	420	-420	.....	627	-627
Sale of major assets .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Spectrum auction proceeds .....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total—Undistributed offsetting receipts	-40,781	106	-40,887	-51,977	420	-52,397	-49,173	627	-49,800
Total outlays	151,378	16,504	134,874	426,760	45,275	381,485	426,166	47,490	378,676
Total on-budget	135,370	11,878	123,491	351,598	33,336	318,262	353,186	34,480	318,707
Total off-budget	16,009	4,626	11,382	75,162	11,939	63,224	72,979	13,010	59,969
Total surplus (+) or deficit			-4,063			-73,979			-91,509
Total on-budget			-19,631			-86,934			-104,445
Total off-budget			+15,568			+12,956			+12,936

MEMORANDUM

Receipts offset against outlays

[\$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	11,426	10,691
Receipts from off-budget federal entities .....	.....	.....
Intrabudgetary transactions	75,759	78,098
Governmental receipts	554	433
Total receipts offset against outlays	87,739	89,222

¹Prior month adjustment.
²Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.
³The receipts and outlays in March 1994 have been decreased by \$1 million to reflect the reclassification of intrabudgetary transactions previously reported as governmental receipts for the "Wildlife Conservation and Appreciation Fund".

⁴The Postal Service accounting is composed of thirteen 28-day accounting periods. To conform with the MTS calendar-month reporting basis used by all other Federal agencies, the MTS reflects USPS results through 12/9 and estimates for \$1,416 million through 12/31.

⁵Represents a retroactive adjustment for FY 1994 to reflect the new distribution between the FOASI and FDI trust funds.

... No Transactions.
 (* *) Less than \$500,000

Note: Details may not add to totals due to rounding

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, December 1994 and Other Periods
 (\$ millions)

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (-) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	21,630	107,400	124,198	4,677,750	4,763,520	4,785,150
Federal Financing Bank .....	.....	.....	.....	15,000	15,000	15,000
Total, public debt securities	21,630	107,400	124,198	4,692,750	4,778,520	4,800,150
Plus premium on public debt securities	-8	-23	41	1,333	1,317	1,309
Less discount on public debt securities	1,209	2,126	-5,917	78,631	79,548	80,757
Total public debt securities net of Premium and discount	20,412	105,251	130,156	4,615,453	4,700,292	4,720,704
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	3	-1,777	1,383	28,543	26,762	26,766
Total federal securities	20,416	103,474	131,539	4,643,996	4,727,054	4,747,470
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	33,796	43,944	36,771	1,213,104	1,223,252	1,257,048
Less discount on federal securities held as investments of government accounts	64	140	-6,037	1,684	1,759	1,823
Net federal securities held as investments of government accounts	33,732	43,804	42,808	1,211,421	1,221,493	1,255,225
Total borrowing from the public	-13,316	59,669	88,731	3,432,575	3,505,561	3,492,244
Accrued interest payable to the public	14,232	5,195	-656	43,287	34,251	48,482
Allocations of special drawing rights	15	-37	-220	7,189	7,137	7,153
Deposit funds	94	233	-1,338	7,316	7,455	7,549
Miscellaneous liability accounts (includes checks Outstanding etc.)	2,119	-1,315	-2,517	4,938	1,504	3,623
Total liability accounts	3,143	63,745	84,001	3,495,306	3,555,908	3,559,051
Asset accounts (deduct)						
Cash and monetary assets: ¹						
U.S. Treasury operating cash:						
Federal Reserve account	1,814	313	-2,480	6,848	5,348	7,161
Tax and loan note accounts	-2,290	-9,675	-303	29,094	21,709	19,419
Balance	-476	-9,362	-2,783	35,942	27,056	26,580
Special drawing rights:						
Total holdings	21	68	-179	9,971	10,017	10,039
SDR certificates issued to Federal Reserve banks .....	.....	.....	.....	-8,018	-8,018	-8,018
Balance	21	68	-179	1,953	1,999	2,021
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments .....	.....	.....	.....	31,762	31,762	31,762
Maintenance of value adjustments	82	-200	-1,127	7,163	6,881	6,963
Letter of credit issued to IMF	-33	27	79	-25,923	-25,863	-25,896
Dollar deposits with the IMF	(* *)	1	-8	-96	-95	-95
Receivable/Payable (-) for interim maintenance of value adjustments	-57	136	763	-837	-644	-700
Balance	-7	-36	-292	12,069	12,040	12,033
Loans to International Monetary Fund .....	.....	.....	.....	(* *)	(* *)	(* *)
Other cash and monetary assets	-2,603	-306	54	21,417	23,714	21,111
Total cash and monetary assets	-3,065	-9,636	-3,201	71,380	64,809	61,745
Net activity, guaranteed loan financing	-687	-913	-1,449	-9,806	-10,032	-10,719
Net activity, direct loan financing	795	1,807	848	12,726	13,738	14,533
Miscellaneous asset accounts	2,084	-1,321	-3,527	-1,386	-4,791	-2,707
Total asset accounts	-872	-10,063	-7,329	72,915	63,724	62,852
Excess of liabilities (+) or assets (-)	+4,016	+73,808	+91,330	+3,422,391	+3,492,183	+3,496,199
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	48	171	178	.....	123	171
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (-))	+4,063	+73,979	+91,509	+3,422,391	+3,492,306	+3,496,370

¹Major sources of information used to determine Treasury's operating cash income include the Daily Balance Wires from Federal Reserve Banks, reporting from the Bureau of Public Debt, electronic transfers through the Treasury Financial Communication System and reconciling wires from Internal Revenue Centers. Operating cash is presented on a modified cash basis, deposits are reflected as received and withdrawals are reflected as processed.

... No Transactions.

(* *) Less than \$500,000

Note: Details may not add to totals due to rounding

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, December 1994 and Other Periods

Classification	[\$ millions]		
	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,492,183	3,422,146	3,218,965
Adjustments during current fiscal year for changes in composition of unified budget:			
Revisions by federal agencies to the prior budget results .....	.....	245	526
Excess of liabilities beginning of period (current basis)	3,492,183	3,422,391	3,219,491
Budget surplus (-) or deficit:			
Based on composition of unified budget in prior fiscal yr	4,063	73,979	91,509
Changes in composition of unified budget .....	.....	.....	.....
Total surplus (-) or deficit (Table 2)	4,063	73,979	91,509
Total-on-budget (Table 2)	19,631	86,934	104,445
Total-off-budget (Table 2)	-15,568	-12,956	-12,936
Transactions not applied to current year's surplus or deficit:			
Seigniorage	-48	-171	-178
Total-transactions not applied to current year's Surplus or deficit	-48	-171	-178
Excess of liabilities close of period	3,496,199	3,496,199	3,310,821

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, December 1994 and Other Periods

Classification	[\$ millions]					
	Net Transactions (-) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
This Year		Prior Year	This Year	This Month		
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States .....	.....	.....	.....	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
FSLIC resolution fund .....	.....	.....	.....	538	538	538
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages .....	.....	.....	(* *)	6	6	6
Department of Housing and Urban Development:						
Federal Housing Administration	-1	4	42	112	117	116
Department of the Interior:						
Bureau of Land Management .....	.....	.....	.....	13	13	13
Department of Transportation:						
Federal Transit Administration .....	.....	.....	-547	.....	.....	.....
Coast Guard:						
Family housing mortgages .....	.....	.....	.....	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	4	4	192	195	196
Independent agencies:						
Farm Credit System Financial Assistance Corporation .....	.....	.....	.....	1,261	1,261	1,261
National Archives and Records Administration .....	.....	.....	.....	298	298	298
Tennessee Valley Authority	2	-1,785	1,885	26,121	24,334	24,336
Total, agency securities	3	-1,777	1,383	28,543	26,762	26,766

... No Transactions.

(* *) Less than \$500,000.

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

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, December 1994 and Other Periods

[\$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Guaranty reserve fund		337		413	750	750
Agency for International Development:						
International Debt Reduction				315	315	315
Housing and other credit guaranty programs				125	125	125
Private sector revolving fund				1	1	1
Overseas Private Investment Corporation				16	16	16
Department of Agriculture:						
Foreign assistance programs		-7		550	544	544
Commodity Credit Corporation	1,866	-10,227	-13,250	16,909	4,816	6,682
Farmers Home Administration:						
Agriculture credit insurance fund		-1,748	-2,385	4,032	2,284	2,284
Self-help housing land development fund		1		(*)	1	1
Rural housing insurance fund	202	1,177		4,497	5,472	5,674
Rural Development Administration:						
Rural development insurance fund		715	-10	2,091	2,806	2,806
Rural development loan fund		40		21	61	61
Rural Electrification Administration:						
Rural communication development fund			31	57	57	57
Rural electrification and telephone revolving fund		695	242	8,212	8,907	8,907
Rural Telephone Bank	-16	98	16	586	701	684
Department of Education:						
Guaranteed student loans				1,605	1,605	1,605
College housing and academic facilities fund	3,598	4,887	13	596	1,884	5,482
College housing loans				411	411	411
Department of Energy:						
Isotope production and distribution fund				14	14	14
Bonneville power administration fund			58	2,617	2,617	2,617
Department of Housing and Urban Development:						
Housing programs:						
Federal Housing Administration		-21		783	762	762
Housing for the edery and handicapped		-770	-475	8,484	7,714	7,714
Public and Indian housing:						
Low-rent public housing				135	135	135
Department of the Interior:						
Bureau of Reclamation Loans				11	11	11
Bureau of Mines, Helium Fund				252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans		-1	(*)	26	25	25
Department of Justice:						
Federal prison industries, incorporated				20	20	20
Department of Transportation:						
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds		(*)		14	14	14
Amtrak corridor improvement loans		(*)		2	3	3
Other				(*)	(*)	(*)
Federal Aviation Administration:						
Aircraft purchase loan guarantee program			(*)	(*)	(*)	(*)
Department of the Treasury:						
Federal Financing Bank revolving fund	-1,845	-5,540	-1,141	94,357	90,662	88,817
Department of Veterans Affairs:						
Loan guaranty revolving fund				1,107	1,107	1,107
Guaranty and indemnity fund				181	181	181
Direct loan revolving fund				2	2	2
Vocational rehabilitation revolving fund			1	2	2	2
Environmental Protection Agency:						
Abatement, control, and compliance loan program		11	(*)	26	37	37
Small Business Administration:						
Business loan and revolving fund				7,289	7,289	7,289
Independent agencies:						
Export-Import Bank of the United States		-27	811	2,632	2,605	2,605
Federal Emergency Management Agency:						
National insurance development fund			125	87	87	87
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund				85	85	85
Railroad Retirement Board:						
Railroad retirement account				2,128	2,128	2,128
Social Security equivalent benefit account	256	734	716	2,781	3,259	3,515
Smithsonian Institution:						
John F. Kennedy Center parking facilities				20	20	20
Tennessee Valley Authority				150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	4,061	-9,645	-15,248	163,642	149,936	153,997

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, December 1994 and Other Periods—Continued

[\$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military sales	-13	-37	-38	3,785	3,761	3,748
Department of Agriculture:						
Rural Electrification Administration	28	76	-75	21,916	21,964	21,991
Farmers Home Administration:						
Agriculture credit insurance fund				6,063	6,063	6,063
Rural housing insurance fund		-410		24,391	23,981	23,981
Rural development insurance fund				3,675	3,675	3,675
Department of Defense:						
Department of the Navy				1,624	1,624	1,624
Defense agencies				-145	-145	-145
Department of Education:						
Student Loan Marketing Association			-30			
Department of Health and Human Services, Except Social Security:						
Medical facilities guarantee and loan fund		-9	(* *)	63	54	54
Department of Housing and Urban Development:						
Low rent housing loans and other expenses		-58	-54	1,747	1,689	1,689
Community Development Grants	-1	-5	-14	110	105	104
Department of Interior:						
Territorial and international affairs				22	22	22
Department of Transportation:						
Federal Railroad Administration	(* *)	-1	-1	15	14	14
Federal Transit Administration			665	665	665	665
Department of the Treasury:						
Financial Management Service			-30			
General Services Administration:						
Federal buildings fund	14	64	61	1,780	1,831	1,844
Small Business Administration:						
Business loan and investment fund	-17	-34	-20	581	564	547
Independent agencies:						
Export-Import Bank of the United States	-478	-478	-485	3,926	3,926	3,449
Pennsylvania Avenue Development Corporation	10	29	27	250	268	278
Postal Service		-900		8,973	8,073	8,073
Resolution Trust Corporation	-1,387	-3,577	-1,146	26,519	24,329	22,942
Tennessee Valley Authority		-200		3,400	3,200	3,200
Total borrowing from the Federal Financing Bank	-1,845	-5,540	-1,142	109,360	105,664	103,820

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase of agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.

(* *) Less than \$500,000

Note: Details may not add to totals due to rounding

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, December 1994 and Other Periods

[\$ millions]

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	-2	(*)	3	.....	2	(*)
Department of Commerce	1	2	2	13	14	14
Department of Defense—Military:						
Defense cooperation account .....	.....	-4	(*)	5	(*)	(*)
Department of Energy	-74	217	148	4,527	4,818	4,744
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund	-3	-81	-120	5,742	5,664	5,661
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities .....	.....	.....	1	.....	.....	.....
Agency securities .....	.....	.....	.....	16	16	16
Guarantees of mortgage-backed securities:						
Public debt securities	29	96	92	3,713	3,781	3,810
Agency securities .....	.....	.....	1	1	1	1
Other .....	.....	19	-28	193	212	212
Department of the Interior	-9	464	158	2,722	3,195	3,187
Department of Labor	-51	-94	-6,560	5,330	5,287	5,236
Department of Transportation	1	16	28	974	989	990
Department of the Treasury	60	1,306	-67	7,452	8,699	8,758
Department of Veterans Affairs:						
Canteen service revolving fund	4	4	3	37	37	41
Veterans reopened insurance fund	20	15	16	524	519	539
Servicemen's group life insurance fund	(*)	-38	-109	41	3	4
Independent agencies:						
Export-Import Bank of the United States	32	-17	541	57	8	41
Federal Deposit Insurance Corporation:						
Bank insurance fund	488	824	1,532	13,972	14,308	14,796
Savings association insurance fund	(*)	16	-6	2,493	2,508	2,508
FSLIC resolution fund	-33	-375	741	1,649	1,307	1,274
Federal Emergency Management Agency:						
National flood insurance fund	-67	-67	-71	200	200	133
National Credit Union Administration	-5	-3	6	3,052	3,053	3,048
Postal Service	-84	-73	1,073	1,271	1,281	1,197
Tennessee Valley Authority .....	.....	-2,701	1,570	3,954	1,253	1,253
Other	86	86	2	1,017	1,017	1,103
Other	-174	255	-161	2,626	3,055	2,881
Total public debt securities	219	-133	-1,207	61,564	61,212	61,431
Total agency securities .....	.....	.....	1	17	17	17
Total Federal funds	219	-133	-1,206	61,581	61,229	61,448
Trust funds:						
Legislative Branch:						
Library of Congress	-4	9	4	4	16	12
United States Tax Court .....	.....	(*)	(*)	5	5	5
Other	5	5	(*)	27	27	32
The Judiciary:						
Judicial retirement funds	-1	28	20	245	275	273
Department of Agriculture	(*)	4	179	273	278	278
Department of Commerce	(*)	(*)	(*)	(*)	(*)	(*)
Department of Defense—Military:						
Voluntary separation incentive fund	-24	-6	-43	763	781	757
Other	(*)	(*)	5	157	156	157
Department of Defense—Civil:						
Military retirement fund	-1,261	13,405	13,140	105,367	120,033	118,772
Other	-59	-58	8	1,307	1,308	1,249

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, December 1994 and Other Periods—Continued

[\$ millions]

Classification	Net Purchases or Sales (-)		Securities Held as Investments Current Fiscal Year			
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Trust Funds—Continued						
Department of Health and Human Services, except Social Security:						
Federal hospital insurance trust fund	4,846	4,825	2,726	128,716	128,695	133,541
Federal supplementary medical insurance trust fund	-9	-1,711	1,594	21,489	19,787	19,778
Other	(* *)	16	30	836	852	852
Department of Health and Human Services, Social Security:						
Federal old-age and survivors insurance trust fund	14,476	6	13,825	413,425	398,954	413,431
Federal disability insurance trust fund	1,292	16,879	-1,227	6,100	21,687	22,979
Department of the Interior	27	64	118	234	272	299
Department of Justice	45	45	82	.....	.....	45
Department of Labor:						
Unemployment trust fund	-498	750	-730	39,788	41,036	40,537
Other	-8	-28	-28	59	39	31
Department of State:						
Foreign Service retirement and disability fund	314	395	5	7,179	7,259	7,574
Other .....	.....	-50	12	50	(* *)	(* *)
Department of Transportation:						
Highway trust fund	1,432	482	-310	17,694	16,743	18,175
Airport and airway trust fund	324	-52	165	12,206	11,830	12,155
Other	119	157	1	1,683	1,721	1,840
Department of the Treasury	-39	-92	-78	247	195	156
Department of Veterans Affairs:						
General post fund, national homes .....	.....	.....	(* *)	38	38	38
National service life insurance	429	300	318	11,852	11,723	12,152
United States government life Insurance Fund	(* *)	-3	-3	115	113	113
Veterans special life insurance fund	60	48	47	1,509	1,497	1,557
Environmental Protection Agency	218	442	74	6,250	6,473	6,691
National Aeronautics and Space Administration	(* *)	(* *)	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund	11,867	7,897	7,630	338,889	334,919	346,786
Employees health benefits fund	161	154	250	7,572	7,565	7,726
Employees life insurance fund	-178	138	320	14,929	15,245	15,068
Retired employees health benefits fund	(* *)	(* *)	(* *)	1	1	1
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	(* *)	(* *)	(* *)	53	53	53
Japan-United States Friendship Commission	(* *)	(* *)	-1	17	17	17
Railroad Retirement Board	-8	-102	-162	12,203	12,110	12,101
Other	47	127	4	226	306	354
Total public debt securities	33,577	44,077	37,977	1,151,523	1,162,024	1,195,601
Total trust funds	33,577	44,077	37,977	1,151,523	1,162,024	1,195,601
Grand total	33,796	43,944	36,771	1,213,104	1,223,252	1,257,048

... No Transactions
 (* *) Less than \$500,000.

Note: Investments are in public debt securities unless otherwise noted.
 Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995
[\$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:													134,809	129,497
Individual income taxes	43,659	37,414	53,736										36,468	32,604
Corporation income taxes	3,055	1,497	31,915											
Social insurance taxes and contributions														
Employment taxes and contributions	31,263	33,786	35,708										100,758	94,238
Unemployment insurance	1,073	3,249	230										4,552	4,078
Other retirement contributions	351	352	420										1,122	1,150
Excise taxes	4,272	5,518	4,587										14,377	13,101
Estate and gift taxes	1,202	1,220	1,092										3,513	3,475
Customs duties	1,848	1,827	1,747										5,421	4,980
Miscellaneous receipts	2,300	2,811	1,375										6,486	4,046
Total—Receipts this year	89,024	87,673	130,810										307,507	.....
(On-budget)	65,384	62,083	103,860										231,327	.....
(Off-budget)	23,639	25,590	26,950										76,179	.....
<i>Total—Receipts prior year</i>	78,662	83,102	125,403										.....	287,167
(On budget)	55,858	58,695	99,709										.....	214,262
(Off budget)	22,804	24,407	25,694										.....	72,905
Outlays														
Legislative Branch	354	217	333										903	787
The Judiciary	184	169	303										656	568
Executive Office of the President	18	17	26										61	53
Funds Appropriated to the President:														
International Security Assistance	3,255	310	271										3,837	4,065
International Development Assistance	726	367	443										1,537	1,150
Other	-381	452	18										89	498
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	1,749	2,973	1,857										6,580	5,777
Other	5,850	3,860	3,649										13,358	12,673
Department of Commerce	305	300	304										909	823
Department of Defense:														
Military:														
Military personnel	3,713	5,701	8,203										17,617	20,617
Operation and maintenance	6,118	7,837	7,312										21,267	20,415
Procurement	4,254	4,754	4,727										13,736	16,009
Research, development, test, and evaluation	2,501	2,896	3,211										8,609	8,810
Military construction	425	537	436										1,398	1,182
Family housing	247	242	305										793	675
Revolving and management funds	147	-311	942										778	2,659
Other	275	-222	42										95	328
Total Military	17,680	21,435	25,178										64,294	70,695
Civil	2,638	2,656	2,553										7,848	7,614
Department of Education	1,949	2,322	3,888										8,159	7,697
Department of Energy	1,683	1,330	1,743										4,756	4,925
Department of Health and Human Services, except Social Security:														
Public Health Service	1,603	1,588	1,761										4,951	4,799
Health Care Financing Administration:														
Grants to States for Medicaid	6,622	7,545	7,321										21,488	21,107
Federal hospital ins. trust fund	7,834	8,942	9,757										26,533	24,758
Federal supp. med. ins. trust fund	4,799	5,290	5,837										15,926	15,334
Other	3,055	3,092	3,015										9,162	11,366
Social Security Administration	917	2,200	4,138										7,255	8,923
Administration for children and families	2,728	2,519	2,812										8,059	8,348
Other	-4,508	-4,525	-4,515										-13,547	-15,214
Department of Health and Human Services, Social Security:														
Federal old-age and survivors ins. trust fund	23,413	23,368	23,810										70,591	68,027
Federal disability ins. trust fund	3,289	3,244	3,348										9,881	8,981
Other	-630	-7	-17										-655	-1,001
Department of Housing and Urban Development	2,903	2,426	2,394										7,723	7,368

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995—Continued
[\$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Outlays—Continued														
Department of the Interior	884	583	558										2,025	1,633
Department of Justice	908	818	749										2,475	2,427
Department of Labor:														
Unemployment trust fund	1,650	1,854	2,001										5,506	8,617
Other	702	-170	469										1,002	1,386
Department of State	488	841	664										1,993	1,908
Department of Transportation:														
Highway trust fund	1,794	1,762	1,416										4,972	4,891
Other	1,650	1,737	1,640										5,027	4,572
Department of the Treasury:														
Interest on the public debt	19,732	24,912	57,320										101,964	92,611
Other	34	-308	1,336										1,062	956
Department of Veterans Affairs:														
Compensation and pensions	105	1,457	2,824										4,386	5,553
National service life	64	70	83										218	197
United States government life	1	1	2										5	5
Other	1,528	1,784	1,344										4,656	4,656
Environmental Protection Agency	438	474	538										1,450	1,394
General Services Administration	-651	639	462										451	134
National Aeronautics and Space Administration	845	1,143	1,203										3,190	3,484
Office of Personnel Management	3,410	3,118	3,460										9,988	9,293
Small Business Administration	65	145	64										274	209
Independent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance fund	-127	-208	-496										-832	-1,452
Savings association insurance fund	-2	-13	(* *)										-15	7
FSLIC resolution fund	-87	430	33										375	-133
Postal Service:														
Public enterprise funds (off-budget)	648	-110	186										724	-600
Payment to the Postal Service fund	61												61	61
Resolution Trust Corporation	-471	-1,502	-2,001										-3,974	1,310
Tennessee Valley Authority	265	239	-33										471	374
Other independent agencies	2,720	1,646	1,710										6,075	4,862
Undistributed offsetting receipts:														
Employer share, employee retirement	-2,442	-2,416	-2,564										-7,422	-7,613
Interest received by trust funds	-611	-5,727	-38,216										-44,555	-41,560
Rents and royalties on outer continental shelf lands	-154	-160	-106										-420	-627
Other	(* *)	(* *)	(* *)										(* *)	(* *)
Totals this year:														
Total outlays	121,480	125,131	134,874										381,485	.....
(On-budget)	95,307	99,464	123,491										318,262	.....
(Off-budget)	26,174	25,668	11,382										63,224	.....
Total-surplus (+) or deficit (-)	-32,457	-37,458	-4,063										-73,979	.....
(On-budget)	-29,922	-37,381	-19,631										-86,934	.....
(Off-budget)	-2,535	-78	+15,568										+12,956	.....
Total borrowing from the public	32,457	40,528	-13,316										59,669	88,731
<i>Total-outlays prior year</i>	<i>124,085</i>	<i>121,483</i>	<i>133,108</i>										.....	<i>378,676</i>
<i>(On-budget)</i>	<i>100,562</i>	<i>96,719</i>	<i>121,425</i>										.....	<i>318,707</i>
<i>(Off-budget)</i>	<i>23,523</i>	<i>24,764</i>	<i>11,683</i>										.....	<i>59,969</i>
<i>Total-surplus (+) or deficit (-) prior year</i>	<i>-45,422</i>	<i>-38,381</i>	<i>-7,705</i>										.....	<i>-91,509</i>
<i>(On-budget)</i>	<i>-44,704</i>	<i>-38,024</i>	<i>-21,717</i>										.....	<i>-104,445</i>
<i>(Off-budget)</i>	<i>-719</i>	<i>-357</i>	<i>+14,012</i>										.....	<i>+12,936</i>

... No transactions.
 (* *) Less than \$500,000.
 Note: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of December 31, 1994
 [\$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	Beginning of		Close of This Month
							This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	820	608	213	1,741	1,932	-191	12,206	11,830	12,155
Black lung disability	53	50	3	170	144	26	.....	.....	.....
Federal disability insurance	4,971	3,348	1,623	26,461	9,881	16,580	6,100	21,687	22,979
Federal employees life and health .....	.....	19	-19	.....	-182	182	22,503	22,811	22,795
Federal employees retirement	15,384	3,202	12,181	17,811	9,506	8,305	346,317	342,458	354,638
Federal hospital insurance	14,023	9,757	4,266	29,821	26,533	3,288	128,716	128,695	133,541
Federal old-age and survivors insurance	37,941	23,810	14,131	67,690	70,591	-2,901	413,425	398,954	413,431
Federal supplementary medical insurance	5,339	5,837	-499	14,430	15,926	-1,496	21,489	19,787	19,778
Highways	3,528	1,874	1,655	6,500	5,786	714	17,694	16,743	18,175
Military advances	1,355	1,399	-44	3,350	3,384	-34	.....	.....	.....
Railroad retirement	375	647	-272	1,128	1,961	-833	12,203	12,110	12,101
Military retirement	1,000	2,192	-1,193	19,887	6,747	13,140	105,367	120,033	118,772
Unemployment	1,543	2,001	-459	5,999	5,506	494	39,788	41,036	40,537
Veterans life insurance	555	43	512	608	240	367	13,477	13,333	13,822
All other trust	563	414	149	1,725	820	905	12,240	12,547	12,877
Total trust fund receipts and outlays and investments held from Table 6-D	87,449	55,202	32,248	197,323	158,775	38,547	1,151,523	1,162,024	1,195,601
Less: Interfund transactions	44,034	44,034	.....	74,140	74,140	.....	.....	.....	.....
Trust fund receipts and outlays on the basis of Tables 4 & 5	43,415	11,167	32,248	123,183	84,636	38,547	.....	.....	.....
Total Federal fund receipts and outlays	90,431	126,742	-36,311	192,696	305,222	-112,526	.....	.....	.....
Less: Interfund transactions	21	21	.....	59	59	.....	.....	.....	.....
Federal fund receipts and outlays on the basis of Table 4 & 5	90,410	126,721	-36,311	192,637	305,163	-112,526	.....	.....	.....
Less: offsetting proprietary receipts	3,015	3,015	.....	8,314	8,314	.....	.....	.....	.....
Net budget receipts & outlays	130,810	134,874	-4,063	307,507	381,485	-73,979	.....	.....	.....

..... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against budget outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

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

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, December 1994 and Other Periods

[\$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	53,736	134,809	129,497
Corporation income taxes	31,915	36,468	32,604
Social insurance taxes and contributions:			
Employment taxes and contributions	35,708	100,758	94,238
Unemployment insurance	230	4,552	4,078
Other retirement contributions	420	1,122	1,150
Excise taxes	4,587	14,377	13,101
Estate and gift taxes	1,092	3,513	3,475
Customs	1,747	5,421	4,980
Miscellaneous	1,375	6,486	4,046
Total	130,810	307,507	287,167
NET OUTLAYS			
National defense	26,348	67,585	74,092
International affairs	1,334	7,850	7,244
General science, space, and technology	1,529	4,318	4,439
Energy	417	1,108	1,320
Natural resources and environment	1,622	6,836	6,256
Agriculture	1,938	6,770	6,753
Commerce and housing credit	-2,166	-2,552	143
Transportation	3,021	9,961	9,521
Community and Regional Development	1,102	3,381	2,598
Education, training, employment and social services	5,779	13,510	13,108
Health	9,246	27,402	26,897
Medicare	14,058	37,844	36,023
Income security	19,331	50,757	53,907
Social Security	27,158	80,472	77,012
Veterans benefits and services	4,277	9,291	10,486
Administration of justice	1,278	3,794	3,560
General government	1,972	4,788	3,667
Interest	19,302	56,212	49,891
Undistributed offsetting receipts	-2,671	-7,842	-8,240
Total	134,874	381,485	378,676

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

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The *Monthly Treasury Statement (MTS)* is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, excluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or funds accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, electronic funds transferred, or cash payments made. Certain outlays do not require issuance of cash or checks. An example is charges made against appropriations for that part of employees' salaries withheld for taxes or savings bond allotments — these are counted as payments to

the employee and credits for whatever purpose the money was withheld. Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS*.

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *A Glossary of Terms Used in the Federal Budget Process, January 1993* (Available from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, Md. 20877). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy). Quarterly. Contains a mix of narrative, tables, and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

- *Budget of the United States Government, Fiscal Year 19* — (Available from GPO, Washington, D.C. 20402). This publication is a single volume which provides budget information and contains:

- Appendix, The Budget of the United States Government, FY 19* —
- The United States Budget in Brief, FY 19* —
- Special Analyses*
- Historical Tables*
- Management of the United States Government*
- Major Policy Initiatives*

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

**The release date for the January 1995 Statement
will be 2:00 pm EST February 22, 1995.**

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Text as prepared
Embargoed until delivery
Expected at 10 a.m.
January 25, 1995

**STATEMENT OF THE HONORABLE ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
January 25, 1995**

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today.

We have been engaged in a cooperative process these past few days. The President called for a bipartisan effort to respond to Mexico's financial problems, and the leadership of Congress, Republican and Democrat, responded. Our shared goal is to protect U.S. interests by helping our neighbors in Mexico. We all know that the stakes are high in avoiding a potential financial crisis that could spread to other emerging markets.

Mexico has experienced a loss of confidence, but the damage is not yet irreversible. It is critical that we prevent the current situation from deepening into a crisis with lasting implications for U.S. jobs, Mexican economic viability, and the financial prospects of all emerging markets.

Today I want to discuss with you what the U.S. has at stake, what we can do, and how our proposal will stabilize markets and protect our interests. Finally, I want to respond to some concerns about the proposed loan guarantee program.

What Is the U.S. Stake?

The crisis precipitated by events in Mexico demands our attention because what happens in Mexico has profound implications for the United States -- not just for economic theorists but for working Americans.

Mexico is an important and growing market for U.S. goods and services. We sell almost 3 times more goods there now than we did in 1987. Mexico has become our third largest export destination. Nearly 700,000 U.S. jobs depend directly on sales to Mexico.





Text as prepared
Embargoed until delivery
Expected at 10 a.m.
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Border states are especially heavily dependent on trade with Mexico: California sells \$5 billion of goods there yearly. But even Michigan sells \$6 billion, nearly 20 percent of its export sales. And export-producing jobs are high paying jobs.

These numbers make clear that failing our neighbor would mean failing ourselves -- and giving up a bright future because, ultimately, more trade at a sustainable exchange rate will fuel both Mexican and U.S. economic growth.

The risks are not only economic. A protracted crisis could send immigrants north and create social problems along our borders. Illegal immigration could increase by as much as 30 percent, at no small cost to taxpayers in border states and nationally. A strong and growing Mexico, on the other hand, provides jobs for Mexicans at home.

And the risks are not only in Mexico. Restoring confidence in Mexico will head off the spread of financial distress around the world. The fastest-growing customers for U.S. products are the most likely to feel the financial spillover from problems in Mexico. U.S. manufactured exports to developing countries expanded by 65 percent between 1989 and 1993; more than two-fifths of our overall exports are now destined for these countries. These are countries with great potential, countries where U.S. investors have large stakes.

Mexico has been, in several ways, a prototype for countries that are striving to put inward-looking, state-controlled models of economic development behind them. A new prosperity based on open markets, a welcome-mat for investment, and privatization is beginning to emerge. But Mexico's financial crisis shows that these emerging economies are still vulnerable to financial shocks. Helping Mexico through its current difficulties can keep alive the promise of market-oriented reform -- the key to growth and stability over the longer term for all of us.

What Can We Do and What Will It Cost?

The current situation in Mexico arises from a loss of confidence -- and its fallout. There is a prospect of a vicious circle, as this loss of confidence chokes off Mexico's access to funds and creates financial and economic distress, perpetuating investor unwillingness to invest in Mexico. If confidence is restored, a virtuous circle of foreign capital inflows, strong investment, and economic growth can be started.

Turning the situation around requires a mechanism to jumpstart confidence. The Administration and Congressional leadership have agreed that we can and should provide this mechanism. We have agreed to do this because it is the right thing for the United States and because the fundamentals of the Mexican economy are strong.

We propose to offer our backing to help Mexico access private resources while it restructures its economy. We would provide guarantees for up to \$40 billion in private sector loans to the Mexican government. The funds raised would allow Mexico to reduce its short-term obligations, not take on more total debt. In exchange for these guarantees, Mexico will pay a commitment fee for the availability of the guarantees, a basic fee that will

cover the cost to the U.S. budget, and a supplemental fee that will keep guaranteed borrowing from being a low cost option for Mexico. This will encourage Mexico to return to the market under its own name as quickly as possible.

These guarantees will have no adverse effect on the current U.S. budget. In fact, if the deal goes forward as we expect, the United States Treasury will gain.

We have good reasons for being confident that Mexico will meet its obligations.

- o We will provide guarantees only if the Mexican government follows policies that lead to financial stability and lay a sound basis for growth. This means tightly controlling monetary and credit growth, maintaining a budget surplus, and intensifying privatization and other market reforms. These policies will promote a healthy Mexican economy that can meet its obligations. Each time Mexico issues securities to be guaranteed by the U.S. Government, we must be satisfied that it is fully implementing these policies.
- o Mexico has repaid its borrowings from the U.S. Government for over fifty years.
- o The United States will, as an integral part of the proposed guarantee, have access to oil revenue streams that can reimburse the United States, in the extremely unlikely event that we incur any obligations pursuant to the guarantees.

This is not about foreign aid. We are not giving away anything.

And this is not a precedent for the future -- either for Mexico or for other countries. We have a uniquely important stake in Mexico at the present time, one that we cannot ignore. The problem that Mexico has encountered, a collapse of market confidence that has made it impossible to restabilize its currency, is unusual. The scale of the problem is beyond international financial institutions' current capacity. Our action and only our action can make a difference here that it would not make in other cases. At the same time, we are working to ensure that the international machinery for identifying and dealing with problems like this is prepared for such situations in the future.

There is natural concern that the United States not address this potential international crisis alone. We in the Administration are working hard, as is Chairman Greenspan, to gain international support to reinforce our efforts.

An array of swap facilities has been arranged to enhance Mexico's available short-term resources. Canada is providing about \$1 billion in swap credits. The Bank for International Settlements has commitments from other central banks for a \$5 billion swap facility. And Mexico and the IMF are in advanced stages of negotiations on a program that will provide substantial financial resources with policy conditionality. Indeed, I hope that the IMF will be able to go beyond its usual limits in supporting Mexico.

We are not leaving matters here. We are seeking additional support from others.

Will the Guarantee Program Make a Difference?

Mexico faces a problem of liquidity. This is key to understanding why the proposed approach will meet the challenge posed by current circumstances in Mexico.

The nature of the crisis becomes clear when one looks at how it came about. As Mexican economic reforms attracted investment over the past few years, the Mexican peso was buoyed and reserves expanded. Imports were easily financed. Less than a year ago, the Mexican "problem" was seen as one of keeping capital inflows from pushing up the money supply and feeding inflation.

But following the assassination of PRI presidential candidate Luis Donaldo Colosio, capital inflows did not recover, and we can now see that enthusiasm for Mexican paper was waning. And yet Mexico's appetite for imports -- to provide inputs for production and to fuel consumption -- did not wane. The current account deficit persisted, but there were no longer enough dollars coming in to finance it. There were no longer ready buyers for pesos.

The Mexican authorities fought to maintain the exchange rate by using dollar reserves to buy pesos and issuing Tesobonos -- dollar-indexed, peso-denominated short-term securities. The Mexicans also raised interest rates well above U.S. rates, even adjusting for inflation. But investors did not want to provide the new money Mexico needed to finance its current account deficit.

In this context, Mexico could not maintain its exchange rate, and the band for the peso was widened. But even the wider band was impossible to sustain. A concerned market took the peso well beyond almost all previous views about its equilibrium value.

In retrospect, Mexico could and should have managed this situation better. By the time the authorities let the peso go, they lacked the resources to counter market disorder. The Mexicans themselves have made clear that, as they look back, they would have handled the devaluation quite differently.

These events have not yet eroded the fundamental strength of the Mexican economy and its potential for growth. Concerted market reform and trade liberalization have made Mexico's economy dynamic and deep with possibilities. The government is streamlining its approach to economic management just as the private sector is modernizing business. Mexico passed legislation making its central bank independent last year. Mexico's economy is already in transformation to a more efficient, market system.

Helping bridge the current liquidity gap keeps open the window of opportunity -- for Mexico and its people -- to carry themselves forward to prosperity. But the most important element of this strategy is what Mexico is doing to help itself.

The Mexican government is tightening its monetary and fiscal policy. It is entering into a stabilization and economic adjustment program with the support of the International

Monetary Fund. Support from the United States will be contingent on Mexico moving forward with this process.

There is a sound basis in Mexico for ongoing economic reform, given the extensive restructuring that has taken place over the last ten years. This foundation puts Mexico in a good position to move quickly to shore up its economic and financial management.

One indispensable element that must be at the center of Mexican stabilization is sound money. There are countries that have had sound monetary policies with fixed exchange rates and countries that have done so with floating rates. What is key is that monetary policy be insulated from the political process. Mexico faced this reality in 1994 when it set up the basic guarantees of independence for the Bank of Mexico. Going forward, this will shape the culture of the Bank and the monetary policy it sets.

Some argue that the Mexicans should go further in insulating monetary policy by setting up a currency board. This is only one among several types of institutions that have historically provided countries with a vehicle for sound monetary policy. What matters is the determination not to give in to easy money.

Moving Forward

The financial support package under consideration by Congress presents a historic opportunity to avert, before it is too late, a prolonged crisis potentially touching many countries. America has a vital interest in strong and open markets abroad and in avoiding the social strains of financial collapse in our neighbor.

This crisis is not a result of NAFTA. Rather, NAFTA has helped make the crisis less severe. NAFTA ensures that Mexico can never again close its borders to American products. NAFTA ensures that Mexico must continue to provide safeguards for our investors. And NAFTA can once again bolster investor confidence, helping to bring Mexico out of its difficulties.

Providing Mexico with guarantees to access private lending and reduce short term debt is not about bailing out wealthy investors. American investors in Mexican stocks and peso securities have already suffered substantial losses -- as much as 40 percent. These losses are not likely to be recouped even in the context of a stabilization program.

Offering our help to Mexico through the guarantee package is what government is all about: doing the right thing for America. Congress and the Administration have made a good start in working together to make it happen. For Mexico and for ourselves, we need to finish the job.

President William Jefferson Clinton
State of the Union Address
Joint Session of Congress
The Capitol of the United States
January 24, 1995

Mr. President. Mr. Speaker. Members of the 104th Congress. My fellow Americans.

Again we are here in the sanctuary of democracy, and once again our democracy has spoken. To all of you in the 104th Congress, to you, Mr. Speaker: Congratulations.

If we agree on nothing else, we must agree that the American people voted for change in 1992 and 1994. We didn't hear America singing -- we heard America shouting. Now, we must say: We hear you. We will work together to earn your trust.

For we are the keepers of a sacred trust, and we must be faithful to it in this new era. Over two hundred years ago, our Founders changed the course of history by joining together to create a new country based on a powerful idea. We hold these truths to be self-evident, that all men are created equal; that they are endowed by their creator with certain inalienable rights; that among these are Life, Liberty and the Pursuit of Happiness.

It has fallen to every generation since to preserve that idea -- the American idea -- and to expand its meaning in new and different times. To Lincoln and his Congress: To preserve the Union and end slavery. To Theodore Roosevelt and Woodrow Wilson: To restrain the abuses and excesses of the Industrial Revolution, and to assert America's leadership in the world. To Franklin Roosevelt: To fight the failure of the Great Depression and our century's great struggle against fascism. To all our Presidents since: To fight the Cold War. Especially to two, who struggled in partnership with Congresses of the opposite party. To Harry Truman, who summoned us to unparalleled prosperity at home and constructed the architecture of the Cold War world. And to Ronald Reagan, who exhorted us to carry on until the twilight struggle against Communism was won.

In another time of change and challenge, I became the first President to be elected in the post-Cold War era, an era marked by the global economy, the information revolution, unparalleled change and opportunity and insecurity for ordinary Americans. I came to this hallowed chamber two years ago on a mission: To restore the American Dream for all our people and to ensure that we move into the 21st Century still the world's strongest force for freedom and democracy.

I was determined to tackle tough problems, too long ignored. In these efforts I have made my mistakes and learned again the importance of humility in all human endeavor. But I am proud to say that, tonight, our country is stronger than it was two years ago.

Record numbers of Americans are succeeding in the new global economy. We are at peace and a force for peace and freedom throughout the world. We have almost six million new jobs since I became President. We have the lowest combined rate of unemployment and

inflation in over 25 years. We have expanded trade, put more police on our streets, given our citizens more tools to get an education and rebuild their communities. But the rising tide is not lifting all boats.

While our nation is enjoying peace and prosperity, too many of our people are still working harder and harder for less and less. While our businesses are restructuring and growing more competitive, too many of our people can't be sure of even having a job next year or even next month. And far more than our material riches are threatened: Things far more precious - our children, our families, our values.

Our civil life is suffering. Citizens are working together less, shouting at each other more. The common bonds of community which have been the great strength of this country from its beginning are badly frayed.

What are we to do about it? More than 60 years ago, at the dawn of another new era, Franklin Roosevelt told the nation: "New conditions impose new requirements on government and those who conduct government." From that simple proposition, he shaped the New Deal, which helped restore our nation to prosperity and defined the relationship between Americans and their government for half a century.

That approach worked in its time. But we today, we face a new time and different conditions. We are moving from an Industrial Age built on gears and sweat, to an Information Age that will demand more skills and learning. Our government, once a champion of national purpose, is now seen as a captive of narrow interests, putting more burdens on our citizens, instead of equipping them to get ahead. The values that used to hold us together are coming apart.

So, tonight, we must forge a new social compact, to meet the challenges of our time. As we enter a new era, we need a new set of understandings, not just with our government, but more important, with one another.

That is what I want to talk to you about tonight. I call it a New Covenant, but it is grounded in a very old idea: That all Americans have not just a right, but a responsibility to rise as far as their God-given talents and determination can take them, and to give something back to their communities and their country in return.

Opportunity and responsibility go hand-in-hand. We can't have one without the other. And our national community can't hold together without both. Our New Covenant is a new set of understandings for how we can equip our people to meet the challenges of the new economy, how we can change the way our government works to fit a different time and, above all, how we can repair the damaged bonds in our society and come together behind our common purpose. We must have dramatic change in our economy, in our government and in ourselves.

Let us rise to the occasion. Let us put aside partisanship, pettiness, and pride. As we embark

on a new course, let us put our country first, remembering that regardless of our party labels, we are all Americans. Let the final test of any action we take be a simple one: is it good for the American people?"

We cannot ask Americans to be better citizens if we are not better servants. We've made a start this week by enacting a law applying to Congress the laws you apply to the private sector. But we have a lot more to do.

Three times as many lobbyists roam the streets and corridors of Washington as did 20 years ago. The American people look at their nation's capital, and they see a city where the well connected and the well protected milk the system, and the interests of ordinary citizens are too often left out.

As this new Congress opened its doors, lobbyists were still at work. Free travel, expensive gifts . . . business as usual. Twice this month, you have voted not to stop these gifts. Well, there doesn't have to be a law for everything. Tonight, I challenge you to just stop taking them -- now, without waiting for legislation to pass. Then, send me the strongest possible lobby reform bill, and I'll sign it.

Require the lobbyists to tell the people who they work for, what they're spending and what they want. And let's curb the role of big money in our elections, by capping the cost of campaigns and limiting the influence of PACs, and opening the people's airwaves to be an instrument of democracy, by giving free TV time to candidates.

When Congress killed political reform last year, the lobbyists actually stood in the halls of this sacred building and cheered. This year, let's give the folks at home something to cheer about.

More important, let's change the government -- let's make it smaller, less costly and smarter -
- leaner, not meaner.

The New Covenant is an approach to governing that is as different from the old bureaucratic way as the computer is from the manual typewriter. The old way protected the organized interests. The New Covenant looks out for the interests of ordinary people, the old way divided us by interests, constituency or class. The New Covenant unites us behind a common vision of what's best for our country.

The old way dispensed services through large, hierarchical, inflexible bureaucracies. The New Covenant shifts resources and decision-making from bureaucrats to citizens, injecting choice, competition and individual responsibility into national policy.

The old way seemed to reward failure. The New Covenant has built-in incentives to reward success. The old way was centralized in Washington. The New Covenant must take hold in communities across the country.

Our job here is to expand opportunity, not bureaucracy. To empower people to make the

most of their own lives; to enhance our security at home and abroad.

We must go beyond the sterile debate between the illusion that there is a program for every problem and the illusion that government is the source of all our problems. Our job is to get rid of yesterday's government so our people can meet today's and tomorrow's needs.

For years before I became President, others had been saying they would cut government, but not much happened. We did it. We cut over a quarter of a trillion dollars in spending, more than 300 domestic programs, more than 100,000 positions from the federal bureaucracy in the last two years alone. Based on decisions we have already made, we will have cut a total of more than a quarter million positions, making the federal government the smallest it has been since John Kennedy was President.

Under the leadership of Vice President Gore, our initiatives have already saved taxpayers \$6.4 billion. The age of the \$500 hammer is gone. Deadwood programs like mohair subsidies are gone. We have streamlined the Agriculture Department by more than 1,200 offices. Slashed the Small Business loan form from an inch-thick to a single page and thrown away the government's 10,000 page personnel manual. FEMA -- the federal disaster agency -- has gone from being a disaster to helping people. Government workers -- hand-in-hand with private business -- rebuilt southern California's fractured freeways in record time and under budget. And because the federal government moved fast, all but one of the 650 schools damaged in the earthquake are back in business educating our children.

University administrators tell me that they are saving weeks of time on college loan applications because of our new college loan program that cut costs to the taxpayers, cuts costs to students, and gives people a better way to pay back their college loans, and cut out bureaucracy.

Previous government reform reports gathered dust. We are getting results. And we're not through. There is going to be a second round of reinventing government. We propose to cut \$130 billion in spending by shrinking departments, extending our freeze on domestic spending, cutting 60 public housing programs down to three. Getting rid of over 100 programs we don't need -- like the Interstate Commerce Commission and the helium reserve program.

These programs have outlived their usefulness. We have to cut yesterday's government to help solve tomorrow's problems.

And we need to get government closer to the people it's meant to serve. Where states and communities, private citizens and the private sector can do a better job, we should get out of the way. We're taking power away from federal bureaucracies and giving it back to communities and individuals. And it's time for Congress to stop passing on to the states the cost of the decisions we make here in Washington.

For years, Congress has concealed in the budget scores of pet spending projects -- and last year was no different: A million dollars to study stress in plants, \$12 million for a tick-

removal programs that didn't even work. Give me the line item veto and I'll save the taxpayers money.

But when we cut, let's remember that government still has important responsibilities: Our young people hold our future in their hands; we owe a debt to our veterans who were willing to risk their lives for us; the elderly have made us what we are. My budget cuts a lot, but it protects education, veterans, Social Security, and Medicare and so should you.

And when we give more flexibility to the states, let's remember certain fundamental national needs that should be addressed in every state. Immunization against childhood disease; school lunches; Head Start; medical care and nutrition for pregnant women and infants — they're in the national interest.

I applaud your desire to get rid of costly, unnecessary regulations. But when we deregulate, let's remember what national action in the national interest has given us: Safer food for our families; safer toys for our kids; safer nursing homes for our parents. Safer cars and highways. And safer workplaces. Clean water and clean air.

Do we need more common sense and fairness in our regulations? You bet we do. But we can have common sense and still provide for safe drinking water. We can have fairness and still clean up toxic waste dumps. And we ought to do it.

Should we cut the deficit more? Of course, we should. We must bring down spending in a way that protects the economic recovery and does not punish the middle class or seniors.

I know many of you in this chamber support the balanced budget amendment. We all want to balance the budget. Our administration has done more to bring the budget closer to balance than any one in a long time. But if you're going to pass this amendment, you have to be straight with the American people. They have a right to know what you are going to cut and how it would affect them. And you should tell them before you change the Constitution.

In the New Covenant there are problems we have the responsibility to face.

Nothing has done more to undermine our sense of responsibility than our failed welfare system. It rewards welfare over work. It undermines family values. It lets millions of parents get away without paying child support.

That is why I have worked so long to reform welfare. We have made a good start. In the last two years, my administration has given more states the chance to find their own ways to reform welfare than the past two administrations combined. Last year, I introduced the most sweeping welfare reform plan ever presented by an administration.

We have to make welfare what it was meant to be: a second chance, not a way of life. We'll help those on welfare move to work as quickly as possible, provide child care and teach skills if they need them for up to two years. But after that, the rule will be simple: Anyone who can work must go to work.

If a parent isn't paying child support, we'll make them pay. We'll suspend their driver's licenses, track them across state lines and make them work off what they owe. Governments don't raise children. Parents do.

I want to work with you to pass welfare reform. But our goal must be to liberate people and lift them up -- from dependence to independence, welfare to work, mere childbearing to responsible parenting -- not punish them because they happen to be poor. We should require work and mutual responsibility, but we shouldn't cut people off because they are poor, young, unmarried. We should promote responsibility by requiring young mothers to live at home with their parents or in other supervised settings and finish school, not by putting them and their children out on the street. We shouldn't punish poor children for the mistakes of their parents.

Let this be the year we end welfare as we know it. But let this also be the year we stop using this issue to divide America. No one is more eager to end welfare than the people that are trapped on it. Let's promote education, work, good parenting. Let's punish bad behavior and the refusal to be a student, a worker, a responsible parent. Let's not punish poverty and past mistakes. All of us have made mistakes. None of us can change our yesterday's, but all of us can change tomorrow's. Just ask Lynn Woolsey, who worked her way off welfare and is now a congresswoman from California.

I know it has become fashionable to embrace Franklin D. Roosevelt. So let's remember exactly what he said: "Human kindness has never weakened the stamina or softened the fiber of a free people. A nation does not have to be cruel in order to be tough."

I know members of this Congress are concerned about crime. But I would remind you that last year we passed a very tough crime bill -- longer sentences, three strikes and you're out, more prevention, more prisons, and 100,000 more police. And we paid for it all by reducing the size of the federal bureaucracy and giving money back to local communities to lower the crime rate. There may be other things we can do to be tougher on crime and to help lower the crime rate, and let's do them. But let's not take back the good things we've already done. That's what local community leaders think. And that's what the police who put their lives on the line every day think.

Secondly, the last Congress passed the Brady Bill and the ban on nineteen assault weapons. I think everybody in this room knows that several members of the last Congress who voted for the assault weapons ban and the Brady Bill lost their seats because of it. Neither the bill supporters nor I believe anything should be done to infringe upon the legitimate right of our citizens to bear arms for hunting and sporting purposes. Those people laid down their seats in Congress to try to keep more police and children from laying down their lives in our streets under a hail of assault weapons' bullets. And I will not see that ban repealed.

We shouldn't cut government programs that help to prepare us for the new economy, promote responsibility, and are organized from the grass roots up, not by federal bureaucracies. The best example of that is the national service program -- Americorps -- which today has 20,000 Americans, more than ever served in one year in the Peace Corps, working all over America.

helping people -- person to person -- in local volunteer groups, solving problems and earning some money for their education. This is citizenship at its best. It's good for the Americorps members and good for the rest of us. It's the essence of the New Covenant. And we shouldn't stop it.

All Americans are rightly disturbed by the large numbers of illegal immigrants entering this country. The jobs they hold might otherwise be held by our citizens or legal immigrants, and the public services they use impose burdens on our taxpayers. That's why our administration has moved aggressively to secure our borders by hiring a record number of new border guards, by deporting twice as many criminal aliens as ever before, by cracking down on illegal aliens who try to take American jobs, and by barring welfare benefits to illegal aliens.

In the budget I will present to you, we will do more to try to speed the deportation of illegal aliens who are arrested for crimes, and to better identify illegal aliens in the workplace, as recommended by the commission headed by former Congresswoman Barbara Jordan.

This is a nation of immigrants. But it is also a nation of law. And it is wrong, and ultimately self-defeating, for a nation of immigrants to permit the kind of abuse of our immigration laws we have seen in recent years.

The most important job of government is to empower people to succeed in the new global economy. America has always been the land of opportunity, a land where if you work hard you can get ahead. We are a middle class country. Middle class values sustain us. We must expand the middle class and shrink the underclass, while supporting the millions who are already successful in the new economy.

America is once again the world's strongest economy. Almost six million jobs in two years. Exports booming. Inflation down. High wage jobs coming back. A record number of American entrepreneurs living the American dream. If we want it to stay that way, those who work and lift our nation must have more of its benefits.

Today too many of those people are being left out. They are working harder for less security, less income, less certainty they can even afford a vacation, much less college for their children or retirement for themselves. We cannot let this continue.

If we don't act, our economy will probably do what it's done since 1978: Provide high income growth to those at the top, give very little to everyone in the middle, and leave the people at the bottom to fall even farther behind, no matter how hard they work.

We must have a government that can be a partner in making this new economy work for all Americans -- a government that helps each and every one of us get an education and have the opportunity to renew our skills.

That's why we worked so hard to increase educational opportunity from Head Start, to public schools, to apprenticeships, to job training, to making college loans available and more

affordable for 20 million people. That's the first thing we have to do.

The second thing we can do to raise incomes is to lower taxes. In 1993, we took the first step with a working family tax cut for 15 million families with incomes of under \$27,000 and a tax cut to most small and new businesses. Before we could do more than that, we first had to bring down the deficit we inherited. And we had to get economic growth up. We have done both.

Now we can cut taxes in a more comprehensive way. Tax cuts must promote and reinforce our first obligation, empowering citizens with education and training to make the most of their lives. The tax relief spotlight must shine on those who make the right choices for their families and communities.

I have proposed the Middle Class Bill of Rights -- which should be called a Bill of Rights and Responsibilities, because its provisions only benefit those who are working to educate and raise their children or to improve their own lives. It will, therefore, give needed tax relief and raise incomes in the short and long runs in a way that benefits all of us.

There are four provisions: First, a tax deduction for all education and training after high school. Education is even more important now than ever to the economic well-being of America, and we should do everything we can to encourage it. If businesses can get a deduction for investing in factories, why shouldn't families for investment in their future? Second, a \$500 tax credit for all children under thirteen in middle class households.

Third, an individual retirement account with penalty-free withdrawal rights for the cost of education, health care, first-time home buying, and care of a parent.

And fourth, a G.I. Bill for American workers. We propose to collapse nearly 70 federal programs and offer vouchers directly to eligible American workers. If you are laid off, or make a low wage, you will get a voucher worth \$2,600 a year for up to two years to go to your local community college or get private or public job training to raise your job skills.

Anyone can call for a tax cut, but I will not accept one that explodes the deficit and puts our economic recovery at risk. We must pay for any tax cuts, fully and honestly. Two years ago, it was an open question whether we would find the strength to cut the deficit. Thanks to the courage of many people here, and many who did not return to take their seats in this House, we began to do what others said they would do for years.

We Democrats cut the deficit by over \$600 billion -- that's nearly \$10,000 for every family of four in this country. The deficit is coming down three years in a row for the first time since President Truman was in office.

In the budget I will send you, the Middle Class Bill of Rights is fully paid for by budget cuts, cuts in bureaucracy, cuts in programs, cuts in special interest subsidies. And the spending cuts will more than double the tax cuts. My budget pays for the Middle Class Bill of Rights without any cuts in Medicare. And I will oppose any attempt to pay for tax cuts

with Medicare cuts.

I know a lot of you have your own ideas about tax relief. I want to work with you. My test for any proposal is: Will it create jobs and raise incomes? Will it strengthen families and support children? Will it build the middle class and shrink the underclass? Is it paid for? If it does, I will support it. If it doesn't, I will oppose it.

That's why I will ask you to support raising the minimum wage. It rewards work. Two and a half million Americans, often women with children, work for \$4.25 an hour. In terms of real buying power, by next year, that minimum wage will be at a 40 year low.

I have studied the arguments and evidence for and against a minimum wage increase. The weight of evidence is that a modest increase does not cost jobs, and may even lure people into the job market. But the plain fact is you can't make a living on \$4.25 an hour, especially if you have kids to support.

In the past, the minimum wage has been a bipartisan issue. It should be again. I challenge you to get together and find a way to make the minimum wage a living wage.

Members of Congress have been on the job less than a month. But by the end of the week, 28 days into the new year, each Congressman has already earned as much in Congressional salary as people who work under minimum wage make in an entire year.

And everyone in this chamber has something else that too many Americans go without: health care. Last year, we almost came to blows over health care, but nothing was done. But the hard, cold fact is that, since we started this debate, we know that more than 11 million Americans in working families have lost their coverage. The hard, cold fact is that millions more, mostly workers who are farmers, self-employed, and in small businesses, have seen their coverage erode with higher premium costs, higher deductibles, and higher co-payments.

I still believe we must move our nation towards providing health security for every American family. Last year, we bit off more than we could chew. This year, let's work together, step by step, and get something done.

Let's at least pass meaningful insurance reform so that no American risks losing coverage or facing skyrocketing prices when they change jobs, or lose a job, or a family member falls ill. I want to work together with the Democratic leadership and Republicans like Bob Dole, who have a longtime commitment to health reform.

Let's make sure that self-employed people and small businesses can buy insurance at more affordable rates through voluntary purchasing pools. Let's help families provide long-term care for a sick parent or a disabled child. Let's help workers who lose their jobs keep health insurance coverage for a year while they look for work. And let's find a way to make sure our children have health care. Let's work together. This is too important for politics as usual.

Much of what is on the American people's mind is devoted to internal security concerns -- the security of our jobs and incomes, our children, our streets, our health, our borders. Now

that the Cold War is past, it is tempting to believe that all security issues, with the possible exception of trade, reside within our borders. That is not so.

Our security depends upon our continued world leadership for peace, freedom, and democracy. We cannot be strong at home without being strong abroad.

The financial crisis in Mexico is a powerful case in point. We have to act -- for the sake of millions of Americans whose livelihoods are tied to Mexico's well-being. If we want to secure American jobs, preserve American exports and safeguard America's borders, we must pass our stabilization program and help put Mexico back on track. And let me repeat -- this is not a loan, this is not foreign aid, this is not a bail out. We'll be giving a guarantee, like co-signing a note with good collateral that will cover our risk. This legislation is right for America, and together with the bipartisan leadership, I call on Congress to pass it quickly.

Tonight, not a single Russian missile is aimed at our homes or our children. And we, with them, are on the way to destroying missiles and bombers that carry 9000 nuclear warheads.

We've come so far so fast in the post-Cold War world that it is easy to take the decline of the nuclear threat for granted. But it is still there, and we are not finished yet.

This year, I am asking the Senate to approve START II -- and eliminate weapons that carry 5000 more warheads. The United States will lead the charge to extend indefinitely the Nuclear Non-Proliferation Treaty, to enact a comprehensive nuclear test ban, and to eliminate chemical weapons. To stop, and roll back, North Korea's potentially deadly nuclear program, we will continue to implement the agreement we have reached with that nation. It's a smart, tough deal based on continuing inspection, with safeguards for our allies and ourselves.

This year I will submit to Congress comprehensive legislation to strengthen our hand in combating terrorists, whether they strike at home or abroad. As the cowards who bombed the World Trade Center can testify, the United States will hunt down terrorists and bring them to justice.

Just this week, another horrendous terrorist act in Israel killed 19 and injured scores more. On behalf of the American people I extend our deepest sympathy to the families of the victims. I know that in the face of such evil, it is hard to go forward. But the terrorists are the past, not the future. We must -- and we will -- persist in our pursuit of a comprehensive peace between Israel and all her neighbors in the Middle East. Accordingly, last night I signed an Executive Order that will block the assets in the United States of terrorist organizations that threaten to disrupt the Middle East peace process and prohibits financial transactions with these groups. Tonight, I call on our allies, and peace-loving nations around the world, to join us with renewed fervor in the global effort to combat terrorism.

From my first day in office I have pledged that our nation would maintain the best equipped, best trained and best prepared fighting force on Earth. We have -- and they are. They have managed the dramatic downsizing of our forces since the Cold War with remarkable skill and spirit. To make sure our military is ready for action -- and to provide the pay and quality of

life that the military and their families deserve -- I am asking this Congress to add \$25 billion more in defense spending over the next six years. Tonight I repeat that request. We ask much of our armed forces. They are called to service in many ways -- and we must give them and their families what the times demand and they deserve.

Time after time, in the last year, our troops showed America at its best: helping to save hundreds of thousands of lives in Rwanda. Moving with lightning speed to head off another Iraqi threat to Kuwait. And giving freedom and democracy back to the people of Haiti.

The United States has proudly supported peace, prosperity, freedom and democracy, from South Africa to Northern Ireland, from Central and Eastern Europe to Asia, from Latin America to the Middle East. All these endeavors make America's future more confident and more secure.

This, then, my fellow Americans, is our agenda -- expanding opportunity, not bureaucracy; enhancing security at home and abroad, empowering people to make the most of their own lives.

It is ambitious and achievable, but it is not enough. We need more than new ideas changing the world, or equipping all Americans to compete in the new economy. More than a government that is smaller, smarter and wiser. More than all the changes we can make from the outside in. Our fortunes and our posterity also depend upon our ability to answer questions from within, from the values and the voices that speak to our hearts, voices that tell us we must accept responsibility for ourselves, for our families, for our communities and, yes, for our fellow citizens.

We see our families and our communities coming apart. Our common ground is shifting out from under us. The PTA, the town hall meeting, the ball park -- it's hard for many overworked Americans to find the time and space for the things that strengthen the bonds of trust and cooperation among citizens. And too many of our children don't have the parents and grandparents who can give them the experiences they need to build character and strengthen identity.

We all know that while we here in this chamber can make a difference, the real differences in America must be made by our fellow citizens where they work and where they live. More than ever before, as we move to the twenty-first century, everyone matters and we don't have a person to waste.

That means the new covenant is for everybody. For our corporate and business leaders: We are working to bring down the deficit and expand markets and to support your success in every way. But you have an obligation when you are doing well to keep jobs in our communities and give American workers a fair share of the prosperity they generate.

For those in the entertainment industry: We applaud your creativity and your worldwide success, and we support your freedom of expression. But you have a responsibility to assess the impact of your work and to understand the damage that comes from the incessant, repetitive and mindless violence, and irresponsible conduct that permeates our media. Not

because we will make you, but because you should.

For our community leaders: We've got to stop the epidemic of teen pregnancies and births where there is no marriage. I have sent Congress a plan to target schools all over the country with anti-pregnancy programs that work. But government can only do so much. Tonight, I am calling on parents and leaders across the country to join together in a National Campaign Against Teen Pregnancy -- to make a difference.

For our religious leaders: You can ignite your congregations to carry their faith into action, reaching out to all our children, to those in distress, to those who have been savaged by the breakdown of all we hold dear. Because so much of what has to be done must come from the inside out. You can make all the difference.

Responsibility is for all our citizens. It takes a lot of people to help all the kids in trouble to stay off the streets and in school, to build the Habitat for Humanity houses, to provide the people power for all the civic organizations that make our communities grow. It takes every parent to teach their children the difference between right and wrong, and to encourage them to learn and grow, to say no to the wrong things in life and to believe they can become whatever they want to be.

I know it is hard when you are working harder for less money and you are under great stress to do these things. I also know it's hard to do the work of citizenship when for years, politicians in both parties have treated you like consumers and spectators, promising you something for nothing and playing on your fears and frustrations. And more and more of the information you get comes in very negative ways, not conducive to real conversation. But the truth is, we have got to stop seeing each other as enemies, even when we have different views. If you go back to the very beginning of this country, the great strength of America has always been our ability to associate with people who were different from ourselves and to work together to find common ground. And in the present day, everybody has a responsibility to do more of that.

That is the first law of democracy, the oldest lesson of most of our faiths: That we are stronger together than alone. That we all gain when we give. That is why we must make citizenship matter again. Here are five shining examples of citizenship:

Cindy Perry teaches second graders to read in AmeriCorps, in rural Kentucky. She gains when she gives: She is a mother of four, and she says that her service "inspired" her to get her high-school equivalency last year. Now, like thousands of other members, she will use her scholarship from AmeriCorps to go to college to equip herself to compete and win in the new economy.

With so many forces pulling us apart, we cannot stop a force like AmeriCorps that's pulling us together.

Chief Stephen Bishop gains when he gives: He has worked with AmeriCorps to build community policing in Kansas City -- and has seen crime go down because of it. He stood

up for our Crime Bill and the Assault Weapons ban, and knows that the people he serves and the people he leads are all safer because of it.

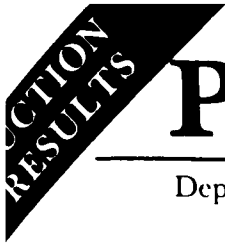
Corporal Gregory Depestre gains when he gives: He went to Haiti as part of his adopted country's force to help secure democracy. And he saw the people of his native land --Haiti -- are restoring democracy for themselves.

And Jack Lucas gained when he gave. Fifty crowded years ago, in the sands of Iwo Jima, he taught and he learned the lessons of citizenship. February 20, 1945 was no ordinary day for a small town boy. As he and his three buddies moved along a slope, they encountered the enemy -- and two grenades at their feet. Jack Lucas threw himself on them both, and, in that moment, saved the lives of his companions. And what did he gain? In the next instant, a medic saved his life. He gained a foothold for freedom. And he gained this: Jack Lucas -- at 17 years old, just a year older than his grandson is today -- became the youngest Marine in our history, the youngest man in this century, to be awarded the Congressional Medal of Honor.

All these years later, here's what he says about that day. "It didn't matter where you were from, who you were. You relied on one another. You did it for your country."

We all gain when we give. We reap whatever we sow. That's at the heart of the New Covenant: Responsibility. Citizenship. Opportunity. They are more than stale chapter headings in some remote civics book. They are the virtues by which we can fulfill ourselves and our God-given potential -- the virtues by which we can live out, the eternal promise of America, the enduring dream of that first and most sacred covenant: That we hold these truths to be self-evident, that all men are created equal. That they are endowed by their Creator with certain inalienable rights. And that among these are Life, Liberty and the Pursuit of Happiness.

This is a very great country. And our best days are yet to come. God bless you, and God bless the United States of America.



PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 25, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for \$11,000 million of 5-year notes, Series G-2000, to be issued January 31, 1995 and to mature January 31, 2000 were accepted today (CUSIP: 912827S60).

The interest rate on the notes will be 7 3/4%. All competitive tenders at yields lower than 7.79% were accepted in full. Tenders at 7.79% were allotted 88%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 7.79%, with an equivalent price of 99.837. The median yield was 7.77%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 7.74%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$32,917,177	\$11,000,438

The \$11,000 million of accepted tenders includes \$1,172 million of noncompetitive tenders and \$9,828 million of competitive tenders from the public.

In addition, \$730 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$362 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.



FOR IMMEDIATE RELEASE
January 25, 1995

Remarks by Assistant Secretary for Economic Policy
Alicia H. Munnell
National Academy of Social Insurance
Conference on "Social Security: What Role for the Future?"
The National Press Club

I am delighted to be here. I am very pleased to see the National Academy of Social Insurance holding a conference on such a very, very timely topic.

I am proud of being a founder, charter member, and past president of this organization. At the very beginning my concern was: "Who will take care of this country's social insurance programs, should Bob Ball decide to retire at, say, age 90 or 95?" So Henry Aaron, Bob and I traipsed around, from foundation to foundation, looking for seed money to get this organization started. After we had found some wise benefactors, we were smart enough to hire Pam Larson. Among her other tasks, she went from antique -- or was it junk? -- shop to antique shop trying to find chairs for the original library.

It was all worth it, because this organization has turned out to be an enormous success.

Today's topic is extremely important. Senator Moynihan has said that the Social Security system is the jewel in the crown of the New Deal. I agree. For more than fifty years Social Security has been social insurance done right. Social Security has made sure that millions of Americans had the money they needed when they retired, when they became disabled, or when they lost the family breadwinner.

In an era, like today, when many in the middle class feel great anxiety about their economic futures, Social Security should be a significant force easing their worries. America's workers today should be looking at the Social Security contributions recorded

(MORE)

RR-26



on their earnings statements, and should be confident they can rely on the benefits that Roosevelt promised. America's workers should be reassured by the covenant that the government has made with them: payroll-based contributions now, in exchange for benefits in the future.

But there are signs that this covenant has become tattered. I have read that more young people today believe in unidentified flying objects than in the prospect that they will receive their Social Security benefits. Young American workers today pay nearly 6.2 percent of their wages -- with a matching contribution from employers -- into the system. For them not to believe or trust that they will receive their benefits is, I think, at the heart of the doubts Americans have about their government.

We must address this confidence issue. And at the root of the confidence issue is a public that is confused, semi-informed, and mis-informed about the financial underpinnings of the Social Security system.

Today the Social Security system brings in more money than it spends. The balance piles up in the trust fund, invested month by month in "special issue" Treasury bonds that pay market rates of return. The system is in no way responsible for the current deficit. Instead, it helps finance the deficit in the rest of the budget. According to the most recent projections, revenues will continue to exceed outlays until 2013. Today's trust fund and the projected future course is adequate to pay benefits through the year 2028.

Since the Greenspan Commission and the 1983 amendments, the "year of trust fund exhaustion" has slowly crept toward us. But this has much more to do with one-shot technical factors than with any bias in underlying assumptions. We have had to revise our demographic predictions. We have had to revise our predictions of future economic growth as the persistence of the productivity slowdown has become clear. But when I look at the long-run projections today, I see no reason to believe that trust fund projections will continue to move in an unfavorable direction. Over the next decade, changes in economic and demographic projections are as likely to improve as to erode the long-run balance of the Social Security system.

You might think that a system that is financed for the next thirty years would be classified by the political system as in good financial shape. I have been in Washington, working at the Treasury, for only two years. Yet that has been enough to learn that in modern American political discourse, "long run" means "next month."

Nevertheless, the Social Security Trustees have made a strong statement that the long-run actuarial imbalance needs to be addressed. The Trustees' 1994 annual report asked the Quadrennial Social Security Advisory Council to develop recommendations to restore balance over the 75-year projection period. The Advisory Council is hard at work. We look forward to its report.

We have plenty of time -- more than a generation -- to fix the long-run financing of the Social Security system. But it is in our interest to restore expected actuarial balance as soon as possible for two reasons. First, adequate financing for the next 75 years would reassure even skeptical twenty-somethings that benefits will be there for them.

Second, the sooner the adjustments to restore balance are made, the more modest are the changes required. Some may have received the impression from the proposals that were brought before the Entitlements Commission that Social Security required massive restructuring to pay benefits for the next 75 years. But the proposals brought before the Commission were unnecessarily far-reaching: an attempt to use savings from reduced Social Security benefits to provide a tax cut to today's workers. Together these proposals cut average benefits in the long run by forty percent. But the extremely large benefit reductions were necessary to restore Social Security balance.

How could we restore long-run balance to Social Security quickly, easily, and straightforwardly?

The current expected long-run deficit of Social Security is equal to 2.13 percent of "taxable payroll." If the payroll tax were raised, today, by roughly 1 percentage point for workers and 1 percentage points for their employers, then we would have restored 75-year actuarial balance: the system would, under our current economic and demographic assumptions, have enough money to pay 75 years of benefits.

Few, if any, would advocate that the solution be found entirely on the tax side. But the exercise is useful in providing an estimate of the size of the problem. Over the past decade a gap has been opened by a series of technical factors. It would be prudent to take steps to close it. And maybe, in the future, we would then find that changing economics and demographics had opened a gap -- this time in the opposite direction -- which it would be prudent to close by cutting payroll contributions and increasing benefits.

We should all work to find a bipartisan solution to Social Security financing, once the Quadrennial Advisory Council comes out with its recommendations. Because it is simply crazy that people have so little confidence in a system that has served us well for half a century. We have a moral duty to restore long-term balance -- so that Americans will no longer be frightened, as they eat their TV dinners, of the voices from their TVs talking about the Social Security deficit. And so that this generation of working Americans will know that the Social Security system will be there for them -- just as they have been there for the Social Security system.

But restoring public confidence in the long-run future of Social Security requires more than restoring actuarial balance in the Trustees' 75-year projections. It requires careful attention to make sure that Social Security remains a universal program, in which

all believe that they have a stake because all draw benefits. The universal nature of Social Security is its strength. It is the means by which we are all linked--a steelworker in Pittsburgh, a doctor in Los Angeles, a computer salesperson in Dallas--linked to one another, and linked across the generations.

Why is it important that Social Security remain a universal program? Because the universality of contributions and benefits, and the "earned-right" nature of benefits, together prevent abrupt political disturbances from gutting the program. Explicitly means-tested programs are much more susceptible to federal and state budget pressures, and to changes in society's view of the relative worthiness or unworthiness of the relatively poor.

Consider the early 1980s. The Omnibus Budget Reconciliation Act of 1981 -- OBRA 81 -- imposed a gross income limit for eligibility for Aid to Families with Dependent Children, capped the maximum deduction for child care costs, set a standard deduction for work expenses, and ended the work-incentive disregard for working recipients. 490,000 families lost their AFDC (Aid for Families with Dependent Children) benefits as a result of OBRA 81. All this occurred with some, but not a great deal, of comment and debate.

By contrast, in May 1981 President Reagan began to look to Social Security benefits as a potential source to offset his proposed 1981 tax cuts. The half-life of the proposal was measured in days. It is possible to reduce Social Security benefits -- consider the Greenspan Commission, and its proposal to raise the retirement age in the relatively distant future. But it is, politically, not possible to reduce people's "earned" Social Security benefits in order to fund some alternative short-run politically-desirable step.

Thus a universal program has a great advantage: relative immunity from short-run political turmoil. It is impossible to run a social insurance program without such immunity: a social insurance program is a covenant extending across generations, and thus must be protected from the political fads and fashions of the moment. If not protected it will disappear -- either because it will be swept away as a result of a partisan shift, or because this generation's taxpayers will recognize the possibility of its disappearance in some future partisan shift, and so withdraw their support from the program today.

It is impossible to have true social insurance, a true covenant across generations, without some degree of political immunity. And it is impossible to have any significant degree of political immunity without universality.

President Clinton spoke last night of the "covenant of rights and responsibilities" between government and the American people. No other piece of that covenant is more representative than Social Security. It is a program of shared responsibilities and shared

rights. There is no free lunch. No government hand-out. We all share the responsibility of contributing to the Social Security system. This contribution then preserves the right to draw on the system when we retire.

By its universal nature, all Americans can share in its promise.

The National Academy of Social Insurance is the right place with the right people to discuss all the important issues about the future role of Social Security. So let's get to work.

Thank you.



DEPARTMENT OF THE TREASURY
WASHINGTON

The Multilateral Support Effort

1/25/95

Question: The United States proposal will benefit both American and foreign investors as well as exporters from many nations who do business with Mexico. What are other nations and International Financial Institutions doing to assist Mexico?

Answer: We are in the process of assembling an unprecedented multilateral support effort for Mexico.

- o The International Monetary Fund is arranging a sizeable credit in support of a Mexico program.
- o The World Bank and Inter-American Development Bank have also sent teams to Mexico to discuss accelerated disbursement of existing loans, as well as new lending.
- o Canada is already providing \$1.5 billion Canadian (approx. U.S. \$1 billion) in swap lines, which will allow Mexico to borrow Canadian dollars to bolster the peso.
- o Other nations' central banks have committed \$5 billion in support for Mexico through the Bank for International Settlements (BIS).
- o We are in the process of encouraging these nations to increase their support, while encouraging new nations to participate.

Mexico's needs are immediate, and the United States must take the lead. We have by far the greatest stake in Mexico's economic health. No alternative sources exist which can mobilize such substantial resources as quickly as is necessary.

- o Americans are far and away the largest holders of Mexico's external obligations, and are by far the largest group of foreign investors in Mexico.
 - Mexican authorities estimate that U.S. residents hold about 90 percent of foreign-held Tesobonos, worth about \$16 billion. More precise information on who specifically holds these instruments is not available.
- o Mexico's export market is far more important to the United States than it is to Europe or Japan.
 - Mexico imported \$24.5 billion of U.S. exports in the first half of 1994, about five times the amount Mexico bought from Japan and the European Union combined.



DEPARTMENT OF THE TREASURY
WASHINGTON

Mexico's Economy and Its Ability to Repay

Question: How can we be so sure that Mexico will be able to repay the borrowing we guarantee?

Answer: Mexico's chief problem is a liquidity crisis; its economic fundamentals are sound. Future prospects look favorable due to three factors: economic reforms adopted by Mexico over the past few years; Mexico's relatively moderate debt burden; and the disciplined economic policies on which the financial guarantee program will be conditioned.

Past Mexican Reforms: Mexico has transformed its economy over the past 6-7 years.

- o The bulk of state enterprises including banks, telecommunications firms, and large industrial groups have been transferred to the private sector.
- o Tariffs have been slashed back enormously, to zero on more than half of U.S. exports, with commitments for further cuts.
- o Quantitative restrictions and restrictions on foreign investment have been scaled way back; Canadian and United States investors now receive extra protection under NAFTA.
- o Most importantly, Mexico's government pursued a balanced budget from 1990 to 1993, and was projected to retain a balanced budget for 1994.

Mexico's Debt Burden: Mexico's debt burden is much lighter than it was in 1982 and is relatively moderate in comparison to other developing countries'.

- o Mexico's external debt to exports ratio fell from 312% to just under 219% from 1982 to November, 1994. The World Bank threshold for heavy indebtedness is 275%.
- o Mexico's debt service to exports ratio fell from 57% percent in 1982 to 25% in November, 1994. The World Bank threshold for heavy indebtedness is 30%.

Conditions for U.S. Support: Our provision of financial guarantees will be strictly conditioned on Mexico's adopting a rigorous economic and financial program designed to restore Mexico's economic health, and ensure that private investment returns.



DEPARTMENT OF THE TREASURY
WASHINGTON

America's Stake

Question: What is our stake in Mexico's economic situation? What effects would a protracted Mexican crisis have in the United States?

Answer: The U.S. and Mexican economies are tightly linked. A major Mexican crisis would have severe consequences in our country including job losses, harm to our exports, and a sharp rise in illegal immigration.

- o Mexico is the third largest destination for our exports, buying some \$40 billion worth of U.S. goods. Nearly 770,000 Americans are employed producing and distributing products destined for Mexico. A protracted crisis would harm Mexican demand for those products.
 - Mexico imported \$24.5 billion of U.S. exports in the first half of 1994, about five times the amount Mexico bought from Japan and the European Union combined.
 - U.S. exports to Mexico grew nearly 184 percent from 1987 to 1993, thanks to Mexico's economic reform program and strong economic performance.
- o A protracted Mexican crisis could lead to a sharp rise in illegal immigration of 30 percent or more. An additional half-million Mexicans could try to enter the United States illegally this year.
- o A Mexican crisis could create turbulence in other emerging markets -- the fastest growing customers for U.S. exports. Recession in these countries would slow demand for our goods and services, causing us to lose as much as 1 percentage point of real GDP by the end of 1996.
- o Americans are far and away the largest holders of Mexico's financial obligations, and by far the largest group of foreign investors in Mexico.
 - Mexican authorities estimate that U.S. residents hold about 90 percent of foreign held Tesobonos, worth about \$16 billion.
 - Moreover, Americans are thought to be the largest foreign holders of Mexican debt. If Mexico defaults, millions of working Americans who have interests in mutual funds and other investments with Mexican and other emerging market holdings could see their savings harmed.



DEPARTMENT OF THE TREASURY
WASHINGTON

Minimizing Potential Risks to United States Taxpayers

Question: What are the risks to United States taxpayers? How will Mexico cover its obligations to the United States in the event that Mexico defaults on obligations we have guaranteed?

Answer: Mexico will provide the United States with a full faith and credit commitment to repay any and all Mexican obligations owed to the United States. In over 50 years, Mexico has never failed to repay any financial obligation owed to our country.

- o Mexico will pay substantial fees up front to cover the expected risk of default, based on a method agreed upon by the Office of Management and Budget and the Congressional Budget Office. Moreover, Mexico will pay additional fees up front. These will more than eliminate any cost of the program to the current U.S. budget.
- o As part of the program, Mexico will adopt a comprehensive set of economic and financial policies. These will place Mexico back on the path to economic progress, and help ensure Mexico's ability to repay any borrowing we guarantee.

We believe there is little chance of Mexico's defaulting on any obligations, given the country's sound economic fundamentals and the conditions we are imposing. Nonetheless, Mexico and the United States have agreed to create a facility through which any Mexican obligations to the United States arising from the guarantees can be backed by Mexican oil proceeds.

- o Proceeds from Mexican oil exports will be deposited initially into a designated commercial bank account in New York of Pemex, the Mexican state oil company. These deposits will begin on the first day that U.S. guarantees could be called (the date of the first payment on the first eligible Mexican security).
- o The Federal Reserve Bank of New York (FRBNY) will notify the commercial bank if the required payment by Mexico has been made.
- o If the payment has not been made, the commercial bank will transfer the funds to a Mexican account at the commercial bank, and then to a Mexican account at the FRBNY. There they will be subject to a set-off for any obligations incurred by Mexico to the United States as a result of the guarantees.
- o Current plans are for the facility to cover some \$6.5 billion a year earned by Mexico from crude oil exports. We are examining the possibility of including about \$1 billion earned yearly by Mexico from oil products exports.

Similar facilities have worked well in the past to back Mexican obligations to the United States.



DEPARTMENT OF THE TREASURY
WASHINGTON

Conditions for United States Support

Question: What economic and other policies is the United States insisting that Mexico adopt as a condition of our providing financial guarantees? How can we be certain that any conditions will be fulfilled?

Answer: Our provision of financial guarantees will be conditioned on Mexico's adopting a rigorous economic and financial program designed to restore Mexico's economic health, and ensure that private investment returns. The financial guarantee legislation will require the President to determine that Mexico is meeting various conditions before any guarantees are issued. The guarantees are issued in stages, so the President will have to determine Mexican compliance at each stage, before new guarantees are issued.

The program Mexico follows will incorporate both macroeconomic and microeconomic conditions.

- o Macroeconomic conditions will be designed to contain the inflationary effects of the peso's depreciation and restore the economy to sustainable growth. Specifically, they will entail stabilization of financial markets; containment of domestic price pressures; reduction in the current account deficit to a sustainable level; and restoration of investor confidence.
- o To these ends, Mexico will impose strict limits on growth of central bank credits as well as credits from development banks; pursue a more disciplined fiscal policy; limit government borrowing; and adopt wage policies that cap inflation while granting workers the benefits of productivity growth.
- o On the microeconomic side, Mexico will adopt structural and supply-side measures to improve the country's productive capacity.
- o Measures will include deregulation and structural reform of telecommunications, transportation, and finance; privatization of more state-dominated sectors including railroads, communications, and electricity; liberalization of restrictions on foreign participation in the financial system; continued trade liberalization; lifting of restrictions on direct investment; and commitments to impose no restrictions on capital account transactions.
- o The Mexican government will provide appropriate data to allow us to monitor Mexican economic policies and compliance with our conditions. Quarterly reports on Mexican performance will be sent to Congress.



DEPARTMENT OF THE TREASURY
WASHINGTON

Beneficiaries of U.S. Guarantees

Question: Who will benefit from our financial guarantees. Won't the prime beneficiaries be banks and Wall Street investors who have Mexican holdings? Will we also be assisting wealthy Mexicans who hold Mexican debt?

Answer: The goal of our support package is to protect our economic interests in a nation which has become our third largest export market. Mexico bought more than \$40 billion worth of our products in 1993, and nearly 770,000 U.S. jobs depend directly on exports to Mexico. The working Americans who hold these jobs will be the major beneficiaries of a program that will keep our Mexican export market stable, and prevent a protracted crisis.

Americans are also the largest foreign investors in Mexican debt and equities.

- o Mexican officials estimate that 90 percent of foreign-held Tesobonos, worth about \$16 billion, are held by Americans.
- o U.S. residents hold \$18 billion worth of Mexican bonds, as well as direct investments, with a market value that may be as much as \$53 billion.
- o In addition, 12 million Americans hold shares in the \$200 billion of U.S. mutual funds that invest primarily in foreign securities, including those in Mexico.
- o All told, Americans' Mexican debt and equity holdings amount to more than double the claims held by U.S. banks alone.
- o American investors in most Mexican stocks and bonds have already suffered very substantial losses on the order of 40 percent in the last month. It is very unlikely that these losses will be recouped in the context of a stabilization program.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

January 24, 1995

BACKGROUND BRIEFING
BY
SENIOR ADMINISTRATION OFFICIALS

The Briefing Room

2:14 P.M. EST

SENIOR ADMINISTRATION OFFICIAL: Good afternoon. We were reminded on Sunday, with the appalling bombing at Beit Lid in Israel, which took 19 lives, of a whole series of terrorist attacks aimed directly at undermining the Middle East peace process. And the new executive order and the accompanying package of strengthened counterterrorism legislation are designed not only to strengthen our overall arsenal of legal tools to fight terrorism, but to strengthen our efforts to reduce this threat to the peace process.

We have been aware for some time that the terrorist organizations which are working to destroy the peace process thrive on funds from overseas. The majority of these funds we think come from foreign sources, but we have reason to believe that some funding has also come from donors in the United States.

On October 24th, at his speech at Georgetown University on the peace process, Secretary Christopher mentioned our concern about this and said that we are looking at a number of options to address both the funding threat and to strengthen our counterterrorism activities in other ways. And this executive order and the package of laws are a result of that.

These are only part of a much larger effort that the administration has been making to counter terrorism around the world. The executive order will also support the efforts which we have been making now for a long time to encourage similar efforts by foreign governments to prevent funding from their countries to these terrorist organizations. By blocking transfers to these terrorist groups and individuals and by freezing accounts, while we are not certain about the volume of funds that we will seize or stop, we know that we are sending a very powerful message to potential donors by criminalizing this activity.

The executive order, as you know, designates 12 terrorist organizations. We have a very large body of public and intelligence information which documents terrorist acts by these organizations going way back. And it also designates 18 individuals who are associated with these groups. The process provides an opportunity to designate additional groups and additional individuals as we work our way through this.

I'd like to ask my colleague from Treasury to talk about some of the operational aspects of the executive order.

SENIOR ADMINISTRATION OFFICIAL: Treasury Department's Office of Foreign Assets Control is the agency that is actually responsible for carrying out the blocking of the assets specifically. And at 12:01 a.m. this morning, notice went out to about 5,000 financial institutions throughout the United States listing these organizations that you have in your package here, and the individuals named, as well as pseudonyms of the organizations or other names that, through working with State and Justice, Treasury's identified

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that these organizations operate under, and freezing or blocking any assets or movement through those U.S. financial institutions and channels.

We will not know for a number of days, and anticipating an obvious question is, how much has been blocked, we will not know that for a period of time, for a number of days while the institutions respond back to the Treasury Department Office of Foreign Assets Control.

The intent here is obvious, as my colleague just stated, is to essentially another "arrow in the quiver," if you will, to deny on two fronts, both access to legitimate U.S. financial institutions for these organizations to move, launder or transmit their financial assets to support terrorist activities and, two, to also deny them access to diverting funds that were donated for charitable purposes, or people believing that they were going for charitable reasons in the tradition of widows' and orphans' funds, or other mechanisms like that that we're aware of, but that are actually being diverted and subverted for terrorist purposes and used by these terrorist organizations to fund their operations.

So this will essentially sever that lifeline that keeps those organizations going, we hope, and will help to deter their backing in the future. I think we'll, in the interest of your time, I'll save -- you'll probably have more detailed questions, but let me turn this over now to my colleague from the Department of Justice to talk about the legislation.

SENIOR ADMINISTRATION OFFICIAL: Thank you. Good afternoon. The legislation that has been drafted is designed to strengthen our ability not only to deter terrorist acts, but to also punish those who engage in such terrorism. It is a comprehensive bill that we have compiled. It is still being worked on. We will be working closely with the Hill to perfect it, and it has multiple provisions, but I'd like to highlight, at this point, essentially five broad areas, many of which are designed to ensure, among other things, that this country is not used as a base of operations for terrorist acts abroad.

To begin with, it creates a new federal statute which would provide clear federal jurisdiction for any international terrorist act committed in the United States. As many of you know, this has been a particularly critical point, especially in light of various events in the United States and highlighted the question of the existing scope of federal jurisdiction.

We also have provisions in the draft criminalizing conspiracies in the United States to engage in terrorist acts committed outside the United States. This is an extension of the Material Support Act and is critical, I think, for ensuring that the United States is not, as I said, used as a launching pad for terrorist attacks anywhere in the world.

Another provision which we think is critical is to provide expedited deportation proceedings for aliens who engage in terrorist activities and to expedite their removal from the United States.

The fourth provides a comprehensive mechanism for preventing fundraising in the United States in support of international terrorist activities overseas.

And the fifth is designed to facilitate the investigation of matters involving explosives, and implements recently concluded international convention for ensuring that explosives contain "taggets," if you will, insertion of chemical

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agents into plastic explosives, which will make them more detectible and facilitate investigation.

As I said, there are other provisions of the bill, which are critical. They're more of a technical nature, and would, in fact, greatly facilitate investigation, prosecution and enhance the range of the sanctions that can be applied.

At this point, we'd be glad to take questions.

Q I have no understanding at all of how you are going to implement this. I mean, there are perfectly innocent people in mosques all through the U.S. who are contributing to what they think are charitable -- and most of the money does go to charity. Now, I mean, they don't write checks to Jebril or to Abbas or to Hamas or to Hezbollah. So, frankly, you listed a lot of names, and it makes great headlines, but I don't understand the mechanics -- how somehow -- I would only be repeating myself -- how you can possibly intercept money where the checks are not made out to the Party of God.

SENIOR ADMINISTRATION OFFICIAL: The initial focus and the initial targets -- if we could look at this in two phases, for example, the initial targets are not going to be going after Mr. and Mrs. Smith donating to their local mosque for charitable purposes. It is going to be seeking to sever the tie from the financial institution in New York. Let's assume, for a second, that the charitable institution that they had donated to in South Texas was diverting funds to a terrorist organization.

Q How do you know -- let's stop right there, please. The money goes into an account at the federal bank of Dallas, Texas, all right, it doesn't say for the PLO -- it used to say for the PLO; of course, they're okay now -- it doesn't say Abu Abbas. Now, how are you going to get at that?

SENIOR ADMINISTRATION OFFICIAL: When it is transferred, the first focus of target of attack is going to be phase one. We're going to be seeking to intercept the funds from the Dallas -- let's say the Dallas independent savings and loan or financial institution to seek -- before they would transfer it overseas to an organization that we know through the listing that you have on the list here and other organizations or pseudonyms or persons that we'll sever. In other words, the first target of attack -- our primary focus is to obviously stop funds from leaving the country. So, if you will, the first phase of our focus is there.

A second --

Q Why would you think that they would transfer it to Abu Abbas instead of some phony other --

SENIOR ADMINISTRATION OFFICIAL: It's happened --

Q Dallas is a good example, but how would you know that they're transferring it to Abu Abbas?

SENIOR ADMINISTRATION OFFICIAL: All I can tell you is that it is being transferred and that this will stop it, and that we will be able to successfully interdict it and prevent it from being transferred.

Q You have evidence that they are openly transferring money to the groups on your list?

SENIOR ADMINISTRATION OFFICIAL: Their is belief that funds are leaving the country in support of terrorist organizations, and this will stop and interdict them.

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Q We all know that. But how, mechanically -- we still don't know how you're going to get it. It's pretty well documented that some money is being collected here for terrorist organizations. But people -- even the bank doesn't transfer the funds to the Party of God; how are you going to get it then?

SENIOR ADMINISTRATION OFFICIAL: Well, they're transferring it to someone, and it's the someone -- and it's stopping -- and there are ways of identifying working with the Department of State and the Department of Justice of organizations that we know they're being transferred to that are becoming and being made available to terrorist organizations; we will be able to stop and interdict those funds.

Q Can you give us any example of some trace that you have done that actually shows money moving out of the country to one of these organizations?

SENIOR ADMINISTRATION OFFICIAL: Absolutely. The Office of Foreign Assets Control has since World War II -- I mean, this office was created to essentially stop funds from going to the Nazi organization in World War II. I mean, since then it's been used -- as recently, it's been used to stop diversion of funds for Haiti and property in Haiti. It's been used in Libya, during the Libyan activities to stop and divert transfer of funds of any of Libyan assets or of organizations of Libya and others --

Q Are we talking about terrorist organizations that operate in a highly secretive manner and are completely unlikely to have bank accounts in their names. There were lots of individuals in Haiti who thought that they were perfectly free to operate by themselves. These are terrorist organizations. You're telling us that they have banks in Switzerland or other countries where the name on the account is Abu Abbas or Hamas?

SENIOR ADMINISTRATION OFFICIAL: They are organizations and individuals that, if they are using financial institutions, this will shut that down. They will not -- one, it will sever what is occurring; and two, it will prevent it from occurring in the future.

Q And you were going to give me an example of how that works? Is there someplace where you have done that?

SENIOR ADMINISTRATION OFFICIAL: In terms of today, I mean, the activity as of 12:01 a.m. this morning, it will block -- any of the assets of any of the organizations or names or associated agencies that we have to those individuals are stopped.

Q Assuming that they exist.

Q With all due respect, you're not sounding convincing. If an organization in the United States or individual sent a check to the Widows and Orphans Fund of Beirut, are you going to stop that? Are you going to say, look --

SENIOR ADMINISTRATION OFFICIAL: If there is evidence -- following your example -- if there is evidence that the Widows and Orphan of Beirut is a name that is a front that we have evidence, working with the Department of Justice and State, is being used as a mechanism to fund funds to any of these organizations or individuals that you have listed here, yes, it will stop that check and it will stop those funds from leaving the country.

Q By that time, the conventional mind will say that organization has disappeared, they got the money and they're gone. Now we have a new organization. We have the "Orphans and Sons of Veterans" who are getting the funds. "When was it organized?" "Oh, it's been organized a long time ago." What are you going to do about

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that? What are you going to do about it when it goes to, say, Damascus?

SENIOR ADMINISTRATION OFFICIAL: You get to the point of phase three. They might be able to tell Mr. and Mrs. Smith in Dallas, for example -- our example -- that it was organized for a long time, but they're not going to be able to tell the New York institution who's assets were -- that they're moving the funds through that they've been organized for a long time. So that that's why I say our first focus is here.

The second focus is, we'll be working with Justice and State -- because we want to deter and dry up these funds, we'll be making available, we'll be making available the organizations and charitable institutions as we progress here that we are aware of moving the funds -- in other words, illegitimate charitable institutions that are moving funds to terrorist organizations -- and we will be educating the public so that they do not seek to make donations to those organizations, but instead to organizations that we're convinced do not divert their funds for terrorist purposes, and are truly charitable.

SENIOR ADMINISTRATION OFFICIAL: Can I just add one thing? If you're looking for representations that this is a foolproof method for drying up any possible capability of diverting funds to these terrorist organizations, my answer would be, no, it is not foolproof. Obviously, it is capable of being circumvented through a variety of stratagems, if you will. Nevertheless, from an enforcement point of view, this has efficacy as just one of several methods that can be used for addressing the problem of having the United States be a funding source for these terrorist organizations.

The legislation we propose will contain other devices, if you will, to facilitate the investigations.

Q Like wire-tapping?

SENIOR ADMINISTRATION OFFICIAL: A variety, yes. There will be certain provisions.

Q Isn't that against the Constitution?

SENIOR ADMINISTRATION OFFICIAL: Oh, no, of course not. I mean, appreciate that we have a variety of existing, statutorily approved mechanisms. We are trying to, consistent with constitutional requirements, be able to afford ourselves the widest range of enforcement opportunities. Now, that is not being designed to, in any way, circumvent or deprive people of constitutional protections. But on the other hand, to the extent that wire-tap authority would facilitate investigations in this area, yes, we would like authority. But I'm saying that this is just one opportunity, if you will, for dealing with the problem of fundraising.

Q What are the other factors in the blocking of terrorism besides this flow of funds? By the way, there is a contention by a knowledgeable investigative reporter that says that about 50 percent of the money flowing to terrorists comes to the United States. Do you contradict that?

SENIOR ADMINISTRATION OFFICIAL: Let me address that and talk about some of the other things that we're using to fight terrorism. We have elaborate exchanges with foreign governments through law enforcement channels and intelligence channels. We share information round the clock with scores of foreign government institutions. That cooperation in law enforcement and intelligence is really the lifeblood of our international counterterrorism strategy, and we invest a great deal of time and effort in this.

We also have a major training program for training law enforcement officials of foreign governments in counterterrorism techniques. We spend about \$15 million a year in that. We have a large research and development program for developing counterterrorism technology, such things as the detection of plastics explosives are a product of that program. We have an immense effort to improve aviation security, designed to reduce the terrorist threat. And we have a very, very active diplomatic strategy to try to press other governments to enforce their laws and to use law enforcement as a weapon in counterterrorism.

Q If we could just come back to today's announcement, though. You said that you can't promise that this is foolproof. But I think what we're trying to get at is is this any more than a public relations exercise? It would be as if you stood up here and said, guess what, we're going to go after anybody who forwards checks made out to the Cali Cartel, you know. I mean, how useful is this? How much evidence do you have that people are actually forwarding money for terrorism under these particular names of these organizations you've listed?

SENIOR ADMINISTRATION OFFICIAL: I would suggest that it's not necessarily just a question of this list, if you will. This list can be augmented. This list can be expanded as the evidentiary base warrants it, as our enforcement evaluation suggests that we should put additional names on this list. This is an ongoing process, but it is, again, just an additional mechanism for addressing the problem. It is not the exclusive one, nor, as I've indicated, do I anticipate that it's going to be a foolproof one.

Q It should be useful in any -- I mean, do you have evidence that there has been money leaving this country going into bank accounts for Black September, listed that way or any of the other aliases that you have for Black September? Anything? I'm not saying foolproof, anything.

SENIOR ADMINISTRATION OFFICIAL: Yes, I think there is substantial -- substantial information indicating that the movement taken today by the President will address a significant aspect of the terrorism problem. It is not merely a question of symbolism, it is a question of good enforcement policy so that the action taken, while it certainly is not going to eliminate the problem, is, in fact, from my enforcement experience, going to help.

Q Three quick legal questions --

Q Is it not already illegal to donate money to these organizations?

SENIOR ADMINISTRATION OFFICIAL: Illegal, per se?

Q For me to give to Abu Abbas, was it not already illegal for me to do that?

SENIOR ADMINISTRATION OFFICIAL: You have, for example, just passed in the last Congress the Material Support Act. But it has very significant limitations with respect to the scope. So, for example, you could not, in the context of that particular legislation contribute, as you suggest, assuming, though, that that act, that the contribution is to support terrorist acts overseas in which the U.S. would have federal jurisdiction which is a very limited range of terrorist acts.

Q So what changes here, the burden of proof?

SENIOR ADMINISTRATION OFFICIAL: Which, under our -- or the legislation?

Q Under your new initiative?

SENIOR ADMINISTRATION OFFICIAL: Under new legislation, we are, among other things, criminalizing the conspiracy in the United States to commit terrorism acts abroad. Our fundraising provision, of course, is also much broader than existing law.

SENIOR ADMINISTRATION OFFICIAL: Let me build on that. In terms of financial institutions, in terms of what's different, we could not have stopped the transfer from the New York bank -- let's say you had written the check to the New York bank -- from the New York bank to whoever you were sending, whatever named organization you would like. The executive order the President's taken today allows him under the international --

Q Why could you not have stopped the transfer?

SENIOR ADMINISTRATION OFFICIAL: We did not have the -- there was not legal authority to do it.

Q I'll try to keep it short. Wire-tapping still with the judge's prior approval?

SENIOR ADMINISTRATION OFFICIAL: Yes.

Q Okay, you can eliminate hearings now, the right of somebody to have a hearing before he's deported, are you going to try to shortcut that? And, third, what about the right to associate so far as going to a mosque and contributing to a -- you're really touching on constitutional rights, and you know it as well as I do.

SENIOR ADMINISTRATION OFFICIAL: Let me take issue with your characterization. No, we're not touching -- obviously, the legislation in this area has to be drafted with tremendous sensitivity to those issues, and I think we have. We have, in fact, brought to bear great concerns about civil liberties of Americans and non-Americans in this country, and what we have designed, I would suggest to you, you will see is consistent with those constitutional limitations.

But on the other hand, as the court has repeatedly said, Constitution is not a suicide pact. It does permit us to move aggressively in this area consistent with the Constitution to be able to protect ourselves and our vital national security.

Now, with respect to this wire-tapping, all we're suggesting, among other things, is to take existing authority, which now has an articulation of a whole range of offenses, that permits legal wiretapping, and add terrorism to it. Okay?

As far as deportations -- deportations, what we want in connection with terrorism is a methodology consistent with constitutional limitations to enable us to expedite the deportation process, utilizing federal district courts and federal district judges and to have a mechanism -- have a mechanism so that to the extent that we have to rely on classified information --

Q Closed courts, closed hearings?

SENIOR ADMINISTRATION OFFICIAL: No, no. Public hearings, procedures consistent with the same procedures utilize in criminal cases to ensure the protection of classified information, consistent with constitutional limitations. That is what we are proposing.

Q I'd like to ask about legislation -- for a moment. You mentioned the legislation that you've got coming up. Two basic questions -- one, have you had any discussions with the Republican

leadership on it, and what sort of response have you gotten from them, if anything? Two, are you liable to have any sort of difficulties in moving the legislation through because of the inclusion of two right-wing Jewish groups on the list of organizations?

SENIOR ADMINISTRATION OFFICIAL: Let me -- maybe others here are far more qualified to respond to that question -- but let me just say from working in this area for many years, my experience is this is a bipartisan area. This is an area where my experience, everybody's concern, everybody wants to move in this area consistent with constitutional limitations. But they want to ensure that we are taking, at the Justice Department, an aggressive stance, which we are, that we have a full panoply of legal weapons to go after these problems. And so, from my perspective, I would hope, and I have no reason to doubt, that we will have a good bipartisan response.

Q Is the CIA obligated under this Executive Order to help you and State and the rest with regard to intelligence on these various groups that might be funneling money to eventual terrorists?

SENIOR ADMINISTRATION OFFICIAL: The CIA and other American intelligence agencies are a full partner in this process, and their work overseas and the work of the FBI here at home is essential to make this work. And they're anxious to help, and they are helping.

Q There's a broad paragraph in the order that talks about other federal agencies without naming them, and that's why I asked the question, whether that is the paragraph that brings the CIA into the picture.

Q Have you stopped any fund transfer since midnight?

SENIOR ADMINISTRATION OFFICIAL: Like I say, we will not know. I do not know as of right now. We won't know for a number of days.

Q Isn't that something you're following? I mean, wouldn't you be concerned?

Q Is it fair also to describe this as a freezing of assets in addition to blocking transfers?

SENIOR ADMINISTRATION OFFICIAL: Absolutely.

As I said in the beginning, we won't know for a number of days yet until we hear back from the financial institutions. They are directed, as of 12:01 a.m. tonight, any of the activities that we discussed or assets that we've discussed or transactions that we've discussed are hereby blocked. In other words, it is a seizure. It is very similar -- this is identical authority to what you have seen in terms of the economic sanction programs that have been used that most of you would be familiar with.

Q I have another technical question if I may. This is your list, is that right? Because there was nothing written at the top of this. This is the official --

SENIOR ADMINISTRATION OFFICIAL: That's been actually put out by Treasury.

Q Right. Okay, because I was surprised when I read the annex, although I know there are lots -- I'm not a Middle East expert -- I know there are lots of different names for these groups -- not to see Islamic Jihad listed on the annex. Are they included under Hezbollah on this annex?

SENIOR ADMINISTRATION OFFICIAL: The Islamic Jihad, the Palestinian Islamic Jihad, which is listed as one of the 12, is a distinct organization. Hezbollah is a different organization. They're both listed.

Q There is something here that just says Jihad, but it doesn't say Islamic Jihad, and I thought that might be the Jihad group.

SENIOR ADMINISTRATION OFFICIAL: The two organizations are listed, but they're distinct groups.

Q What if somebody is caught in this and claims to be innocent, that they're involved in truly humanitarian efforts? Do they have to sue the federal government to get access to their funds?

SENIOR ADMINISTRATION OFFICIAL: No, there are appeal procedures -- this has happened obviously much before -- we have a lot of experience in this program. We have appeal procedures, people would apply to the Treasury Department Office of Foreign Assets Control, and there are appeal mechanisms in place. There are obviously always judicial avenues, but there are nonjudicial avenues as well -- administrative avenues to work this out.

Q The same as in the Haiti assets freezing?

SENIOR ADMINISTRATION OFFICIAL: Yes, very similar, and very similar to other activities.

Q Is there not a breakdown in consular work to let these people to get visas to get here in the first place?

SENIOR ADMINISTRATION OFFICIAL: There have been some problems in the past, and with the help of the Congress and some new funding, we've done a lot in the last eight months to tighten our visa issuance in border controls. And I think we're doing a much better job on that.

Q -- a charge was made lately that the State Department allowed the CIA to conduct the visa control, and that they let some of the terrorists in that way -- connected with the CIA for terrorist purposes that the CIA might want done. Can you answer that?

SENIOR ADMINISTRATION OFFICIAL: The Department of State is responsible for conducting our consular activities overseas, not the CIA. And we conducted and we take responsibility for it.

THE PRESS: Thank you.

END

2:44 P.M. EST



Text as prepared
Embargoed until delivery
Expected at 1 p.m.
January 26, 1995

**STATEMENT OF THE HONORABLE ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE FOREIGN RELATIONS COMMITTEE
UNITED STATES SENATE
January 26, 1995**

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today.

We have been engaged in a cooperative process these past few days. The President called for a bipartisan effort to respond to Mexico's financial problems, and the leadership of Congress, Republican and Democrat, responded. Our shared goal is to protect U.S. interests by helping our neighbors in Mexico. We all know that the stakes are high in avoiding a potential financial crisis that could spread to other emerging markets.

Mexico has experienced a loss of confidence, but the damage is not yet irreversible. It is critical that we prevent the current situation from deepening into a crisis with lasting implications for U.S. jobs, Mexican economic viability, and the financial prospects of all emerging markets.

Today I want to discuss with you what the U.S. has at stake, what we can do, and how our proposal will stabilize markets and protect our interests. Finally, I want to respond to some concerns about the proposed guarantee program.

What Is the U.S. Stake?

The crisis precipitated by events in Mexico demands our attention because what happens in Mexico has profound implications for the United States -- not just for economic theorists but for working Americans.

Mexico is an important and growing market for U.S. goods and services. We sell almost 3 times more goods there now than we did in 1987. Mexico has become our third largest export destination. Nearly 700,000 U.S. jobs depend directly on sales to Mexico.

Border states are especially heavily dependent on trade with Mexico: California sells \$5 billion of goods there yearly. But even Michigan sells \$6 billion, nearly 20 percent of its export sales. And export-producing jobs are high paying jobs.

These numbers make clear that failing our neighbor would mean failing ourselves – and giving up a bright future because, ultimately, more trade at a sustainable exchange rate will fuel both Mexican and U.S. economic growth.

The risks are not only economic. A protracted crisis could send immigrants north and create social problems along our borders. Illegal immigration could increase by as much as 30 percent, at no small cost to taxpayers in border states and nationally. A strong and growing Mexico, on the other hand, provides jobs for Mexicans at home.

And the risks are not only in Mexico. Restoring confidence in Mexico will head off the spread of financial distress around the world. The fastest-growing customers for U.S. products are the most likely to feel the financial spillover from problems in Mexico. U.S. manufactured exports to developing countries expanded by 65 percent between 1989 and 1993; more than two-fifths of our overall exports are now destined for these countries. These are countries with great potential, countries where U.S. investors have large stakes.

Mexico has been, in several ways, a prototype for countries that are striving to put inward-looking, state-controlled models of economic development behind them. A new prosperity based on open markets, a welcome-mat for investment, and privatization is beginning to emerge. But Mexico's financial crisis shows that these emerging economies are still vulnerable to financial shocks. Helping Mexico through its current difficulties can keep alive the promise of market-oriented reform – the key to growth and stability over the longer term for all of us.

What Can We Do and What Will It Cost?

The current situation in Mexico arises from a loss of confidence – and its fallout. There is a prospect of a vicious circle, as this loss of confidence chokes off Mexico's access to funds and creates financial and economic distress, perpetuating investor unwillingness to invest in Mexico. If confidence is restored, a virtuous circle of foreign capital inflows, strong investment, and economic growth can be started.

Turning the situation around requires a mechanism to jumpstart confidence. The Administration and Congressional leadership have agreed that we can and should provide this mechanism. We have agreed to do this because it is the right thing for the United States and because the fundamentals of the Mexican economy are strong.

We propose to offer our backing to help Mexico access private resources while it restructures its economy. We would provide guarantees for up to \$40 billion in new private sector loans to the Mexican government. The funds raised would allow Mexico to reduce its short-term obligations, not take on more total debt. In exchange for these guarantees, Mexico will pay a commitment fee for the availability of the guarantees, a basic fee that will

cover the cost to the U.S. budget, and a supplemental fee that will keep guaranteed borrowing from being a low cost option for Mexico. This will encourage Mexico to return to the market under its own name as quickly as possible.

These guarantees will have no adverse effect on the current U.S. budget. In fact, if the deal goes forward as we expect, the United States Treasury will gain.

We have good reasons for being confident that Mexico will meet its obligations.

- o We will provide guarantees only if the Mexican government follows policies that lead to financial stability and lay a sound basis for growth. This means tightly controlling monetary and credit growth, maintaining a budget surplus, and intensifying privatization and other market reforms. These policies will promote a healthy Mexican economy that can meet its obligations. Each time Mexico issues its securities to be guaranteed by the U.S. Government, we must be satisfied that it is fully implementing these policies.
- o Mexico has repaid its borrowings from the U.S. Government for over fifty years.
- o The United States will, as an integral part of the proposed guarantee, have access to oil revenue streams that can reimburse the United States, in the extremely unlikely event that we incur any obligations pursuant to the guarantees.

This is not about foreign aid. We are not giving away anything.

And this is not a precedent for the future -- either for Mexico or for other countries. We have a uniquely important stake in Mexico at the present time, one that we cannot ignore. The problem that Mexico has encountered, a collapse of market confidence that has made it impossible to restabilize its currency, is unusual. The scale of the problem is beyond international financial institutions' current capacity. Our action and only our action can make a difference here that it would not make in other cases. At the same time, we are working to ensure that the international machinery for identifying and dealing with problems like this is prepared for such situations in the future.

There is natural concern that the United States not address this potential international crisis alone. We in the Administration are working hard, as is Chairman Greenspan, to gain international support to reinforce our efforts.

An array of swap facilities has been arranged to enhance Mexico's available short-term resources. Canada is providing about \$1 billion in swap credits. The Bank for International Settlements has commitments from other central banks for a \$5 billion swap facility. And Mexico and the IMF are in advanced stages of negotiations on a program that will provide substantial financial resources with policy conditionality. Indeed, I hope that the IMF will be able to go beyond its usual limits in supporting Mexico.

We are not leaving matters here. We are seeking additional support from others.

Will the Guarantee Program Make a Difference?

Mexico faces a problem of liquidity. This is key to understanding why the proposed approach will meet the challenge posed by current circumstances in Mexico.

The nature of the crisis becomes clear when one looks at how it came about. As Mexican economic reforms attracted investment over the past few years, the Mexican peso was buoyed and reserves expanded. Imports were easily financed. Less than a year ago, the Mexican "problem" was seen as one of keeping capital inflows from pushing up the money supply and feeding inflation.

But following the assassination of PRI presidential candidate Luis Donaldo Colosio, capital inflows did not recover, and we can now see that enthusiasm for Mexican paper was waning. And yet Mexico's appetite for imports -- to provide inputs for production and to fuel consumption -- did not wane. The current account deficit persisted, but there were no longer enough dollars coming in to finance it. There were no longer ready buyers for pesos.

The Mexican authorities fought to maintain the exchange rate by using dollar reserves to buy pesos and issuing Tesobonos -- dollar-indexed, peso-denominated short-term securities. The Mexicans also raised interest rates well above U.S. rates, even adjusting for inflation. But investors did not want to provide the new money Mexico needed to finance its current account deficit.

In this context, Mexico could not maintain its exchange rate, and the band for the peso was widened. But even the wider band was impossible to sustain. A concerned market took the peso well beyond almost all previous views about its equilibrium value.

In retrospect, Mexico could and should have managed this situation better. By the time the authorities let the peso go, they lacked the resources to counter market disorder. The Mexicans themselves have made clear that, as they look back, they would have handled the devaluation quite differently.

These events have not yet eroded the fundamental strength of the Mexican economy and its potential for growth. Concerted market reform and trade liberalization have made Mexico's economy dynamic and deep with possibilities. The government is streamlining its approach to economic management just as the private sector is modernizing business. Mexico passed legislation making its central bank independent last year. Mexico's economy is already in transformation to a more efficient, market system.

Helping bridge the current liquidity gap keeps open the window of opportunity -- for Mexico and its people -- to carry themselves forward to prosperity. But the most important element of this strategy is what Mexico is doing to help itself.

The Mexican government is tightening its monetary and fiscal policy. It is entering into a stabilization and economic adjustment program with the support of the International

Monetary Fund. Support from the United States will be contingent on Mexico moving forward with this process.

There is a sound basis in Mexico for ongoing economic reform, given the extensive restructuring that has taken place over the last ten years. This foundation puts Mexico in a good position to move quickly to shore up its economic and financial management.

One indispensable element that must be at the center of Mexican stabilization is sound money. There are countries that have had sound monetary policies with fixed exchange rates and countries that have done so with floating rates. What is key is that monetary policy be insulated from the political process. Mexico faced this reality in 1994 when it set up the basic guarantees of independence for the Bank of Mexico. Going forward, this will shape the culture of the Bank and the monetary policy it sets.

Some argue that the Mexicans should go further in insulating monetary policy by setting up a currency board. This is only one among several types of institutions that have historically provided countries with a vehicle for sound monetary policy. What matters is the determination not to give in to easy money.

Moving Forward

The financial support package under consideration by Congress presents a historic opportunity to avert, before it is too late, a prolonged crisis potentially touching many countries. America has a vital interest in strong and open markets abroad and in avoiding the social strains of financial collapse in our neighbor.

This crisis is not a result of NAFTA. Rather, NAFTA has helped make the crisis less severe. NAFTA ensures that Mexico can never again close its borders to American products. NAFTA ensures that Mexico must continue to provide safeguards for our investors. And NAFTA can once again bolster investor confidence, helping to bring Mexico out of its difficulties.

Providing Mexico with guarantees to access private lending and reduce short term debt is not about bailing out wealthy investors. American investors in Mexican stocks and peso securities have already suffered substantial losses -- as much as 40 percent. These losses are not likely to be recouped even in the context of a stabilization program.

Offering our help to Mexico through the guarantee package is what government is all about: doing the right thing for America. Congress and the Administration have made a good start in working together to make it happen. For Mexico and for ourselves, we need to finish the job.

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
January 26, 1995

Contact: Michelle Smith
(202) 622-2960

STATEMENT BY TREASURY SECRETARY ROBERT RUBIN

I am pleased that the International Monetary Fund and Mexico have announced an agreement providing for some \$7.7 billion in credits to Mexico. The IMF agreement demonstrates the support of the international community for Mexico in dealing with its short-term financial problems.

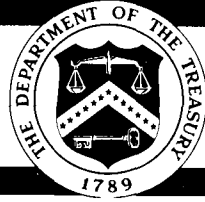
The program, which will be put to the IMF Board next week, is the largest in the history of the IMF. It would represent a substantial contribution by all members of the IMF to addressing a problem that could have implications around the world.

The IMF program is based on strong commitments by the Mexican authorities regarding the future course of fiscal and monetary policy in Mexico. A substantial portion of the \$7.7 billion would be available immediately after the IMF Board's decision.

Passage of the guarantee program now under discussion in Congress remains an urgent priority if Mexico's economic problems are to be contained.

DEPARTMENT OF THE TREASURY

TREASURY



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FOR RELEASE
12:00 Noon EST
January 27, 1995

STATEMENT OF
LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON HEALTH
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Administration on the 25 percent deduction for certain health insurance premiums paid by the self-employed. Under Internal Revenue Code section 162(l), certain sole proprietors, partners and more than two-percent shareholders of Subchapter S corporations are permitted to deduct 25 percent of the amount paid during the year for insurance that constitutes medical care for the taxpayer and the taxpayer's spouse and dependents. The deduction is not available, however, for taxable years beginning after December 31, 1993. Consequently, unless the Congress acts, self-employed individuals will not be able to claim any deductions for health insurance premiums on their 1994 income tax returns.

As the members of this Subcommittee know, the Clinton Administration proposed the extension of the 25 percent deduction, followed by an increase in the deduction to 100 percent of health insurance premiums in the Administration's health reform bill of last year. We continue to believe that allowing a deduction for self-employed individuals more closely conforms their tax treatment to the treatment of other employers with employees. This would recognize that these taxpayers share many attributes with both employers and employees. We also believe that the deduction for the self-employed will help to make health insurance more affordable for this segment of the population and will therefore contribute to expanded insurance coverage.

On behalf of the Treasury Department, I appreciate the opportunity to state for the record that the 25 percent deduction



issue needs to be dealt with expeditiously. If Congress does not act before 1994 tax returns are filed, substantial new administrative burdens could result for taxpayers and the Internal Revenue Service.

The Treasury Department estimates that almost 3.2 million self-employed individuals would claim the 25 percent deduction on their 1994 tax returns if it were made available to them. Those tax returns are due on April 15, 1995, although these taxpayers could request an automatic extension through August 15, 1995. If the Congress fails to act to extend the 25 percent deduction prior to the due date for income tax returns, millions of taxpayers will be forced to decide whether to incur the costs of filing amended income tax returns. Any such amended returns will also impose additional administrative burdens and costs on both the Internal Revenue Service and State and local governments.

As members of this Subcommittee may know, the Department of the Treasury has already taken steps to make it easier for taxpayers to claim the deduction if timely Congressional action occurs on this matter. The 1994 Form 1040 includes a line for claiming the self-employed health deduction, with a caution that taxpayers cannot claim the deduction unless the law is changed. But only swift Congressional action can minimize taxpayer uncertainty, compliance costs and administrative burdens.

As the President emphasized in his State of the Union message earlier this week, we should work together to assist self-employed individuals and others in buying more affordable health insurance. The extension and expansion of the self-employed health insurance deduction should be an integral part of that effort. We look forward to working with the members of this Subcommittee and others in the Congress to find a way to restore this deduction without increasing the Federal budget deficit.



EMBARGOED UNTIL 10:00 A.M.
January 27, 1995

STATEMENT OF
GLEN A. KOHL
TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
WAYS AND MEANS SUBCOMMITTEE ON OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES

Chairwoman Johnson and Members of the Subcommittee:

I am pleased to have this opportunity to present testimony today on behalf of the Department of the Treasury concerning section 1071 of the Internal Revenue Code. In convening this hearing, the Subcommittee indicated its desire to examine four issues: (i) whether the Federal Communication Commission's (FCC) 1978 policy of promoting minority ownership is consistent with the underlying intent of Section 1071; (ii) whether the FCC's administration of section 1071 constitutes an impermissible exercise of legislative authority; (iii) whether the tax incentive provided in section 1071 fosters minority ownership of broadcast facilities; and (iv) whether the FCC policy is a necessary or appropriate means of achieving this goal.

Because the issues identified by the Subcommittee relate primarily to the responsibilities assigned by Congress to the FCC, my testimony is intended simply to prove an overview of Section 1071 -- including recent Treasury testimony on Section 1071 -- and an explanation of the Internal Revenue Service's (IRS) role in its administration.

In September, 1993, the Ways and Means Subcommittee on Select Revenue Measures conducted a hearing on miscellaneous revenue measures, including an unspecified proposal "that would modify section 1071 by adding anti-abuse rules to ensure that tax incentives are available only for sales that actually foster minority ownership of broadcast stations." The Assistant Secretary (Tax Policy), Leslie B. Samuels, testified that we would not oppose a carefully targeted amendment to section 1071 that would prevent certain sellers (e.g., those who actively participate in sham transactions) from taking advantage of Section 1071, provided the amendment did not deny such preferential tax treatment to "innocent" sellers -- that is, taxpayers who participate in a sale that results in bona fide minority ownership. Our position in this regard has not changed. Accordingly, we would be willing to work with the Committee or the FCC in attempting to craft anti-abuse provisions that we could support and which would not reduce the effectiveness of the program. In addition, although the Administration has no position on this matter, we would be pleased to consider with the Committee and the FCC whether a cap or other limitations on Section 1071 benefits would be necessary and appropriate to target more precisely this tax provision to its desired

objective. We will also coordinate with other offices within the Administration, including the Commerce Department's National Telecommunications and Information Administration.

Overview of Section 1071

Section 1071 provides certain tax benefits (described below) to the seller of property if the sale or exchange is certified by the FCC to be "necessary or appropriate to effectuate a change in a policy of, or the adoption of a new policy by, the Commission with respect to the ownership and control of radio broadcasting stations." Since 1978, the FCC's policy has been to certify transactions as meeting this requirement where a sale of broadcast facilities is made to a minority individual or a minority-controlled entity.¹

In general, Section 1071 allows a taxpayer to postpone the recognition of gain realized upon the disposition of certain broadcasting property for which the taxpayer has obtained the necessary certificate from the FCC (Section 1071 Certificate). The tax-free treatment accorded by Section 1071 allows the taxpayer to defer the tax on the gain realized in the transaction (although in certain circumstances such deferral can be effectively permanent). In this regard, the benefits of Section 1071 are generally similar to the benefits accorded taxpayers who reinvest insurance proceeds following an involuntary conversion of property under Section 1033 (e.g., as the result of fire or flood), or, to a lesser extent, taxpayers who participate in tax-free exchanges of "like-kind" property under Section 1031.

To obtain the benefits of Section 1071, the taxpayer must file an election with its return that includes the Section 1071 Certificate. This election requires the taxpayer to choose one of three alternative methods for taking advantage of the Section 1071 deferral. The first approach is to apply a modified form of the involuntary conversion rules. Generally, gain is not recognized to the extent that replacement property which is similar or related in service or use to the property sold is acquired before the end of the second full taxable year after the year in which the disposition occurs. The second approach is to reduce the depreciable bases of other assets held by the taxpayer at the time of the disposition and acquired before the end of the taxable year in which the disposition occurs. Unless the taxpayer requests an alternative allocation, the bases of all depreciable assets are reduced on a pro rata basis. The third approach is to elect a combination of the first two approaches (i.e., defer a portion of the gain through the acquisition of replacement property and another portion through reducing the bases of other depreciable property).

¹ We understand that the FCC defines (1) a minority-controlled corporation as a corporation in which more than 50 percent of the voting stock is held by minorities and (2) a minority-controlled limited partnership as a partnership in which (a) the general partner is a minority or minority-controlled and (b) minorities own at least a 20 percent interest.

We also understand that the FCC generally requires those who acquire broadcast properties under Section 1071 to retain those properties for at least one year.

The Limited Role of the IRS

Under section 1071, Congress has delegated authority to the FCC to issue Section 1071 Certificates. Tax benefits under Section 1071 are available only if the taxpayer obtains a Section 1071 Certificate from the FCC. The IRS generally accepts as valid any Section 1071 Certificate that is issued. The IRS neither participates in, nor exercises oversight over, the FCC's determination, and conducts no independent inquiry into whether, for example, minorities meaningfully participate in a purchasing group. Consequently, the IRS's role is limited to administering and interpreting the technical requirements of Section 1071 described above (including the rules of Section 1033 which Section 1031 incorporates by cross-reference).

Potential For Abuse

I would also like to discuss the potential for abusing Section 1071, but first I should reiterate that the Department of the Treasury does not participate in the FCC certification process. My testimony therefore should not be construed as commenting on the propriety of issuing Section 1071 Certificates in any particular circumstances or for any particular transactions, including recent transactions that have been covered in the press.

Abusive transactions may arise in any regulatory context. As you are certainly aware, Treasury, the IRS, and the courts expend considerable energy and resources dealing with abusive transactions. Fortunately, the tax law, like other statutory regimes, is interpreted in a manner consistent with its spirit and purpose. Reflecting this rule of interpretation, tax doctrines have evolved to combat such abuses. These doctrines include a prohibition against "sham" transactions, a rule that a transaction must be taxed in accordance with its substance and not merely its form (the "substance over form" doctrine), and a rule that certain related transactions are to be aggregated and treated as one overall transaction (the "step transaction doctrine"). In addition, various statutory provisions and IRS regulations have been adopted to address abuses because the common law doctrines have not been fully successful in combating abusive transactions.

Certification of transactions under Section 1071, however, is conducted by the FCC, and not the IRS. I assume that, like any regulatory agency, the FCC deals with attempts to abuse its rules, including the rules governing the issuance of Section 1071 Certificates. In the absence of adequate safeguards against abuse, it is possible that an aggressive participant could devise a scheme that might enable parties to obtain a Section 1071 Certificate even in situations that do not meaningfully enhance the ownership of broadcasting properties by minorities. If such a scheme were to succeed, granting the Section 1071 Certificate would unfairly reward the participants of a tax avoidance scheme, possibly at the expense of a bona fide minority ownership group and/or a non-minority ownership group that was unwilling to engage in abusive tax planning. Because the Treasury neither participates in nor reviews the certification process, however, I am not in a position to comment on whether there, in fact,

exist any transactions where the grant of a Section 1071 Certificate is not consistent with the intent or purpose of Section 1071 or any regulations promulgated thereunder.

The issuance of Section 1071 Certificates is designed to further an FCC objective. Nevertheless, as I previously stated, we would be pleased to consult with the FCC or this Committee in developing further safeguards against abuse of the certification process (through anti-abuse provisions or specific measures such as a more stringent holding period requirement). We would also be pleased to work together towards other means of tailoring the Section 1071 benefits to more efficiently promote its objectives.

This concludes my remarks. Thank you once again for affording me the opportunity to testify. I am now available to answer any questions that the Committee may have.

TREASURY



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FOR IMMEDIATE RELEASE
January 26, 1995

TREASURY CFO TO SPEAK AT UNIVERSITY OF NEW MEXICO

George Muñoz, the Treasury Department's Chief Financial Officer, will discuss the Clinton Administration's efforts to assist students and their families at the University of New Mexico tomorrow, Friday, January 27th.

Muñoz, who is also the Treasury Department's Assistant Secretary for Management, will address the education tax credits contained in the President's Middle Class Bill of Rights at 9 a.m. in Mitchell Hall, room 104, University of New Mexico, Albuquerque, N.M. The Middle Class Bill of Rights calls for tax cuts for middle income families with children, tax deductions for educational costs and allows for penalty-free withdrawals for educational purposes from IRAs. The cuts would be paid for through savings achieved by downsizing the Federal government.

-30-

Treasury Contact: Jon Murchinson, (202) 622-2960
University of New Mexico Contact: Susan McKinsey, (505) 277-1725

RR-32





FOR IMMEDIATE RELEASE
January 30, 1995

Contact: Michelle Smith
(202) 622-2013

RUBIN, ORTIZ ANNOUNCE NADBANK MANAGER

Treasury Secretary Robert E. Rubin and Mexican Finance Minister Guillermo Ortiz, on behalf of the Board of the North American Development Bank, on Monday named Alfredo Phillips as Manager and Chief Executive Officer of the new bank.

"Alfredo Phillips is a distinguished public servant with extensive financial experience. His selection shows the importance of the NADBank to the United States and Mexico," Secretary Rubin said.

Phillips has held several prominent positions in financial institutions, including director general of the Banco Nacional de Comercio Exterior (the National Foreign Trade Bank of Mexico), director for international affairs at Mexico's Central Bank, under secretary for housing in the Ministry of Social Development (SEDESOL), and most recently general director of the National Institute of Housing (INFONAVIT). Phillips, born in the Mexican border state of Tamaulipas, also served as Mexican ambassador to Canada and to Japan. Moreover, his knowledge of U.S.-Mexican relations will be essential to the smooth operation of this institution.

The NADBank, capitalized and governed by the U. S. and Mexican governments, is designed to finance environmental infrastructure projects along the U.S./Mexico border. When fully funded, the San Antonio, Texas-based bank will have \$3 billion in capital.

TREASURY



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FOR IMMEDIATE RELEASE
January 27, 1995

Contact: Jon Murchinson
(202) 622-2960

BORROWING ADVISORY COMMITTEE MEETING, REFUNDING PLANNED

The Treasury Department's Borrowing Advisory Committee will hold an open meeting at 11:30 a.m. Tuesday, January 31, 1995 in the Cash Room, Main Treasury, 1500 Pennsylvania Avenue NW.

Deputy Assistant Secretary (Federal Finance) Darcy Bradbury will announce the Treasury Department's quarterly refunding at 2 p.m. on Wednesday, February 1, 1994 in the Cash Room.

Media without Treasury, White House, State, Defense or Congressional credentials wishing to attend should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, Social Security number and date of birth, by 6 p.m. Monday, January 30 for Tuesday's event and by 6 p.m. Tuesday, January 31 for Wednesday's event. This information can be faxed to (202) 622-1999.



DEPARTMENT OF THE TREASURY

TREASURY



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FOR RELEASE AT 2:30 P.M.
January 27, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately \$17,250 million of 52-week Treasury bills to be issued February 9, 1995. This offering will provide about \$725 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of \$16,521 million. In addition to the maturing 52-week bills, there are \$26,603 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold \$11,387 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$3,716 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$745 million of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment



**HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED FEBRUARY 9, 1995**

January 27, 1995

Offering Amount \$17,250 million

Description of Offering:

Term and type of security 364-day bill
CUSIP number 912794 W9 1
Auction date February 2, 1995
Issue date February 9, 1995
Maturity date February 8, 1996
Original issue date February 9, 1995
Maturing amount \$16,521 million
Minimum bid amount \$10,000
Multiples \$1,000

Submission of Bids:

Noncompetitive bids Accepted in full up to \$1,000,000
at the average discount rate of
accepted competitive bids.
Competitive bids (1) Must be expressed as a discount rate
with two decimals, e.g., 7.10%.
(2) Net long position for each bidder
must be reported when the sum of the
total bid amount, at all discount
rates, and the net long position are
\$2 billion or greater.
(3) Net long position must be reported
one half-hour prior to the closing
time for receipt of competitive bids.

**Maximum Recognized Bid
at a Single Yield**

35% of public offering

Maximum Award

35% of public offering

Receipt of Tenders:

Noncompetitive tenders Prior to 12:00 noon Eastern Standard
time on auction day.
Competitive tenders Prior to 1:00 p.m. Eastern Standard
time on auction day.

Payment Terms

Full payment with tender or by charge
to a funds account at a Federal
Reserve bank on issue date.

federal financing bank NEWS

WASHINGTON, D.C. 20220

Press 202-622-2960
FFB 202-622-2450

January 27, 1995

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of December 1994.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$103.8 billion on December 31, 1994, posting a decrease of \$1,844.6 million from the level on November 30, 1994. This net change was the result of a decrease in holdings of agency debt of \$1,864.9 million, in holdings of agency assets of \$0.1 million, and an increase in holdings of agency-guaranteed loans of \$20.4 million. FFB made 19 disbursements during the month of December. FFB also received 34 prepayments in December.

Attached to this release are tables presenting FFB December loan activity and FFB holdings as of December 31, 1994.

FEDERAL FINANCING BANK
DECEMBER 1994 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
HCFA Headquarters	12/2	\$6,670.10	6/30/95	6.530% S/A
Foley Square Office Bldg.	12/6	\$5,588,511.00	12/11/95	7.290% S/A
Oakland Office Building	12/8	\$352,214.00	9/5/23	8.065% S/A
Atlanta CDC Office Bldg.	12/9	\$428,514.74	9/1/95	7.009% S/A
Chamblee Office Building	12/9	\$5,943.60	4/1/97	7.720% S/A
Miami Law Enforcement	12/9	\$10,955.25	1/3/95	5.956% S/A
Foley Services Contract	12/14	\$240,786.00	12/11/95	7.449% S/A
Foley Square Courthouse	12/16	\$9,038,123.00	12/11/95	7.221% S/A
Oakland Office Building	12/21	\$4,710.67	9/5/23	8.033% S/A
Foley Services Contract	12/22	\$203,069.10	12/11/95	7.158% S/A
Memphis IRS Service Cent.	12/22	\$6,731,070.45	1/3/95	5.686% S/A
Atlanta CDC Office Bldg.	12/23	\$730,385.41	9/1/95	6.967% S/A
HCFA Headquarters	12/27	\$4,376,474.00	6/30/95	6.664% S/A
GSA/PADC				
ICTC Building	12/15	\$9,934,492.93	11/2/26	8.038% S/A
RURAL UTILITIES SERVICE				
S. Maryland Elec. #352	12/1	\$1,590,000.00	12/31/25	8.064% Qtr.
Wolverine Power #349	12/7	\$784,000.00	12/31/96	7.499% Qtr.
Central Power Elec. #395	12/8	\$146,000.00	12/31/26	7.976% Qtr.
W. Farmer Elec. #196	12/21	\$2,297,000.00	12/31/15	7.948% Qtr.
Oglethorpe Power #335	12/28	\$32,705,000.00	12/31/96	7.722% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK
(in millions)

<u>Program</u>	<u>December 31, 1994</u>	<u>November 30, 1994</u>	<u>Net Change</u> <u>12/1/94-12/31/94</u>	<u>FY '94 Net Change</u> <u>10/1/94-12/31/94</u>
Agency Debt:				
Department of Transportation	\$ 664.7	\$ 664.7	\$ 0.0	\$ 0.0
Export-Import Bank	3,448.6	3,926.4	-477.8	-477.8
Resolution Trust Corporation	22,941.8	24,328.8	-1,387.1	-3,577.4
Tennessee Valley Authority	3,200.0	3,200.0	0.0	-200.0
U.S. Postal Service	<u>8,073.1</u>	<u>8,073.1</u>	<u>0.0</u>	<u>-900.0</u>
sub-total*	38,328.1	40,193.0	-1,864.9	-5,155.2
Agency Assets:				
FmHA-ACIF	6,063.0	6,063.0	0.0	0.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	23,981.0	23,981.0	0.0	-410.0
DHHS-Health Maintenance Org.	18.4	18.4	0.0	-6.9
DHHS-Medical Facilities	33.8	33.8	0.0	-1.9
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	<u>0.9</u>	<u>1.0</u>	<u>-0.1</u>	<u>-0.1</u>
sub-total*	38,371.1	38,371.1	-0.1	-418.9
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,748.4	3,761.3	-12.9	-37.0
DHUD-Community Dev. Block Grant	104.4	105.1	-0.6	-5.5
DHUD-Public Housing Notes	1,688.5	1,688.5	0.0	-58.0
General Services Administration +	2,122.7	2,099.3	23.5	93.2
DOI-Virgin Islands	21.9	21.9	0.0	0.0
DON-Ship Lease Financing	1,479.6	1,479.6	0.0	0.0
Rural Utilities Service	17,392.3	17,364.6	27.7	75.6
SBA-Small Business Investment Cos.	34.8	48.8	-14.0	-21.8
SBA-State/Local Development Cos.	511.4	514.4	-3.1	-11.6
DOT-Section 511	<u>14.1</u>	<u>14.2</u>	<u>-0.1</u>	<u>-0.5</u>
sub-total*	27,118.2	27,097.8	20.4	34.4
	=====	=====	=====	=====
grand-total*	\$103,817.4	\$105,661.9	\$-1,844.6	\$-5,539.7

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

TREASURY



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FOR IMMEDIATE RELEASE
January 27, 1995

TREASURY CFO TO SPEAK AT UNIVERSITY OF ILLINOIS AT CHICAGO

Former Chicago Board of Education president George Muñoz will discuss the Clinton Administration's efforts to assist students and their families at the University of Illinois at Chicago on Monday, January 30.

Muñoz, who is the Treasury Department's Chief Financial Officer and Assistant Secretary for Management, will address the education tax credits contained in the President's Middle Class Bill of Rights at 11 a.m. in Behavioral Science Building, room 187, UIC, 1007 W. Harrison Street, Chicago, IL.

The Middle Class Bill of Rights calls for tax cuts for middle income families with children, tax deductions for educational costs and allows for penalty-free withdrawals for educational purposes from IRAs. The cuts would be paid for through savings achieved by downsizing the Federal government.

Treasury Contact: Jon Murchinson, (202) 622-2960
UIC Contact: Ed Tate, (312) 996-8282

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 30, 1995

Contact: Michelle Smith
(202) 622-2960

PRESS ADVISORY

Treasury Secretary Robert E. Rubin will be joined by Congressman Jim Leach, Congressman Robert Matsui, former National Security Adviser General Brent Scowcroft, former Secretary of Commerce Robert Mosbacher and former U.S. Ambassador to the Organization of American States Sol Linowitz for a press availability on the Mexican financial situation.

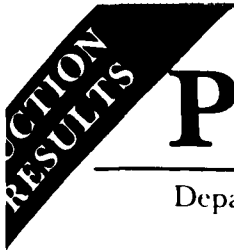
The press availability will be at 11 a.m. today, Monday, January 30 in Room 3327 Main Treasury.

Press without Treasury White House or Congressional press credentials should contact Treasury's Office of Public Affairs at (202) 622-2960 by 10 a.m. for clearance into the building.

-30-

RR-38





PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 30, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,459 million of 13-week bills to be issued February 2, 1995 and to mature May 4, 1995 were accepted today (CUSIP: 912794R89).

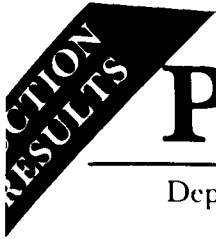
RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount Rate</u>	<u>Investment Rate</u>	<u>Price</u>
Low	5.76%	5.93%	98.544
High	5.80%	5.97%	98.534
Average	5.79%	5.96%	98.536

Tenders at the high discount rate were allotted 19%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$48,351,336	\$13,459,197
Type		
Competitive	\$42,890,153	\$7,998,014
Noncompetitive	<u>1,409,668</u>	<u>1,409,668</u>
Subtotal, Public	\$44,299,821	\$9,407,682
Federal Reserve	3,572,715	3,572,715
Foreign Official		
Institutions	<u>478,800</u>	<u>478,800</u>
TOTALS	\$48,351,336	\$13,459,197



PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
January 30, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,491 million of 26-week bills to be issued February 2, 1995 and to mature August 3, 1995 were accepted today (CUSIP: 912794U36).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u>	<u>Investment</u>	
	<u>Rate</u>	<u>Rate</u>	<u>Price</u>
Low	6.11%	6.39%	96.911
High	6.12%	6.40%	96.906
Average	6.12%	6.40%	96.906

Tenders at the high discount rate were allotted 84%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$49,563,010	\$13,490,880
Type		
Competitive	\$43,786,850	\$7,714,720
Noncompetitive	<u>1,387,660</u>	<u>1,387,660</u>
Subtotal, Public	\$45,174,510	\$9,102,380
Federal Reserve	3,400,000	3,400,000
Foreign Official		
Institutions	<u>988,500</u>	<u>988,500</u>
TOTALS	\$49,563,010	\$13,490,880

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 3 p.m.
January 30, 1995

Contact: Jon Murchinson
(202) 622-2960

TREASURY ANNOUNCES MARKET BORROWING ESTIMATES

The Treasury Department on Monday announced that its net market borrowing for the January-March 1995 quarter is estimated to be \$93.7 billion, with a \$20 billion cash balance on March 31. The Treasury also announced that a paydown of \$5 billion to \$10 billion of marketable securities is estimated for the April-June 1995 quarter, with a \$35 billion cash balance at the end of June.

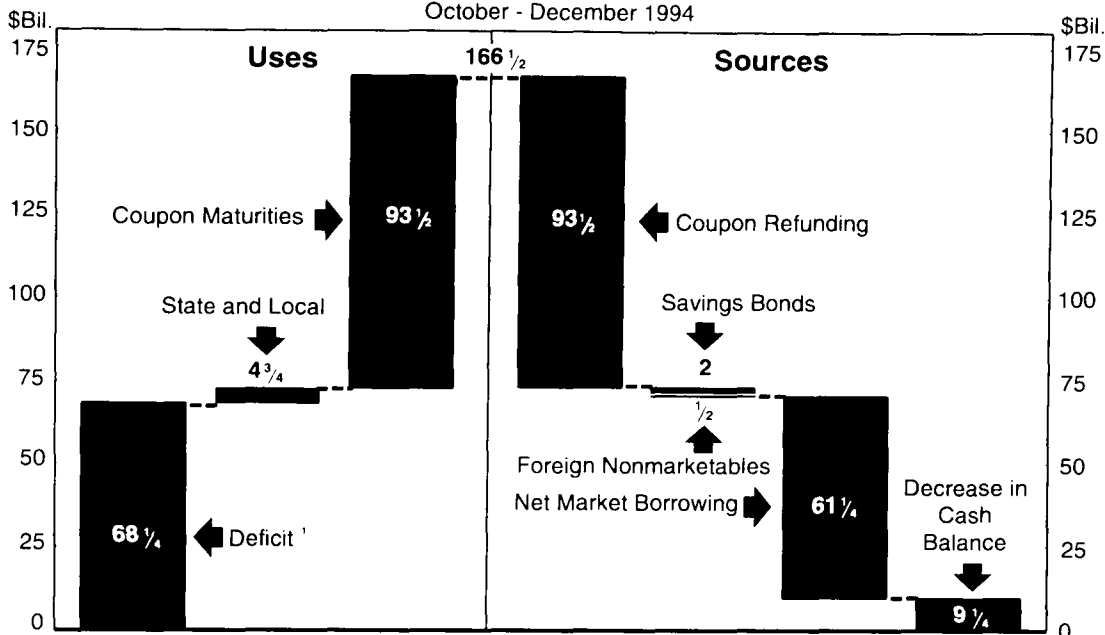
Market borrowing in the January-March quarter in part reflects paydowns of about \$10-1/4 billion of nonmarketable Treasury securities, the settlement of December 2- and 5-year notes and payment of December 31 interest totaling about \$10 billion on January 3, and the shift of payments totaling about \$7 billion from Saturday, April 1, to Friday, March 31. In the quarterly announcement of its borrowing needs on October 31, 1994, the Treasury estimated net market borrowing during the January-March 1995 quarter to be in a range of \$65 billion to \$70 billion, assuming a \$20 billion cash balance on March 31. The increase in the current borrowing estimate, compared with the prior estimate, is attributable to lower receipts and higher outlays.

Actual net market borrowing in the quarter ended December 31, 1994 was \$61.2 billion, while the end-of-quarter cash balance was \$26.6 billion. On October 31, the Treasury had estimated net market borrowing for the October-December quarter to be \$59.6 billion, with a \$30 billion cash balance on December 31. The lower-than-expected end-of-December cash balance reflected a reduction in receipts, while actual market borrowing was little changed from the October 31 estimate.



TREASURY FINANCING REQUIREMENTS

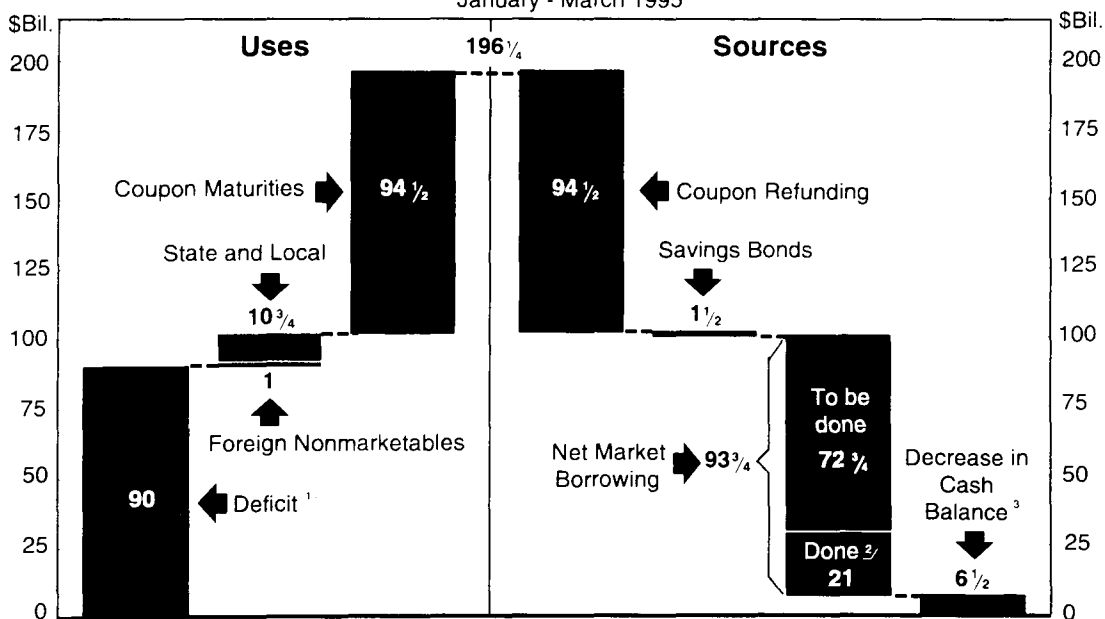
October - December 1994



¹ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

TREASURY FINANCING REQUIREMENTS

January - March 1995



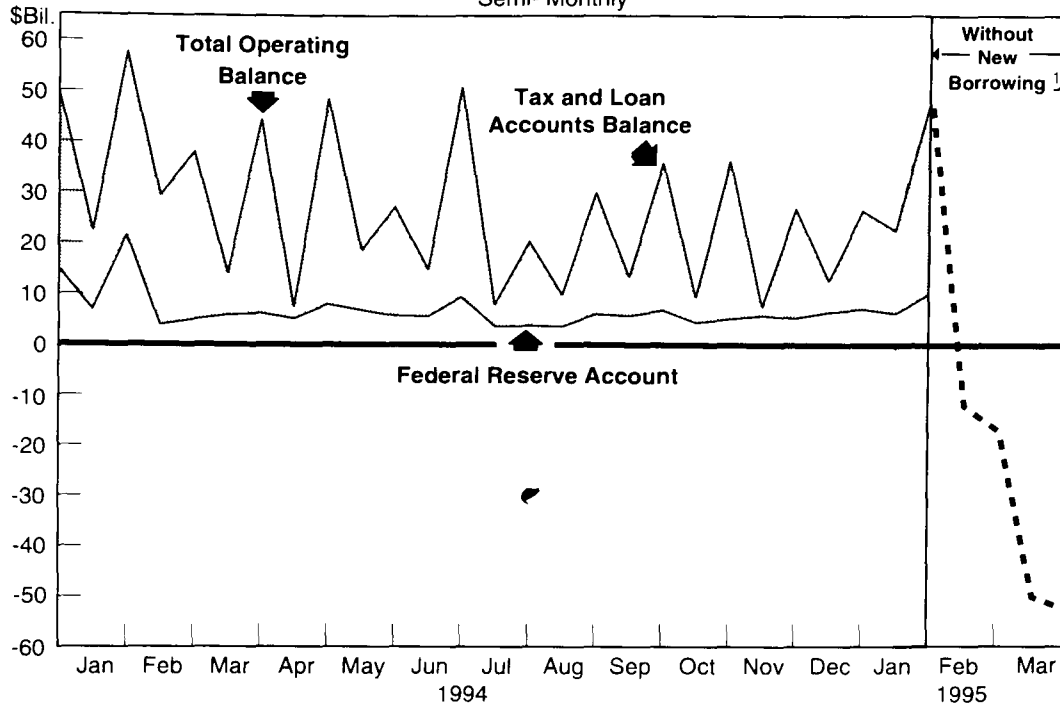
¹ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

² Issued or announced through January 27, 1995.

³ Assumes a \$20 billion cash balance March 31, 1995.

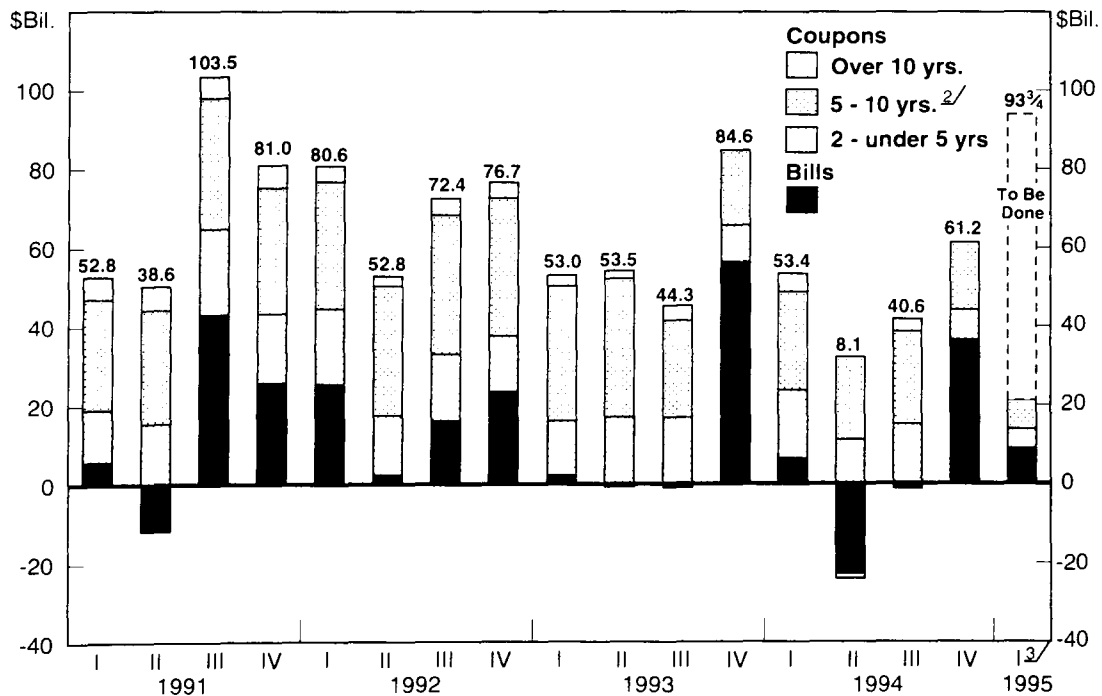
TREASURY OPERATING CASH BALANCE

Semi-Monthly



^{1/} Assumes refunding of maturing issues.

TREASURY NET MARKET BORROWING ^{1/}



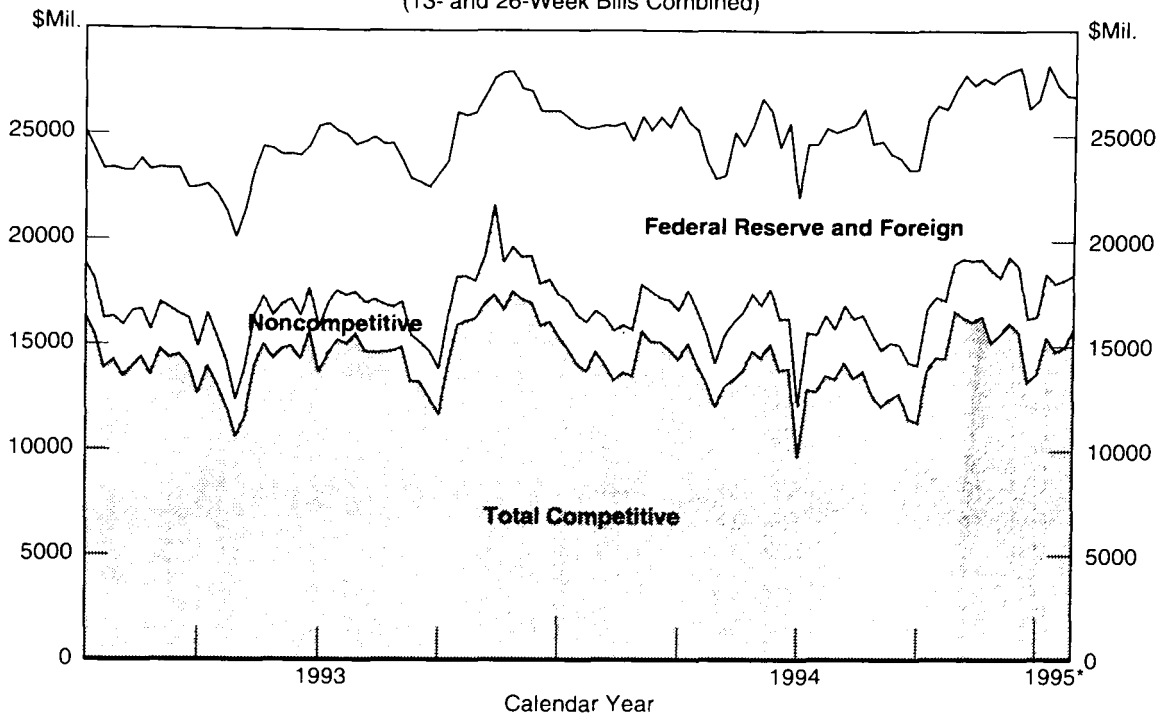
^{1/} Excludes Federal Reserve and Government Account Transactions.

^{2/} 7 year note discontinued after April 1993.

^{3/} Issued or announced through January 27, 1995.

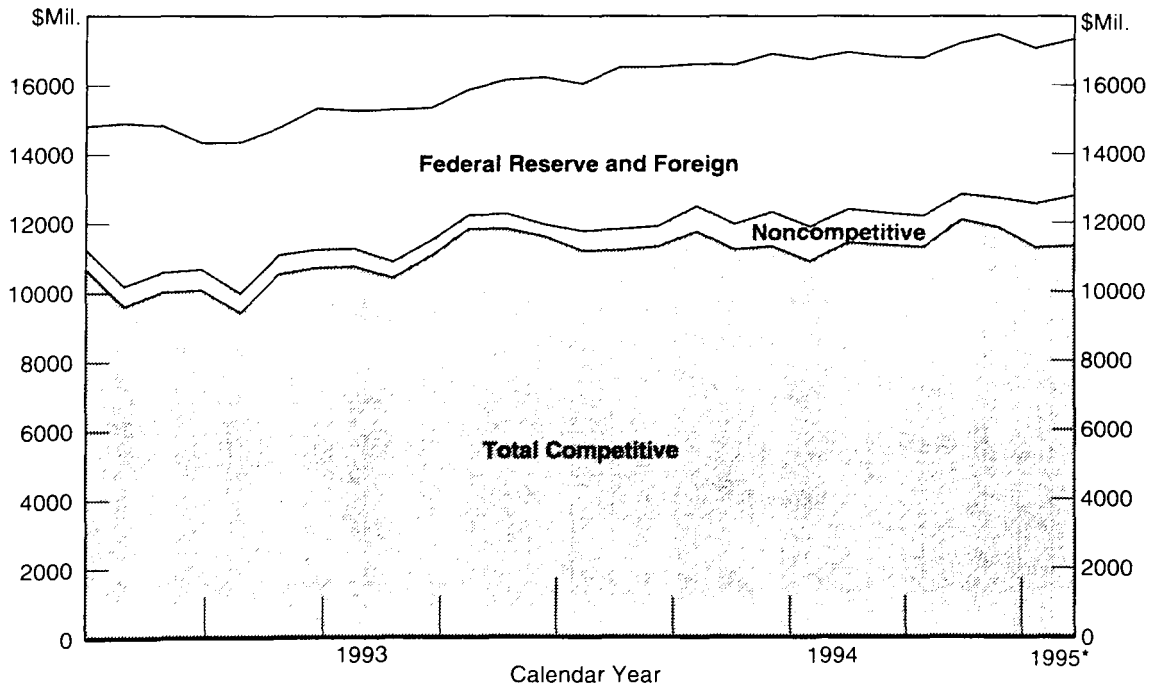
AWARDS IN WEEKLY BILL AUCTIONS

(13- and 26-Week Bills Combined)



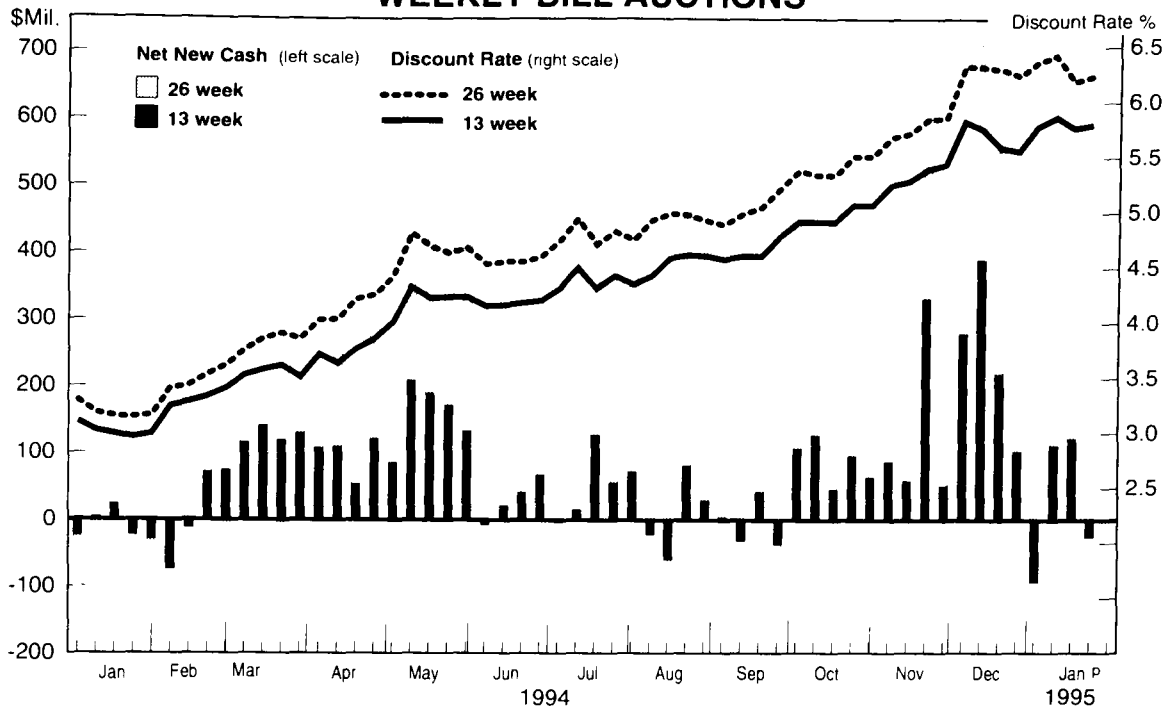
*Data through January 23, 1995 Auction.

AWARDS IN 52-WEEK BILL AUCTIONS



*Data through January 5, 1995 Auction.

NET NEW CASH FROM NONCOMPETITIVE TENDERS IN WEEKLY BILL AUCTIONS^{1/}



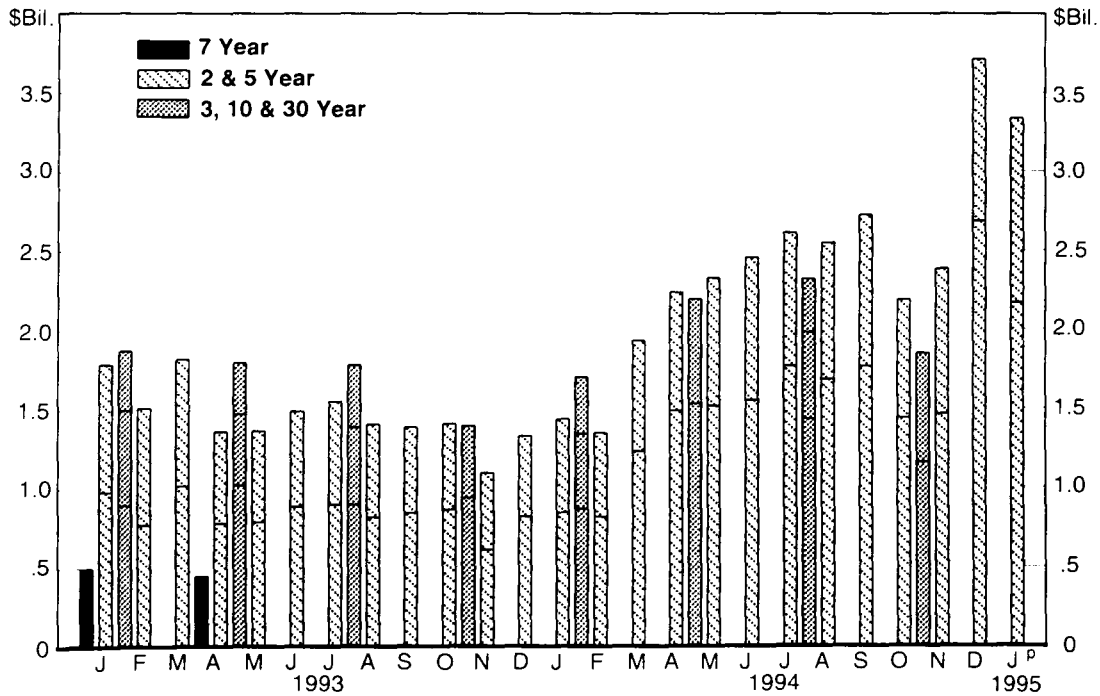
^{1/} Excludes noncompetitive tenders from foreign official accounts and the Federal Reserve account.

Department of the Treasury
Office of Market Finance

p Preliminary

January 30, 1994-27

NONCOMPETITIVE TENDERS IN TREASURY NOTES AND BONDS^{1/}



^{1/} Excludes foreign add-ons from noncompetitive tenders.

p Preliminary

Treasury increased the maximum noncompetitive award to any noncompetitive bidder to \$5 million effective November 5, 1991.

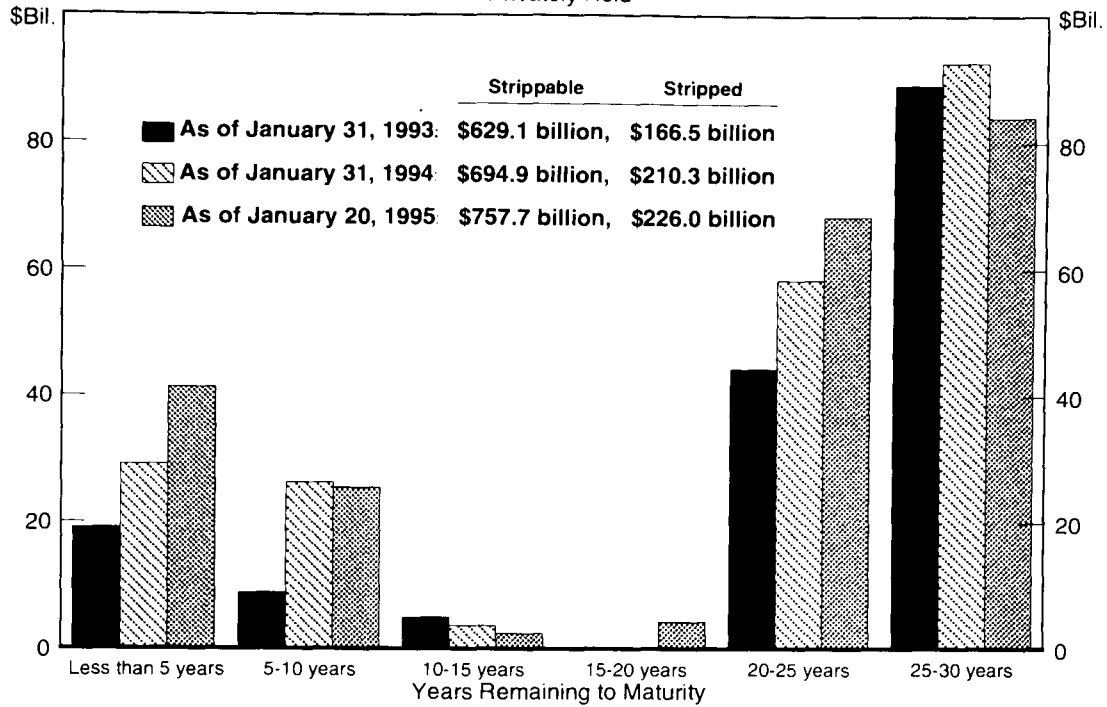
Effective February 11, 1992 a noncompetitive bidder may not hold a position in WII trading, futures, or forward contracts, nor submit both competitive and noncompetitive bids for its own account.

Department of the Treasury
Office of Market Finance

January 30, 1995-3

SECURITIES HELD IN STRIPS FORM 1993-1995

Privately Held



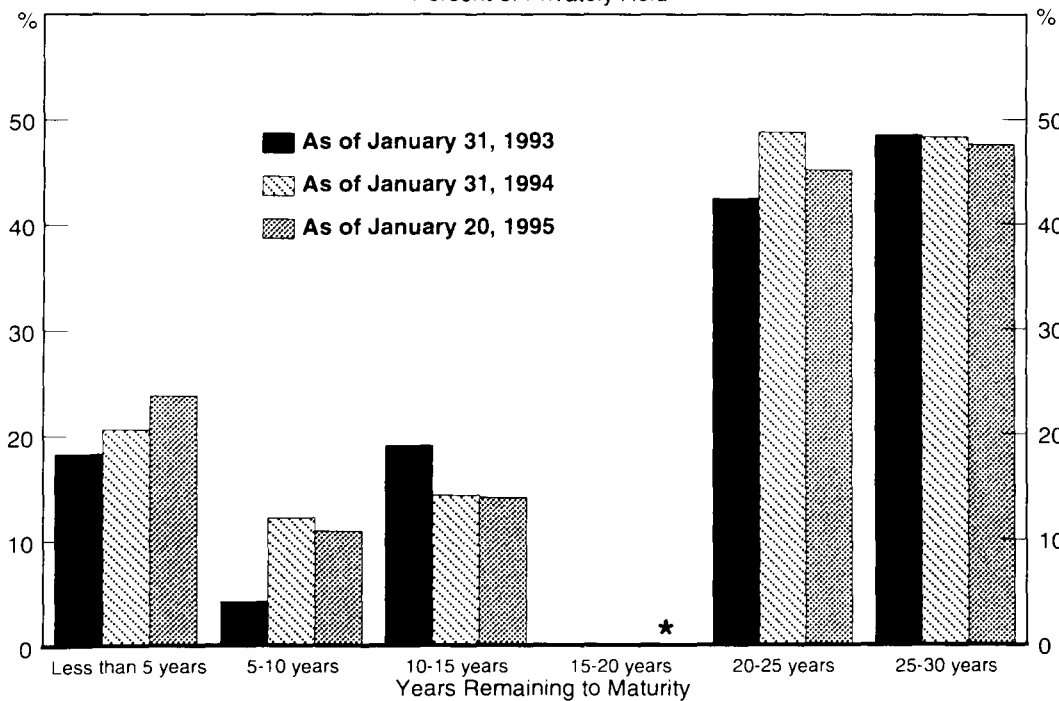
Note: The STRIPS program was established in February 1985. The 11 5/8% note of November 15, 1994, issued on November 15, 1984, was the first STRIPS-eligible security to mature.

Department of the Treasury
Office of Market Finance

January 30, 1995-30

SECURITIES HELD IN STRIPS FORM 1993-1995

Percent of Privately Held



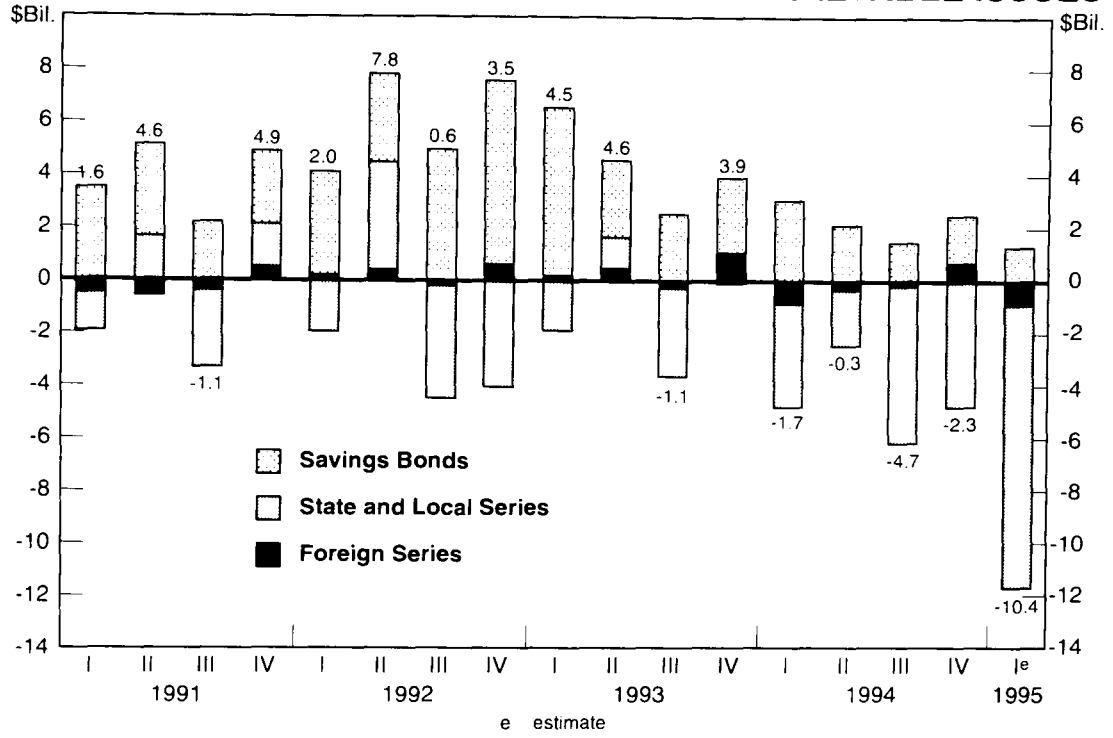
* The 11 3/4% bond of 11/15/09-14 had \$4.9 billion (privately-held) available for stripping, of which 87% was held in stripped form.

Note: The STRIPS program was established in February 1985. The 11 5/8% note of November 15, 1994, issued on November 15, 1984, was the first STRIPS-eligible security to mature.

Department of the Treasury
Office of Market Finance

January 30, 1995-29

TREASURY NET BORROWING FROM NONMARKETABLE ISSUES

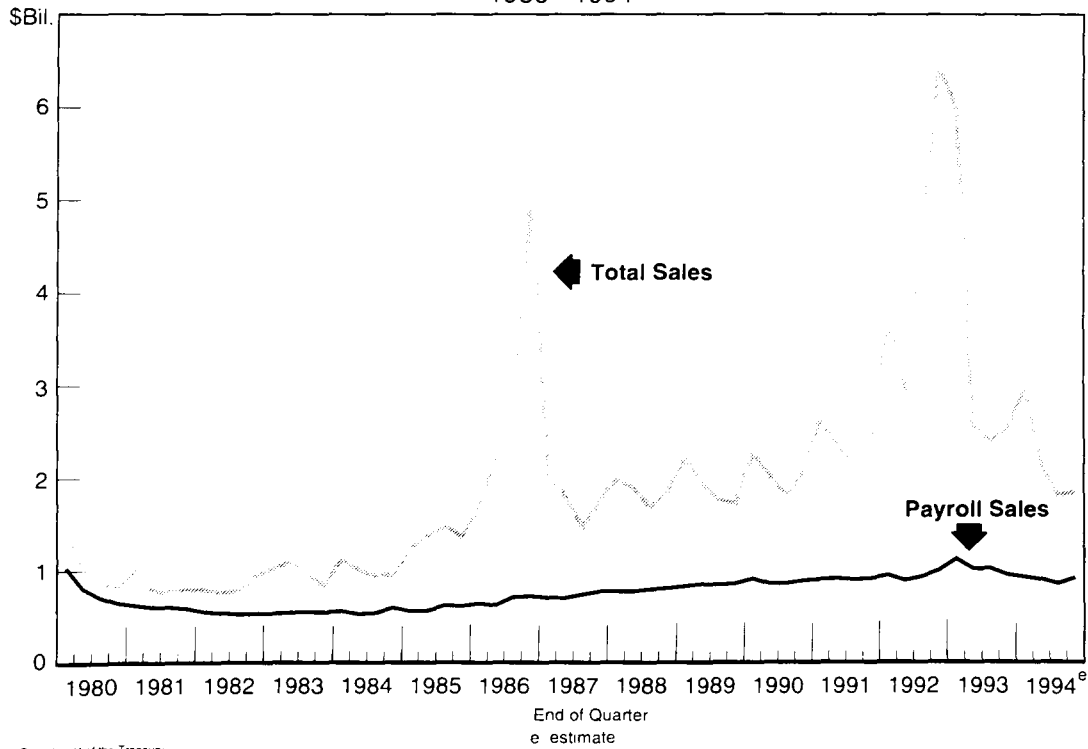


Department of the Treasury
Office of Market Finance

January 30, 1995-19

SALES OF UNITED STATES SAVINGS BONDS

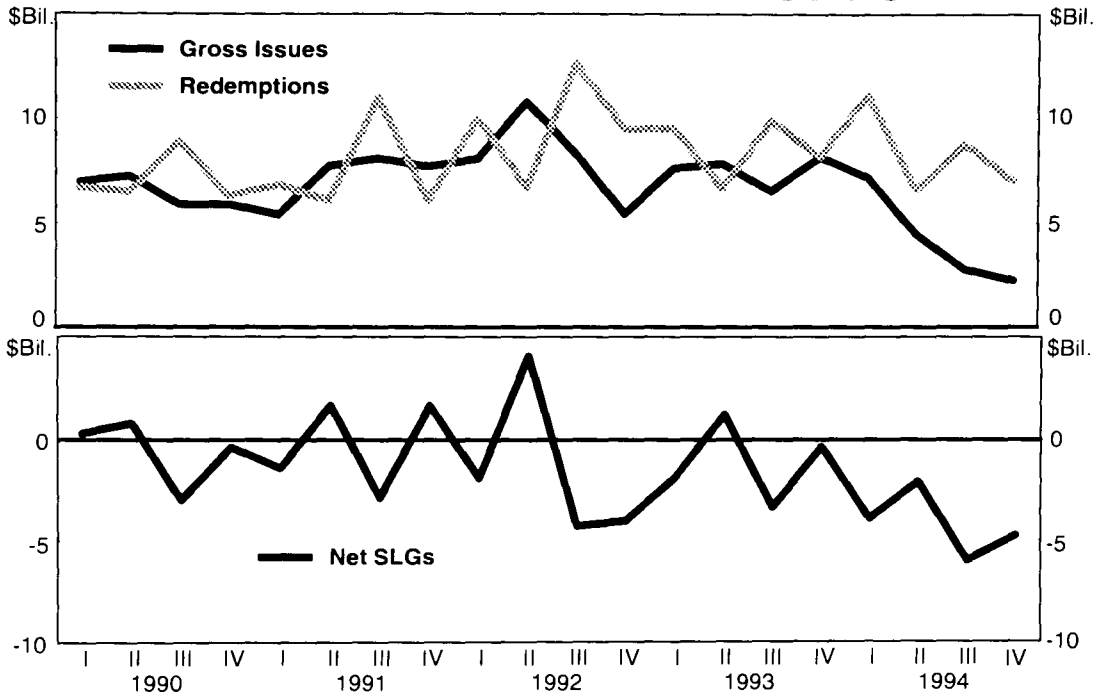
1980 - 1994



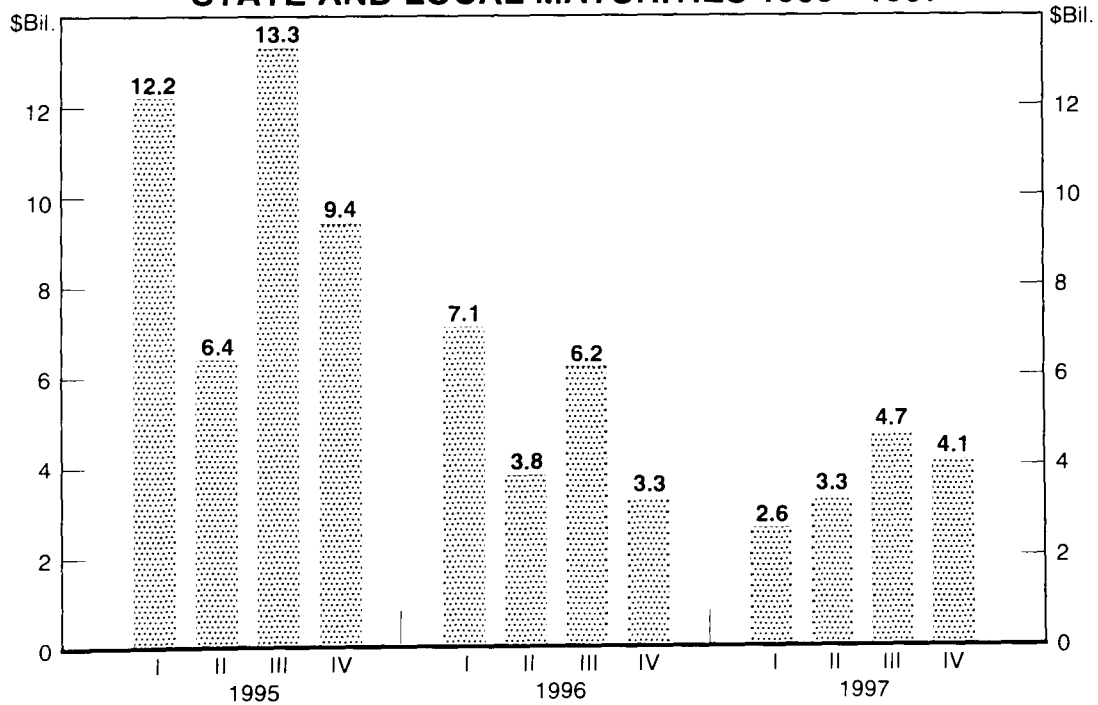
Department of the Treasury
Office of Market Finance

January 30, 1995-1

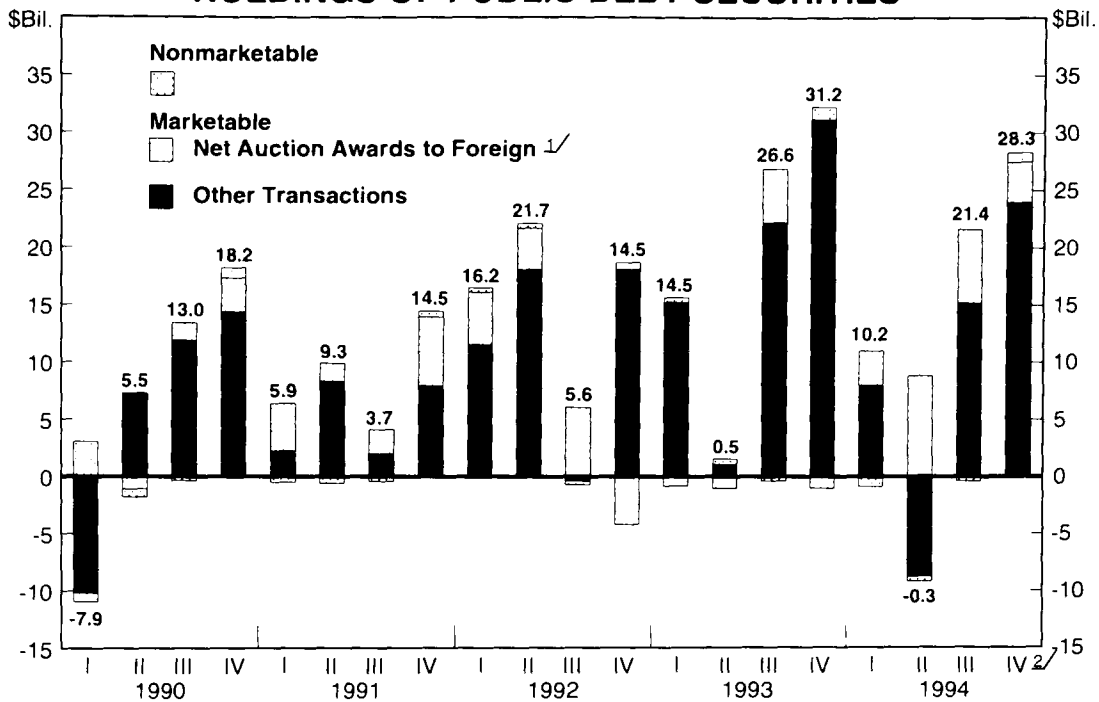
STATE & LOCAL GOVERNMENT SERIES



STATE AND LOCAL MATURITIES 1995 - 1997



QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES



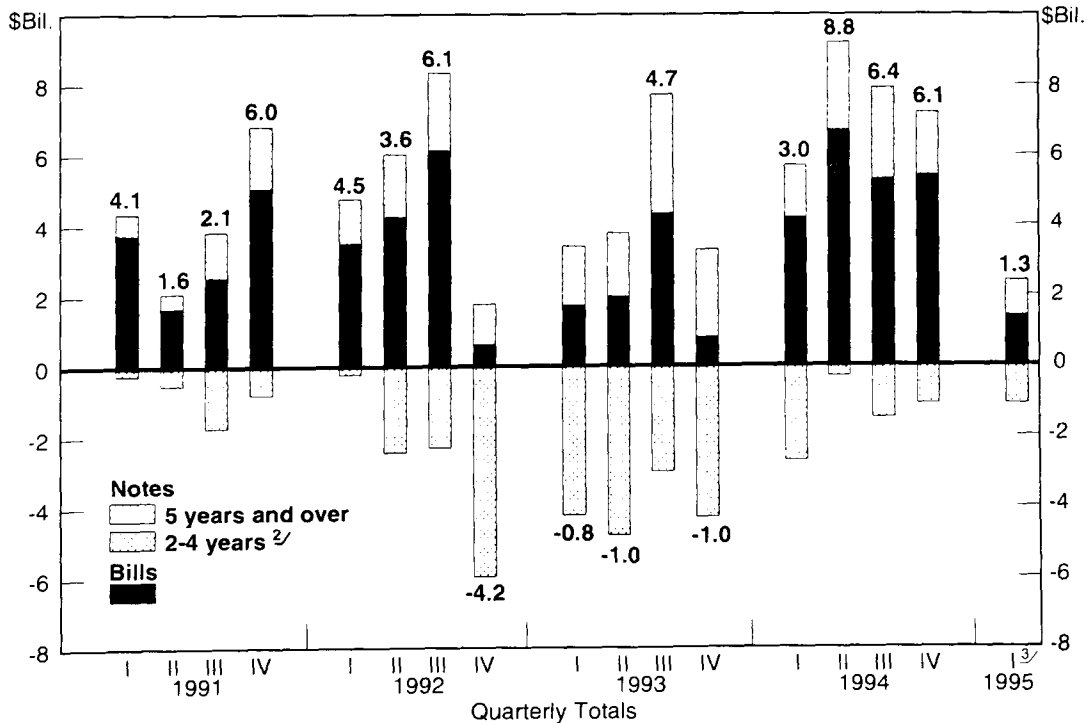
1/ Auction awards to foreign official purchasers netted against holdings of maturing securities.

2/ Data through November 30, 1994.

Department of the Treasury
Office of Market Finance

January 30, 1995-20

NET AWARDS TO FOREIGN OFFICIAL ACCOUNTS ^{1/}



Notes
 [White Box] 5 years and over
 [Grey Box] 2-4 years ^{2/}
 [Black Box] Bills

1/ Noncompetitive awards to foreign official accounts held in custody at the Federal Reserve in excess of foreign custody account holdings of maturing securities.

2/ 4 year notes not issued after December 31, 1990.

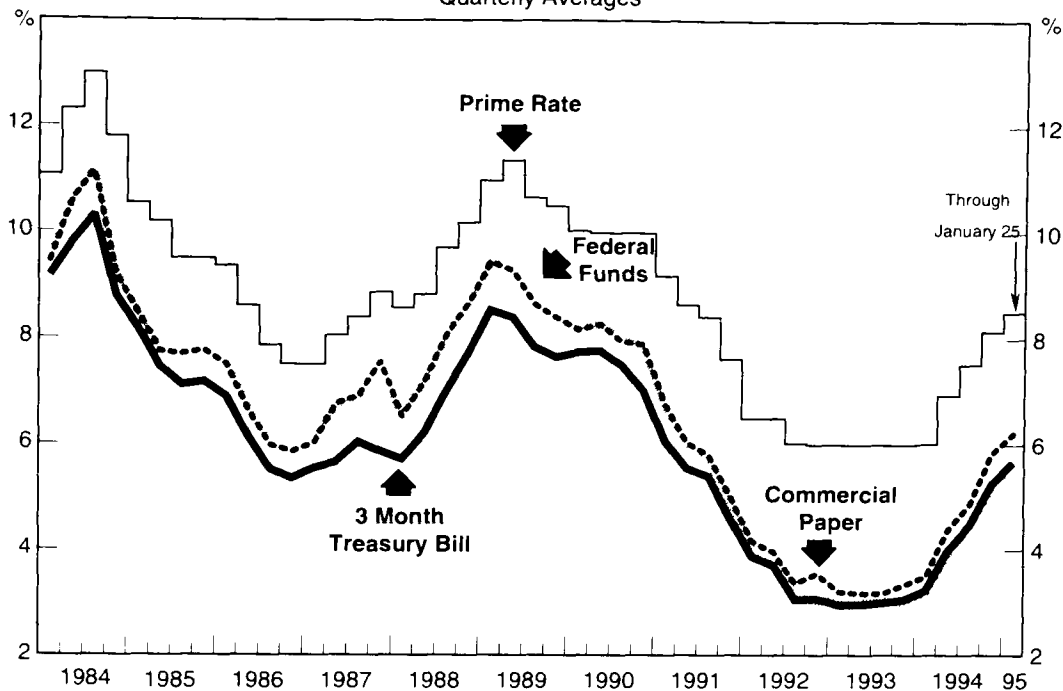
3/ Through January 27, 1995.

Department of the Treasury
Office of Market Finance

January 30, 1995-21

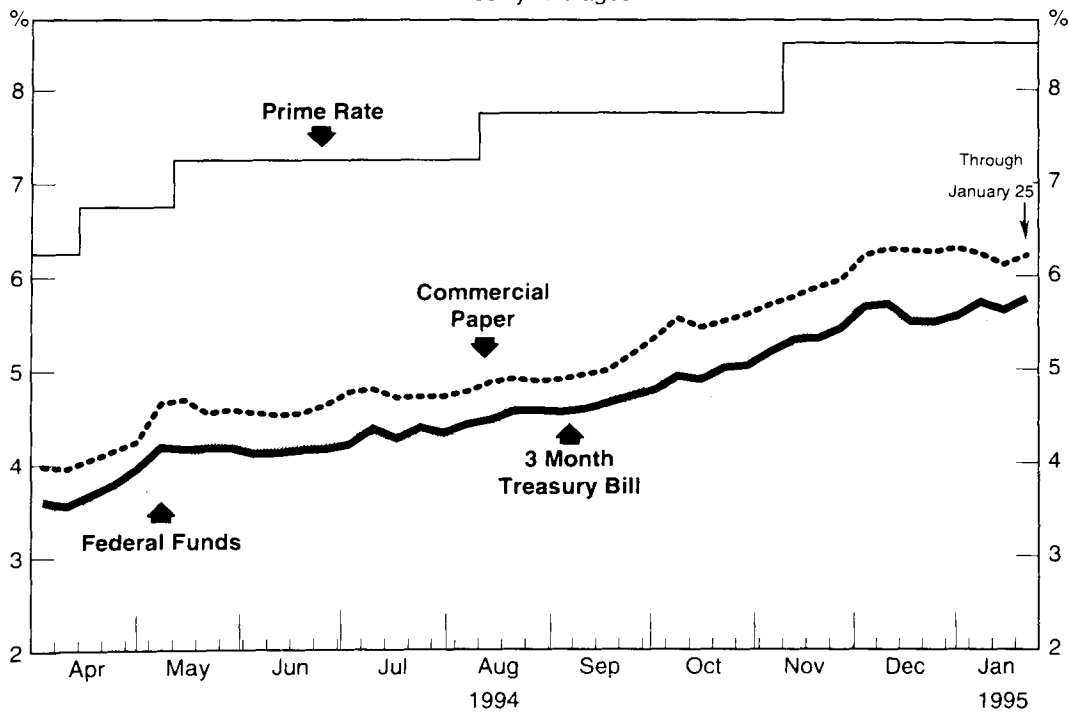
SHORT TERM INTEREST RATES

Quarterly Averages



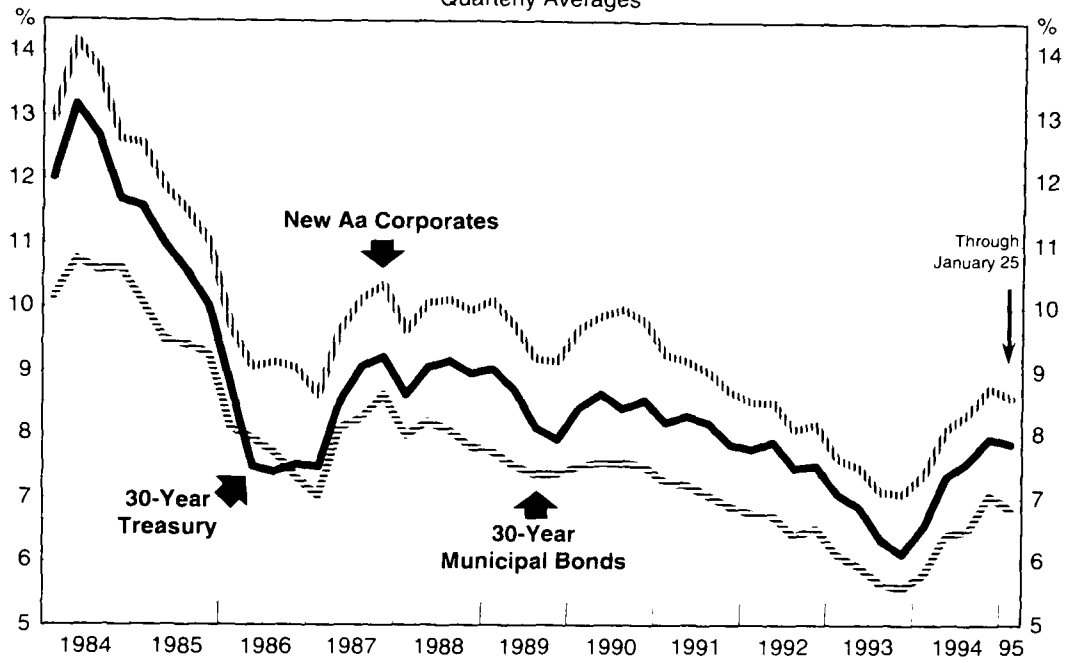
SHORT TERM INTEREST RATES

Weekly Averages



LONG TERM MARKET RATES

Quarterly Averages

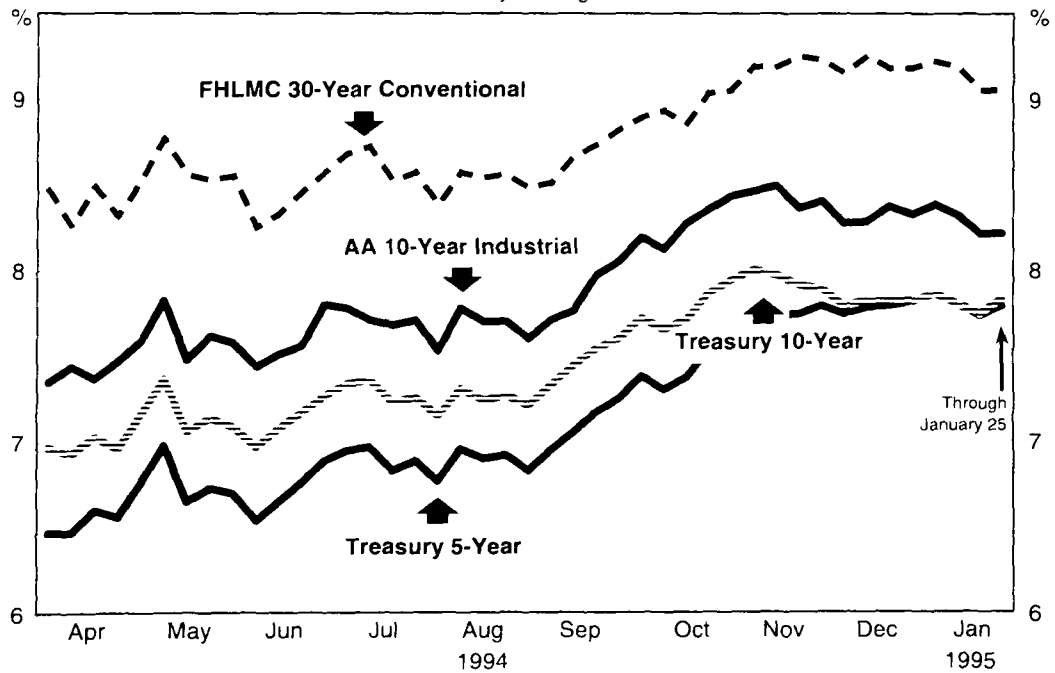


Department of the Treasury
Office of Market Finance

January 30, 1995-24

INTERMEDIATE TERM INTEREST RATES

Weekly Averages*

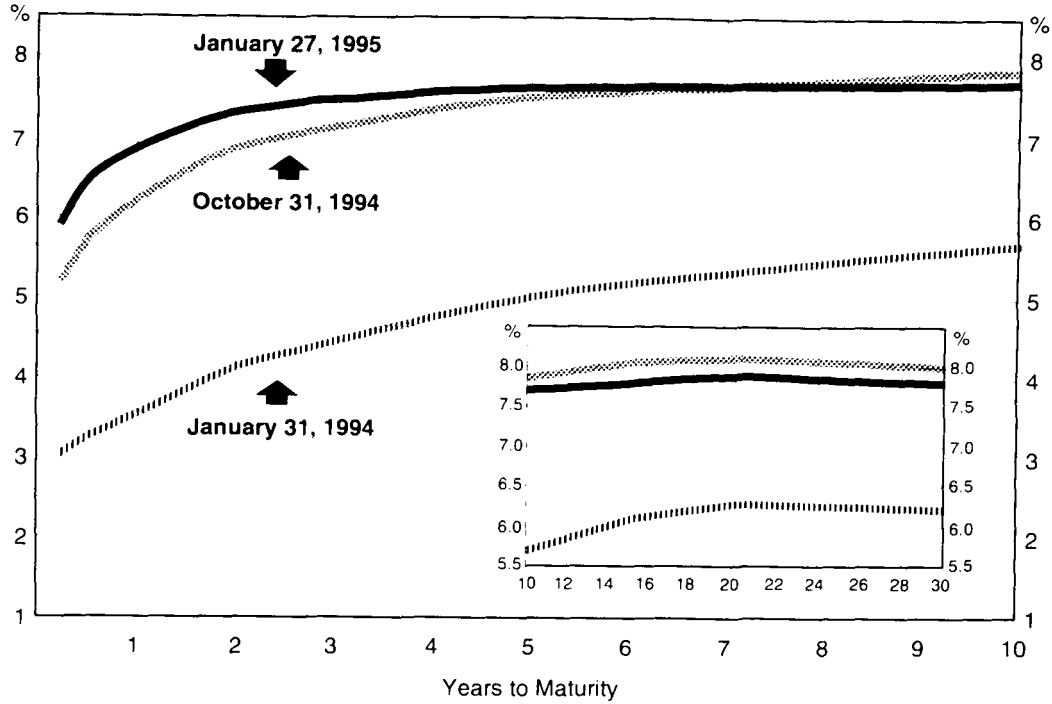


* Salomon 10-yr. AA Industrial is a Thursday rate.

Department of the Treasury
Office of Market Finance

January 30, 1995-25

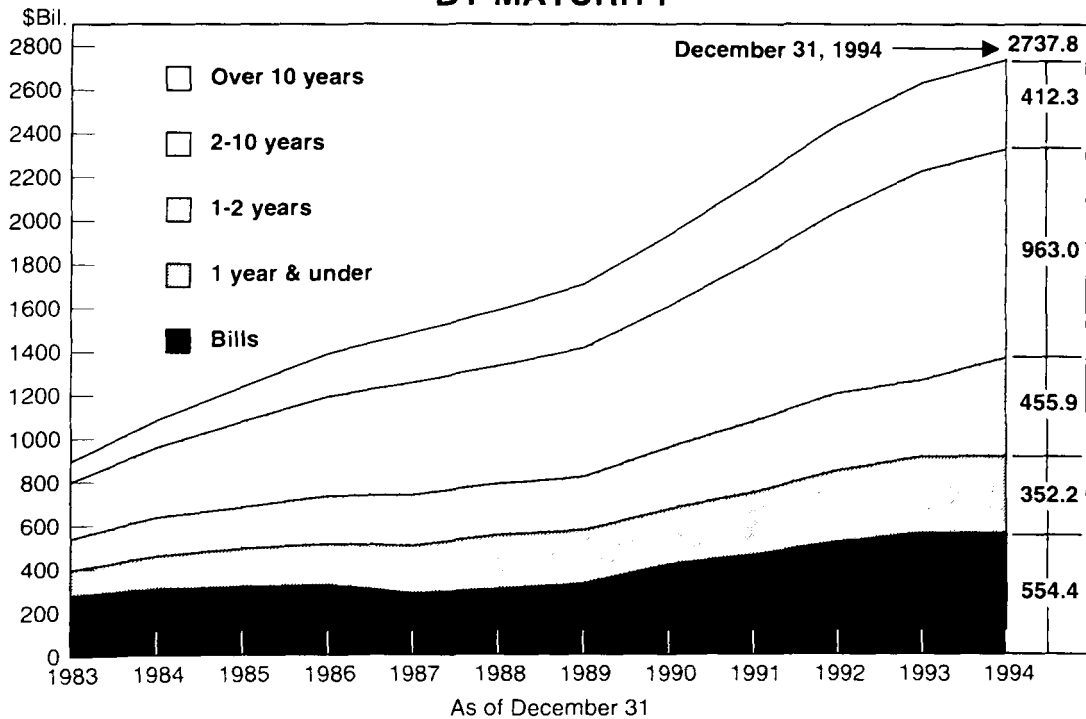
MARKET YIELDS ON GOVERNMENTS



Department of the Treasury
Office of Market Finance

January 30, 1995-31

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY

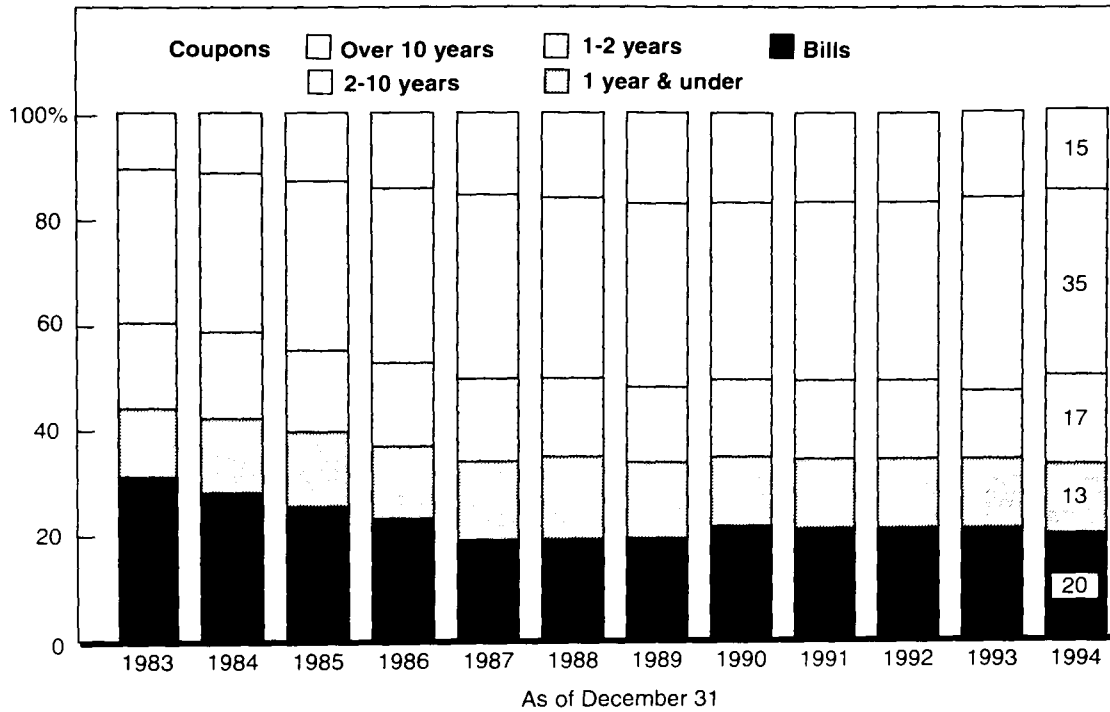


Department of the Treasury
Office of Market Finance

January 30, 1995-5

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT

Percent Distribution By Maturity

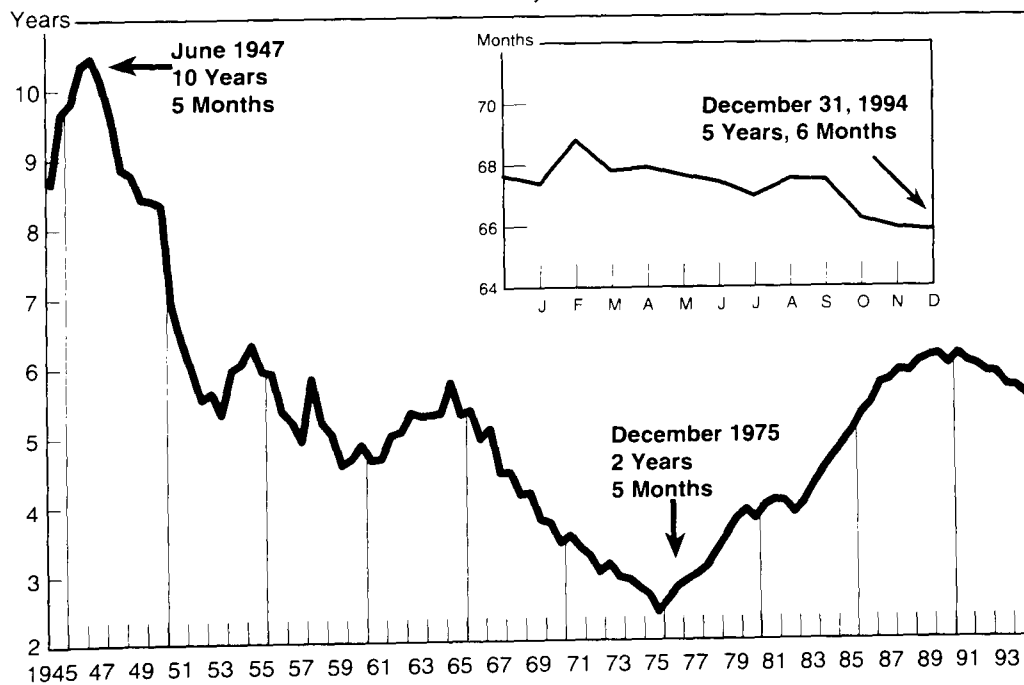


Department of the Treasury
Office of Market Finance

January 30, 1995-6

AVERAGE LENGTH OF THE MARKETABLE DEBT

Privately Held



Department of the Treasury
Office of Market Finance

January 30, 1995-4

MATURING COUPON ISSUES

February - June 1995

(in millions of dollars)

Maturing Coupons	December 31, 1994			
	Total	Held by		
		Federal Reserve & Government Accounts	Private Investors	Foreign ^{1/}
11 1/4% Note 2/15/95	6,934	1,453	5,481	70
7 3/4% Note 2/15/95	8,344	103	8,241	433
5 1/2% Note 2/15/95	17,774	2,374	15,400	1,018
3 % Bond 2/15/95	102	57	45	0
10 1/2% Bond 2/15/95	1,502	182	1,320	50
7 7/8% Bond 2/15/95 ^{2/}	2,749	777	1,972	0
3 7/8% Note 2/28/95	16,613	1,146	15,467	1,508
3 7/8% Note 3/31/95	17,305	2,095	15,210	1,419
8 3/8% Note 4/15/95	7,018	370	6,648	700
3 7/8% Note 4/30/95	16,797	703	16,094	2,063
11 1/4% Note 5/15/95	7,127	798	6,329	185
8 1/2% Note 5/15/95	8,293	273	8,020	1,021
5 7/8% Note 5/15/95	19,152	3,829	15,323	2,373
12 5/8% Bond 5/15/95	1,503	417	1,086	4
10 3/8% Bond 5/15/95	1,504	126	1,378	251
4 1/8% Note 5/31/95	17,527	1,227	16,300	2,813
4 1/8% Note 6/30/95	18,164	1,392	16,772	3,008
Totals	168,408	17,322	151,086	16,916

^{1/} F.R.B. custody accounts for foreign official institutions; included in Private Investors.

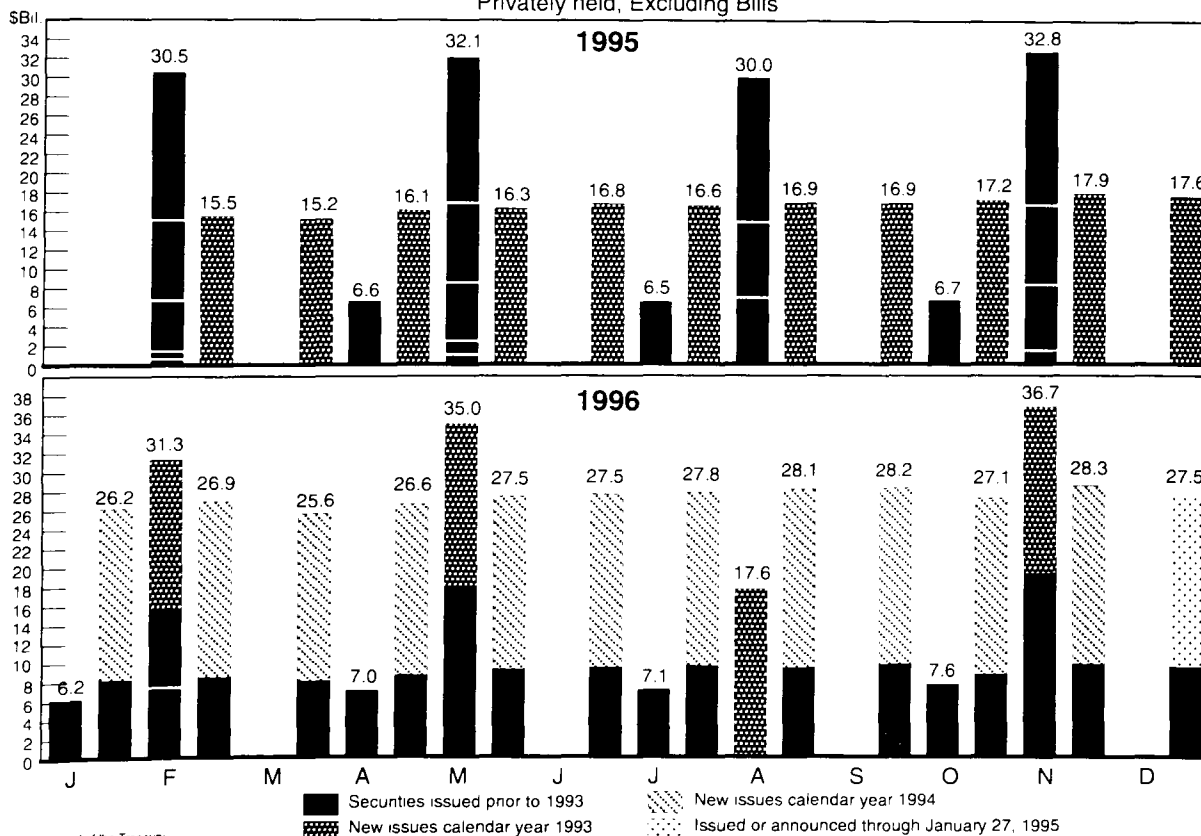
^{2/} On October 12, Treasury called for redemption at par the 7 7/8% Bonds 1995-00, issued February 15, 1975.

Department of the Treasury
Office of Market Finance

January 30, 1995-7

TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills

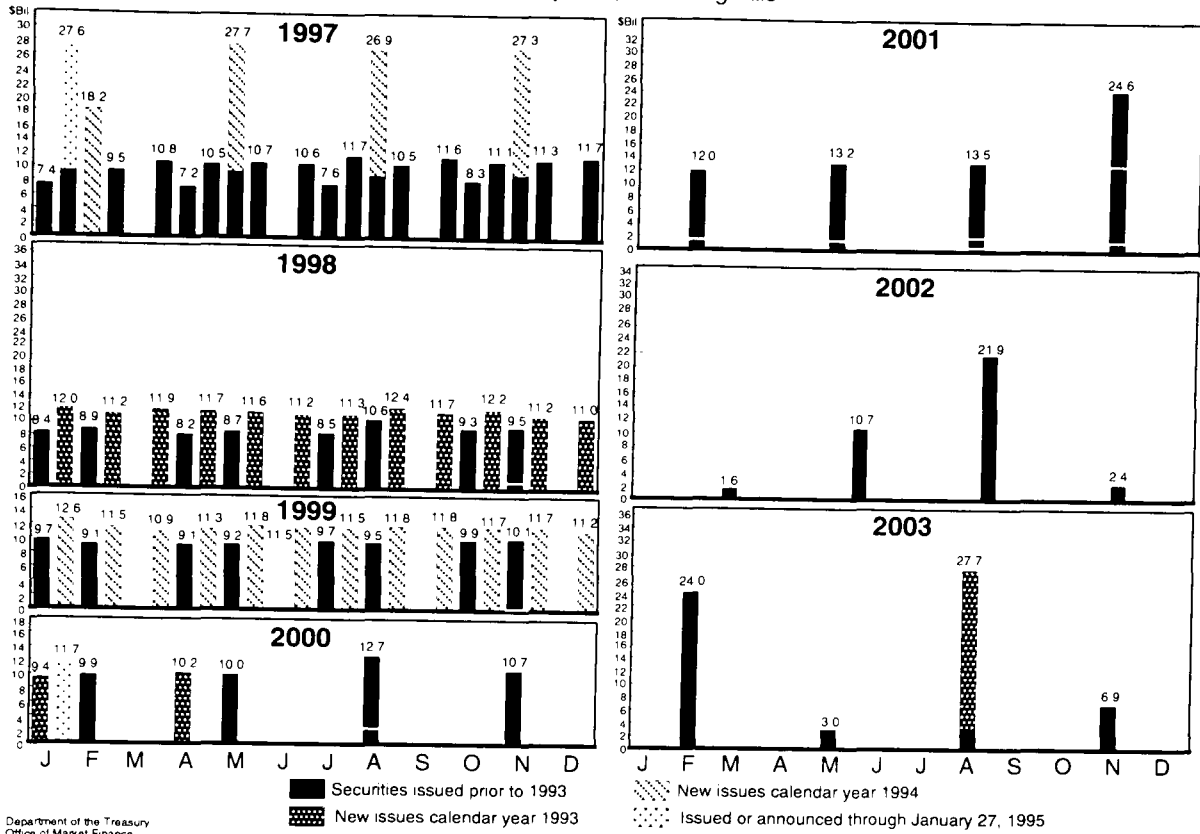


Department of the Treasury
Office of Market Finance

January 30, 1995-8

TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills

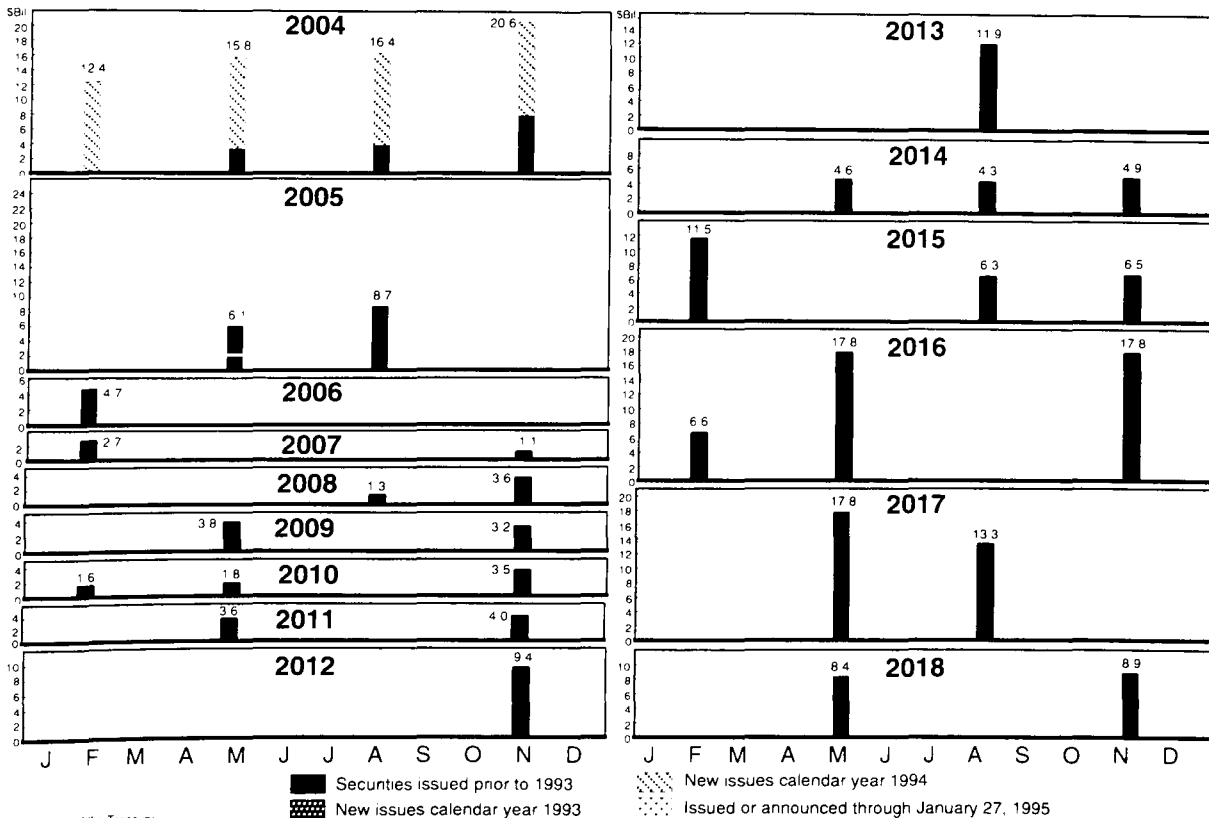


Department of the Treasury
Office of Market Finance

January 30, 1995-9

TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills

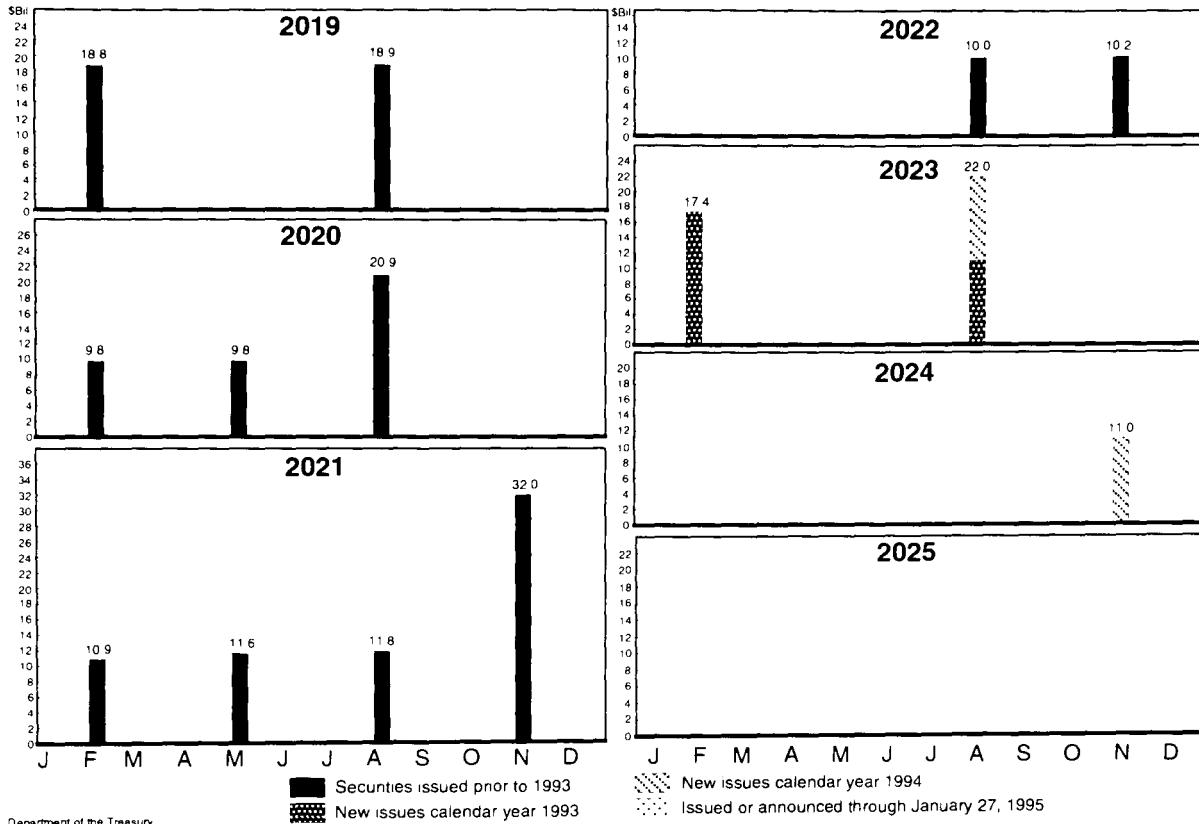


Department of the Treasury
Office of Market Finance

January 30, 1995-10

TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills



Department of the Treasury
Office of Market Finance

January 30, 1995-11

Declaration of Support Mexico

We support the bold measures being taken to stabilize Mexico's financial market and to prevent a domino effect in global markets, goals we believe to be urgent U.S. national interests.

Americans may wonder why the U.S. should provide \$40 billion in loan guarantees to Mexico at a time of cost cutting at home. The rationale is clear. It is much easier to fix a liquidity crisis now than to fix a much bigger problem later after it has affected financial markets throughout the world, with great repercussions on the United States. The U.S. is not offering aid or grants to Mexico, but loan guarantees. The cost of inaction is higher than the cost of action.

The U.S. has a legitimate interest in guaranteeing that Mexico can honor its obligations, but we risk courting a backlash that could endanger political stability and market reforms if punitive conditions are attached to the package. There are limits to the kinds of conditions a freely elected Mexican government can accept in its dealings with the United States. The U.S. should not be seen as pushing around a friendly neighbor at a time of need.

We have confidence in the fundamental soundness of the Mexican economy. Progress in the transition from a closed economy to a market economy is rarely linear and setbacks along the way should not be interpreted as a signal to abandon the course. The Mexican government has already made serious commitments to balancing its federal budget, exercising monetary restraint, moderating wages and prices, advancing privatization, and honoring its obligations. We urge the U.S. Congress to take vigorous action to help Mexico stabilize its economy and thereby promote democracy in the hemisphere.

<i>Presidents</i>	<i>Secretaries of State</i>	<i>Secretaries of Treasury</i>	<i>Secretaries of Commerce</i>	<i>USTR</i>
<i>George Bush</i>	<i>James Baker III</i>	<i>Joseph Barr</i>	<i>Frederick B. Dent</i>	<i>William E. Brock</i>
<i>Jimmy Carter</i>	<i>Lawrence Eagleburger</i>	<i>Lloyd Bentsen</i>	<i>Juanita M. Kreps</i>	<i>William D. Eberle</i>
<i>Gerald Ford</i>	<i>Alexander Haig</i>	<i>Michael Blumenthal</i>	<i>Robert A. Mosbacher</i>	<i>Carla A. Hills</i>
	<i>Henry A. Kissinger</i>	<i>Henry H. Fowler</i>	<i>Eliot L. Richardson</i>	<i>Robert S. Strauss</i>
	<i>Edmund S. Muskie</i>	<i>David M. Kennedy</i>	<i>Maurice H. Stans</i>	<i>Clayton Yeutter</i>
	<i>Cyrus Vance</i>		<i>Alexander B. Trowbridge</i>	

Senior Officials

Zbigniew Brzezinski, former NSC Advisor; Paul Kirk, former Chairman Democratic National Committee; Sol Linowitz, former U.S. Ambassador to the OAS; Charles Manatt, former Chairman of the Democratic National Committee; Charles Pilliod, former U.S. Ambassador to Mexico; Barry Rogstad, American Business Conference; General Brent Scowcroft, former NSC Advisor; Paula Stern, former Chairman of the International Trade Commission; William Reilly, former EPA Administrator; Andrew Young, former U.S. Ambassador to the U.N.;

Distinguished Scholars

M. Delal Baer, CSIS; John Bailey, Georgetown University; Wayne Berman, CSIS; Roderic Ai Camp, Tulane University; William Cline, Institute for International Economics; Wayne A. Cornelius, University of California-San Diego; Rudiger Dornbusch, M.I.T.; Mark Falcoff, American Enterprise Institute; Georges Fauriol, CSIS; Albert Fishlow, University of California at Berkeley; George W. Grayson, College of William and Mary; Peter Hakim, Inter-American Dialogue; Gary Hufbauer, Institute for International Economics; Susan Kaufman Purcell, The Americas Society; Nora Lustig, The Brookings Institution; Edward Luttwak, CSIS; Bruce MacLaury, The Brookings Institution; Franco Modigliani, M.I.T.; Douglas North, Washington University; Michael Porter, Harvard University; Alan Reynolds, Hudson Institute; Riordan Roett, Johns Hopkins University; Clint E. Smith, Stanford University; James Tobin, Yale University; Joseph Tulchin, Woodrow Wilson Center; Sidney Weintraub, CSIS & University of Texas; Marina Whitman, University of Michigan; James Wilkie, University of California.



DEPARTMENT OF THE TREASURY
WASHINGTON

**THE MULTILATERAL PROGRAM TO
RESTORE FINANCIAL STABILITY IN MEXICO**

- o The United States will use the Exchange Stabilization Fund (ESF) to provide a program of conditional financial assistance to Mexico.

Three types of support will be provided:

- Short term swaps;
- Swaps with maturities of three to five years; and
- Securities guarantees with maturities of five to ten years.

The Federal Reserve System will provide short-term swaps.

Up to \$20 billion in total resources will be made available from the ESF and the Federal Reserve over a period of 12 months. All of this amount is available in medium and long-term support.

- o The IMF is preparing an expanded package of support totalling \$17.8 billion, which will include contributions from central banks outside the Bank for International Settlements. This is a substantial increase over the \$7.8 billion stand-by arrangement proposed last week. The World Bank and the Inter-American Development Bank are reviewing options for accelerating disbursements under existing programs and providing other assistance to support reform in Mexico.
- o The central banks of a number of major industrial countries, acting through the Bank for International Settlements, will consider providing \$10 billion in financial assistance to help restore financial stability in Mexico -- two times their current commitment. The Bank of Canada has put in place a \$1.0 billion swap facility.
- o A group of Latin American countries are arranging a \$1.0 billion facility.
- o The major industrial countries, working with the international financial institutions, will explore on an urgent basis appropriate institutional arrangements to contain the present crisis and prevent similar situations from developing in the future.

January 31, 1995

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
January 31, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$27,600 million, to be issued February 9, 1995. This offering will provide about \$1,000 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of \$26,603 million. In addition to the maturing 13-week and 26-week bills, there are \$16,521 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold \$11,387 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$3,456 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$2,711 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment



**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED FEBRUARY 9, 1995**

		January 31, 1995
<u>Offering Amount</u>	\$13,800 million	\$13,800 million
<u>Description of Offering:</u>		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 R9 7	912794 U4 4
Auction date	February 6, 1995	February 6, 1995
Issue date	February 9, 1995	February 9, 1995
Maturity date	May 11, 1995	August 10, 1995
Original issue date	November 10, 1994	February 9, 1995
Currently outstanding	\$13,707 million	---
Minimum bid amount	\$10,000	\$10,000
Multiples	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- | | |
|-------------------------------|--|
| Noncompetitive bids | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids. |
| Competitive bids | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. |
| | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
| | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders. |

**Maximum Recognized Bid
at a Single Yield**

35% of public offering

Maximum Award

35% of public offering

Receipt of Tenders:

- | | |
|----------------------------------|--|
| Noncompetitive tenders | Prior to 12:00 noon Eastern standard time on auction day |
| Competitive tenders | Prior to 1:00 p.m. Eastern standard time on auction day |

Payment Terms

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
February 1, 1995

MEDIA ADVISORY

Deputy Treasury Secretary Frank Newman's speech before the National Association of Wholesaler-Distributors Washington Conference at 3:45 pm today Wednesday, February 1st, has been cancelled.

-30-

RR-44



DEPARTMENT OF THE TREASURY

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FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
February 1, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will auction \$17,000 million of 3-year notes, \$12,000 million of 10-year notes, and \$11,000 million of 30-year bonds to refund \$30,487 million of publicly-held securities maturing February 15, 1995, and to raise about \$9,525 million new cash. The Treasury will also auction a 64-day cash management bill on February 9, 1995. Details about the cash management bill are given in a separate announcement.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold \$4,169 million of the maturing securities that may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include \$1,369 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

The 7-7/8% Bonds of 1995-00 that were called for redemption on October 12, 1994, are also being redeemed on February 15, 1995. This bond, of which \$2.0 billion is privately held will be repaid from available funds.

The 10-year note and 30-year bond being offered today are eligible for the STRIPS program.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the notes and bond are given in the attached offering highlights.

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Attachment
RR-45



**HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
FEBRUARY 1995 QUARTERLY FINANCING**

February 1, 1995

<u>Offering Amount</u>	\$17,000 million	\$12,000 million	\$11,000 million
<u>Description of Offering:</u>			
Term and type of security	3-year notes	10-year notes	30-year bonds
Series	W-1998	A-2005	Bonds of February 2025
CUSIP number	912827 S7 8	912827 S8 6	912810 ET 1
Auction date	February 7, 1995	February 8, 1995	February 9, 1995
Issue date	February 15, 1995	February 15, 1995	February 15, 1995
Dated date	February 15, 1995	February 15, 1995	February 15, 1995
Maturity date	February 15, 1998	February 15, 2005	February 15, 2025
Interest rate	Determined based on the average of accepted competitive bids	Determined based on the average of accepted competitive bids	Determined based on the average of accepted competitive bids
Yield	Determined at auction	Determined at auction	Determined at auction
Interest payment dates	August 15 and February 15	August 15 and February 15	August 15 and February 15
Minimum bid amount	\$5,000	\$1,000	\$1,000
Multiples	\$1,000	\$1,000	\$1,000
Accrued interest payable by investor	None	None	None
Premium or discount	Determined at auction	Determined at auction	Determined at auction
<u>STRIPS Information:</u>			
Minimum amount required	Not applicable	Determined at auction	Determined at auction
Corpus CUSIP number	Not applicable	912820 BM 8	912803 BE 2
Due dates and CUSIP numbers for additional TINTs	Not applicable	Not applicable	February 15, 2024 -- 912833 LQ 1 August 15, 2024 --- 912833 LS 7 February 15, 2025 -- 912833 LU 2

The following rules apply to all securities mentioned above:

Submission of Bids:

- Noncompetitive bids Accepted in full up to \$5,000,000 at the average yield of accepted competitive bids.
- Competitive bids (1) Must be expressed as a yield with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is \$2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid

at a Single Yield 35% of public offering

Maximum Award 35% of public offering

Receipt of Tenders:

Noncompetitive tenders Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

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FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
February 1, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury plans to auction a 64-day cash management bill to be issued February 15, 1995, and to mature April 20, 1995. The offering amount and other details for this cash management bill will be announced next Tuesday, February 7, 1995, at 11:00 a.m.

Noncompetitive tenders will be received at all Federal Reserve Banks and Branches prior to 11:00 a.m. and competitive tenders prior to 11:30 a.m. on February 9, 1995. The minimum bid amount will be \$10,000 with multiples of \$1,000. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D.C.

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.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

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February 1, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will auction \$17,000 million of 3-year notes, \$12,000 million of 10-year notes, and \$11,000 million of 30-year bonds to refund \$30,487 million of publicly-held securities maturing February 15, 1995, and to raise about \$9,525 million new cash. The Treasury will also auction a 64-day cash management bill on February 9, 1995. Details about the cash management bill are given in a separate announcement.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold \$4,169 million of the maturing securities that may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include \$1,369 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

The 7-7/8% Bonds of 1995-00 that were called for redemption on October 12, 1994, are also being redeemed on February 15, 1995. This bond, of which \$2.0 billion is privately held will be repaid from available funds.

The 10-year note and 30-year bond being offered today are eligible for the STRIPS program.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the notes and bond are given in the attached offering highlights.

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Attachment
RR-45



**HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
FEBRUARY 1995 QUARTERLY FINANCING**

February 1, 1995

Offering Amount	\$17,000 million	\$12,000 million	\$11,000 million
Description of Offering:			
Term and type of security	3-year notes	10-year notes	30-year bonds
Series	W-1998	A-2005	Bonds of February 2025
CUSIP number	912827 S7 8	912827 S8 6	912810 ET 1
Auction date	February 7, 1995	February 8, 1995	February 9, 1995
Issue date	February 15, 1995	February 15, 1995	February 15, 1995
Dated date	February 15, 1995	February 15, 1995	February 15, 1995
Maturity date	February 15, 1998	February 15, 2005	February 15, 2025
Interest rate	Determined based on the average of accepted competitive bids	Determined based on the average of accepted competitive bids	Determined based on the average of accepted competitive bids
Yield	Determined at auction	Determined at auction	Determined at auction
Interest payment dates	August 15 and February 15	August 15 and February 15	August 15 and February 15
Minimum bid amount	\$5,000	\$1,000	\$1,000
Multiples	\$1,000	\$1,000	\$1,000
Accrued interest payable by investor	None	None	None
Premium or discount	Determined at auction	Determined at auction	Determined at auction
STRIPS Information:			
Minimum amount required	Not applicable	Determined at auction	Determined at auction
Corpus CUSIP number	Not applicable	912820 BM 8	912803 BE 2
Due dates and CUSIP numbers for additional TINTs	Not applicable	Not applicable	February 15, 2024 -- 912833 LQ 1 August 15, 2024 --- 912833 LS 7 February 15, 2025 -- 912833 LU 2

The following rules apply to all securities mentioned above:

Submission of Bids:

- Noncompetitive bids Accepted in full up to \$5,000,000 at the average yield of accepted competitive bids.
 Competitive bids (1) Must be expressed as a yield with two decimals, e.g., 7.10%.
 (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is \$2 billion or greater.
 (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield

Maximum Award 35% of public offering

Receipt of Tenders:

- Noncompetitive tenders Prior to 12:00 noon Eastern Standard time on auction day
 Competitive tenders Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

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FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
February 1, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury plans to auction a 64-day cash management bill to be issued February 15, 1995, and to mature April 20, 1995. The offering amount and other details for this cash management bill will be announced next Tuesday, February 7, 1995, at 11:00 a.m.

Noncompetitive tenders will be received at all Federal Reserve Banks and Branches prior to 11:00 a.m. and competitive tenders prior to 11:30 a.m. on February 9, 1995. The minimum bid amount will be \$10,000 with multiples of \$1,000. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D.C.

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.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

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FOR IMMEDIATE RELEASE
February 1, 1995

REMARKS BY DARCY BRADBURY
DEPUTY ASSISTANT SECRETARY (FEDERAL FINANCE)
TREASURY QUARTERLY REFUNDING PRESS CONFERENCE

Today, we are announcing the terms of the regular Treasury February midquarter refunding. I will also discuss Treasury financing requirements for the balance of the current calendar quarter and our estimated cash needs for the April-June 1995 quarter.

1. We are offering \$40.0 billion of notes and bonds to refund \$30.5 billion of privately held notes and bonds maturing on February 15 and to raise approximately \$9.5 billion of cash.

The three securities are:

- First, a 3-year note in the amount of \$17.0 billion, maturing on February 15, 1998. This note is scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Tuesday, February 7, 1995. The minimum purchase amount will be \$5,000 and purchases above \$5,000 may be made in multiples of \$1,000.

- Second, a 10-year note in the amount of \$12.0 billion, maturing on February 15, 2005. This note is scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Wednesday, February 8. The minimum purchase amount will be \$1,000.

- Third, a 30-year bond in the amount of \$11.0 billion, maturing on February 15, 2025. This bond is scheduled to be auctioned on a yield basis at 1:00 p.m. on Thursday, February 9. The minimum purchase amount will be \$1,000.

2. We are also announcing that we plan to sell a 64-day cash management bill, which will be issued on February 15 and mature on April 20, 1995. This bill is scheduled to be auctioned at 11:30 a.m. on Thursday, February 9. We will announce the amount to be sold at about 10:00 a.m. Eastern time on Tuesday, February 7. Noncompetitive tenders will be accepted up to \$1 million and, in order to be timely, must be submitted by 11:00 a.m. Eastern time. The minimum purchase amount will be \$10,000 and purchases above \$10,000 may be in multiples of \$1,000.

3. On October 12, 1994, the Treasury announced that on February 15 it will call the 7 7/8% bond of 1995-00. This bond, of which approximately \$2 billion is privately held, will be

repaid from available funds. We estimate that the Treasury is saving about \$35 million by exercising the call.

4. As announced on Monday, January 30, 1995, we estimate a net market borrowing need of \$93.7 billion for the January-March 1995 quarter. The estimate assumes a \$20 billion cash balance at the end of March. Including this refunding, we have raised \$31.7 billion of cash from the sale of marketable securities. This was accomplished as follows:

- raised \$4.9 billion from the 2-year notes that settled January 3 and 31;
- raised \$14.6 billion from the 5-year notes that settled January 3 and 31;
- raised \$2.0 billion from the 52-week bills;
- raised \$8.0 billion new cash in the regular weekly bills, including those announced yesterday, January 31;
- paid down \$7.3 billion in the 7-year note that matured January 15; and
- raised \$9.5 billion of cash from the notes and bonds announced for the refunding today.

5. The Treasury will need to raise \$62.0 billion in market borrowing during the rest of the January-March quarter. The financing remaining to be done before the end of March can be accomplished through regular sales of 13-, 26-, and 52-week bills and 2-year and 5-year notes in February and March. Another

cash management bill may be necessary to cover the cash low-point in early March.

6. We estimate that the Treasury will paydown \$5 to \$10 billion in marketable securities in the April-June quarter assuming a \$35 billion cash balance on June 30.

7. Although the Treasury decided to issue a bond maturing in February 2025 in the refunding announced today, we do expect to periodically issue bonds with May or November maturity dates as we did in August of 1994. This strategy will help to balance interest payments between the February-August and the May-November payment dates and is expected to facilitate stripping of long-term Treasury securities.

8. Beginning with the two-year note auctions scheduled for February 22, 1995, competitive bids in Treasury note and bond auctions must show the yield bid, expressed with three decimals, for example, 7.123 percent. Three-decimal bidding will apply to all Treasury note and bond auctions.

Competitive bidding in Treasury bill auctions will remain unchanged. That is, the bid must show the discount rate bid, expressed with two decimal places. There is no change to noncompetitive bid procedures. The restriction against using fractions still applies to bids for all securities.

The purpose of three-decimal yield competitive bidding for notes and bonds is to increase participation in Treasury auctions and to conform the auctions to market practice for when-issued trading.

9. We will accept noncompetitive tenders up to \$5 million for each of the notes and bonds being offered.

10. The 10-year note and 30-year bond being announced today are eligible for conversion to STRIPS (Separate Trading of Registered Interest and Principal of Securities) and, accordingly, may be divided into separate interest and principal components.

11. I also want to mention that the Treasury is seeking comments on proposed rules to implement large position reporting. The Treasury authority to require reporting of large positions in certain Treasury securities was enacted as part of the 1993 amendments to the Government Securities Act. Our request for comments was published in the Federal Register for January 24, 1995, and we want to encourage all interested parties to comment by April 24, 1995.

12. The May midquarter refunding press conference will be held Wednesday, May 3, 1995.

§ 122.61-9 SBA grant to intermediary for marketing, management, and technical assistance.

(a) *General.* * * * In addition, each intermediary is authorized to expend no more than fifteen (15) percent of the grant funds received from SBA to provide information and technical assistance to small business concerns that are prospective borrowers under this program. * * *

(b) *Amount of Grant.* (1) Subject to the requirement of paragraph (b)(2) of this section, and the availability of appropriations, each intermediary under this program shall be eligible to receive a grant equal to 25 percent of the total outstanding balance of loans made to it by SBA, *provided, however,* that if an intermediary provides no less than 25 percent of its loans to small business concerns located in or owned by one or more residents of an economically distressed area, it shall be eligible to receive an additional grant from SBA equal to 5 percent of the total outstanding balance of SBA loans made to the intermediary. The intermediary shall not be required to match such grant.

(2) * * * The requirement that the intermediary contribute 25 percent of the amount of the SBA grant is inapplicable to an intermediary which provides not less than 50 percent of its loans to small business concerns located in or owned by one or more residents of an economically distressed area.

7. A new § 122.61-13 would be added to read as follows:

§ 122.61-13 SBA guaranteed loans to intermediaries.

(a) *Purpose.* SBA may guarantee not less than 90 percent nor more than 100 percent of a loan made to an intermediary by a for-profit or non-profit entity or by alliances of such entities.

(b) *Number of Intermediaries.* SBA shall not guarantee loans to more than 10 intermediaries in urban areas or more than 10 intermediaries in rural areas.

(c) *Maturity and Repayment of Microloan Guaranteed Loan.* An SBA guaranteed loan made to an intermediary under this section shall have a maturity of 10 years. During the first year of each such loan, the intermediary shall not be required to repay any interest or principal, although interest will continue to accrue during this period. During the second through fifth years of such a loan, the intermediary shall pay interest only. During the sixth through tenth years of the loan, the intermediary shall make

interest payments and fully amortize the principal.

(d) *Interest rate.* The interest rate on a SBA guaranteed loan to an intermediary shall be calculable as set forth in § 122.61-6.

(e) *Termination of SBA Authority to Guarantee.* The authority of SBA to guarantee loans to intermediaries under this § 122.61-13 shall terminate on September 30, 1997.

Dated: December 21, 1994.

Philip Lader,

Administrator.

[FR Doc. 95-1742 Filed 1-23-95, 8:45 am]

BILLING CODE 8025-01-M

DEPARTMENT OF THE TREASURY

Office of the Under Secretary for Domestic Finance

17 CFR Parts 404 and 405

RIN 1505-AA53

Amendments to Regulations for the Government Securities Act of 1986

AGENCY: Office of the Under Secretary for Domestic Finance, Treasury.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: The Government Securities Act Amendments of 1993 authorize the Secretary of the Treasury (Treasury) to prescribe rules requiring persons holding, maintaining or controlling large positions in to-be-issued or recently issued Treasury securities to keep records and file reports of such large positions. The Treasury is issuing this Advance Notice of Proposed Rulemaking (ANPR) to advise market participants of our intention to issue large position recordkeeping and reporting regulations, describe the purposes of, and objectives to be achieved by, such rules and identify key elements related to any rule proposal. We invite comments, advice and recommendations from interested parties regarding how the large position recordkeeping and reporting requirements should be structured. To assist in the solicitation of comments and to facilitate in the development of rules, responses to specific questions are requested.

DATES: Comments must be received on or before April 24, 1995.

ADDRESSES: Comments should be sent to: Government Securities Regulations Staff, Bureau of the Public Debt, Department of the Treasury, 999 E Street NW., Room 515, Washington, D.C. 20239-0001. Comments received will be

available for public inspection and copying at the Treasury Department Library, Room 5030, Main Treasury Building, 1500 Pennsylvania Avenue NW., Washington, D.C. 20220.

FOR FURTHER INFORMATION CONTACT: Ken Papaj (Director) or Don Hammond (Assistant Director), Government Securities Regulations Staff, at 202-219-3632. (TDD for the hearing impaired is 202-219-3988.)

SUPPLEMENTARY INFORMATION:

I. Background

The U.S. government securities market is the largest and most liquid securities market in the world. The enormous liquidity and pricing efficiency of this market provide incalculable benefits to other financial markets in the United States, and throughout the world, by providing a continuous benchmark for interest rates on dollar-denominated instruments across the maturity spectrum. The government securities market has consistently demonstrated its ability to absorb the large amounts of Treasury securities that must be issued to finance the operations of the U.S. Government in a cost-effective manner for the taxpayer, which is the market's primary public purpose. However, certain events that occurred in 1991, specifically a "short squeeze"¹ in two different Treasury securities led to the realization that Federal financial regulators need, from time to time, more information about holdings of very large amounts of Treasury securities.

A. Events Giving Rise to Large Position Reporting Authority

The occurrence of short squeezes in the government securities market in 1991 is discussed in some detail in the Joint Report on the Government Securities Market (Joint Report).² While yields of Treasury securities of similar maturity vary constantly, there were two instances during the Spring of 1991 in which particular securities traded well below the corresponding yields for similar securities for an extended period of time. In the first case, a short squeeze developed in the two-year note auctioned on April 24, 1991. When the squeeze first became evident in mid-May, the yield on the April two-year

¹ A short squeeze can occur when an event unanticipated by short sellers reduces the supply of securities available in the marketplace. It can also occur as a result of deliberate behavior by one or more market participants to restrict the supply of securities, thereby driving up prices.

² Department of the Treasury, Securities and Exchange Commission and Board of Governors of the Federal Reserve System *Joint Report on the Government Securities Market*, Jan. 1992.

note had moved considerably out of line from surrounding market rates, and the notes were "on special" in the repurchase agreement (repo) market.³

The second incident involved the two-year Treasury note auctioned on May 22, 1991. In that auction, Salomon Brothers Inc. (Salomon), a major participant in the market, submitted large, aggressive bids for itself and two of its customers and was awarded a large portion of the amount sold. As a result of these awards and additional purchases in the market, there was a concentration of holdings of the May two-year notes and the prices of the notes in the cash and financing markets were distorted. At that time, a number of market participants contacted the Treasury and the Federal Reserve Bank of New York (FRBNY) expressing concern about a shortage in the May two-year note.⁴

The apparent short squeeze was serious enough that Treasury officials informed staff of the Securities and Exchange Commission (SEC) of possible problems and trading irregularities stemming from the auction and subsequent trading. Following that notification, the Treasury and the FRBNY actively monitored the market for the May two-year notes and the SEC and Justice began investigations. The government investigations, and Salomon's internal review that was conducted in response to these investigations, ultimately resulted in a series of disclosures by Salomon in August 1991 that it had submitted unauthorized customer bids in several auctions in 1990 and 1991.⁵

The events involving the bidding improprieties of Salomon and the squeezes of Treasury notes also focused attention on large investment entities ("hedge funds")⁶ being one of the more prominent types that play a major role in the government securities market. Many of these investment funds, however, are exempt from most types of U.S. regulatory oversight.

While large investment funds have regularly placed bids in Treasury auctions in the past, it was not until late 1990 that these funds began to be awarded large amounts of securities in Treasury auctions, suggesting that they

had highly leveraged positions. Like most investors, they typically bid through major primary dealers. The combined awards of the investment fund and the dealer which submitted such bids would often represent a significant portion of the publicly offered amount of securities.

Regulators had little, if any, authority to gain access to information about the holdings of many major investors. Investment funds, other than those required to register under the Investment Company Act, e.g., mutual funds, are not generally subject to SEC oversight.⁷ The SEC also has little authority to obtain regular information on the government securities activities of large investors. Treasury also has little access to information on their activities, other than auction-related information. The CFTC is the only regulatory agency with regular reporting contact with certain large investors. However, the CFTC's responsibilities extend primarily to the futures market.

B. Regulatory Agencies Responses to Market Problems

Beginning in September 1991, the Treasury, the SEC and the Federal Reserve conducted a thorough examination and review of the government securities market and published the *Joint Report* in January 1992. This report contained many legislative and regulatory recommendations for strengthening oversight of the market.⁸ One recommendation, which is the focus of this advance notice of proposed rulemaking, involved clarifying and expanding Treasury's authority under the Government Securities Act of 1986 (GSA) to require reporting by all holders of large positions in Treasury securities. The Treasury's authority to prescribe recordkeeping and reporting rules under the GSA, prior to the amendments of 1993, permitted a large position reporting system designed to monitor concentrations of positions at government securities brokers and dealers.

The Treasury also took administrative and regulatory actions to strengthen oversight and surveillance of the market and maintain a fully competitive

auction process.⁹ A few of the more significant reforms that are related to the issues addressed in this notice involved improved surveillance of the market and the establishment of an automated system of auctioning Treasury securities. A new surveillance working group (comprised of Treasury, FRBNY, SEC, Federal Reserve Board, and CFTC officials) was formed to improve surveillance and strengthen regulatory coordination. FRBNY, acting as Treasury's fiscal agent, as well as to support their monetary policy operations, has enhanced and expanded its market oversight efforts for collecting and analyzing information needed for surveillance purposes. In addition, the Treasury increased the maximum amount from \$1 million to \$5 million for noncompetitive tenders; published a thoroughly revised, comprehensive Uniform Offering Circular for Treasury securities to codify and clarify Treasury auction rules; and in August of 1992, began auctioning 2- and 5-year notes using a single price auction (or so-called "Dutch auction") experiment.

C. Congressional Response to Market Problems—Government Securities Act Amendments of 1993

The short squeezes of the Spring of 1991 and the revelations in August 1991 of wrongdoing by Salomon in the purchase and sale of Treasury securities occurred during a period when Congress was considering government securities legislation to, among other things, reauthorize Treasury's rulemaking authority under the GSA, which was set to expire on October 1, 1991.¹⁰ These events in the government securities market sparked an extensive review of the operations of the market and the need for additional reforms to strengthen its regulation. Numerous congressional committee hearings and legislative mark-up sessions were held with the Senate and House of Representatives from May 1991 through the Fall of 1993.

Although, as noted, the Treasury instituted several reforms in response to the Salomon violations and short squeezes, the Treasury also requested expanded and strengthened regulatory power over the government securities market which was realized in the Government Securities Act Amendments of 1993 (GSAA), which

³ A security is said to be "on special" when due to its scarcity, a holder can enter into a repo involving that specific security at a lower rate of interest, and thus a lower financing cost, than the prevailing or general repo rate.

⁴ Information about primary dealers' positions in Treasury securities is collected routinely by the Federal Reserve Bank of New York.

⁵ See Salomon Press Release dated August 14, 1991.

⁶ For a detailed discussion of hedge funds, see the report at B-63.

⁷ Most investment interests in investment partnerships are not registered pursuant to the Securities Act of 1933; hedge fund structures are such that they claim an exemption from registering as securities dealers under Section 15(a) of the Securities Exchange Act of 1934, and a hedge fund is usually structured so as not to be an investment company under the Investment Company Act of 1940. However, the anti-fraud provisions of the federal securities laws do apply to hedge funds, whether or not they are registered with the SEC.

⁸ See *Joint Report*, at 16-17.

⁹ See *Joint Report*, at Annex, for a description of the administrative and regulatory actions taken by the regulatory agencies.

¹⁰ Treasury's rulemaking authority did expire at the end of its authority from October 1, 1991, December 17, 1993, when the Government Securities Act Amendments of 1993, P.L. 103-147, were enacted into law.

was signed into law by President Clinton on December 17, 1993. One of the major provisions of the GSAA authorizes the Treasury to write rules for large position reporting.¹¹ This provision is intended to improve the information available to regulators regarding very large positions of recently issued Treasury securities held by market participants and to assure that regulators have the tools necessary to monitor the Treasury securities market.

Section 104 of the GSAA, which amended Section 15C of the Securities Exchange Act of 1934, authorizes the Treasury to adopt rules requiring specified persons holding, maintaining, or controlling large positions in to-be-issued or recently issued Treasury securities to file reports regarding such positions.¹² As explained in a floor statement on this legislation, this grant of authority " * * * rests on the belief that the Secretary of the Treasury is well positioned to determine whether large position reporting is necessary and appropriate in order to monitor the impact in the Treasury securities market of concentrations of positions and to assist the SEC in its enforcement of the Exchange Act. It is our expectation that substantial deference will be accorded to any determination that Treasury makes in this regard."¹³

Unless otherwise specified by the Treasury, the large position reports are to be filed with the FRBNY, acting as Treasury's agent. Such reports will in turn be provided to the SEC by the FRBNY. The legislation also authorizes Treasury to prescribe recordkeeping rules for holders of large positions to ensure that they can comply with the reporting requirements. It also permits the Treasury to exempt, consistent with the public interest and the protection of

investors, any person or class of persons, or any transaction or class of transactions, from the large position reporting rules. The legislation grants Treasury flexibility and discretion in determining the key requirements and features to be addressed in the rules—defining which persons (individually or as a group) hold positions; the size and types of positions to be reported; the securities to be covered; the aggregation of positions and accounts; and the form, manner and timing of reporting.

To provide the reader with a sense of the Congressional intent and importance associated with large position reporting, the following are excerpts from House Report 103-255.¹⁴

In order to monitor developments in the Treasury securities marketplace and better police against fraud or manipulation, the Committee believes that the government needs surveillance tools similar to those employed in other financial markets. One of the more useful tools that regulators in the commodities and equities market(s) currently have is the ability to obtain information regarding the trading activities of major market participants. In the government securities market, no similar statutory authority has existed which would authorize federal regulators to require all market participants to make information available regarding large positions being assumed in the marketplace, and currently government securities brokers and dealers only report such information on a voluntary basis.

* * * The purpose of such reporting would be similar to the purpose of the position reporting that is done in the commodity futures market—it would enable government agencies to monitor market developments, particularly those associated with concentrated positions.

* * * Large position reporting also would be useful in assuring that regulators can monitor the positions of major market participants other than government securities brokers and dealers under certain circumstances. In particular, it will provide assurance that the government can compel disclosure of position information when necessary from all large market participants, including a group of relatively unregulated entities called 'hedge funds'.

* * * The Committee expects the Secretary to take into account the costs and burdens of the reporting requirement to the investor and its shareholders or beneficial owners as well as the impact on the efficiency and liquidity of the Treasury market. The Committee also expects that in prescribing such rules, the Secretary will consider the views of, and consult with, the Commission, the Federal Reserve Board, and the Federal Reserve Bank of New York.

The Treasury intends to prescribe large position reporting rules that meet

the intent of Congress, are not overly burdensome or costly, do not impair the liquidity of the market and do not increase borrowing costs to the Federal government. Accordingly, the Treasury is soliciting input from market participants and other interested parties, and requesting answers to the specific questions set out below, as to how large position rules should be structured.

D. Large Position and Large Trader Reporting in Other Markets

Large position and/or large trader reporting rules are currently in place or being developed in several other U.S. markets (e.g., futures and equity markets). Readers may wish to familiarize themselves with these large trader and large position reporting requirements in order to better understand how such reporting systems operate and to assist the reader in commenting on this notice.

CFTC rules require position reporting by a variety of entities or groups—commodity brokers, contract markets and traders.¹⁵ The CFTC regulations require reports when individuals or groups acquire specified levels of futures and options positions in the commodity markets. The levels are determined by the CFTC and there are different amounts for each targeted commodity area.

The Market Reform Act of 1990¹⁶ authorized the SEC to create a large trader recordkeeping and reporting system for publicly traded equities and options on equities. The SEC proposed a large trader reporting rule on August 22, 1991, and repropose it on February 9, 1994.¹⁷

Under the proposed SEC rules, these large traders would be required to report certain information to the SEC and would be assigned large trader identification numbers to provide to each brokerage firm where the traders have accounts. The firms would then be required to maintain, and to report to the SEC on request, records of transactions by large traders.

Large position reporting rules are currently in place in the equity securities market. The SEC requires owners that, directly or indirectly, acquire beneficial control of more than five percent of a class of a corporation's equity securities to make a public disclosure of this information.¹⁸ The

¹¹ In addition to large position reporting, some of the key provisions of the GSAA are: Permanent reauthorization of Treasury's rulemaking authority; authorization to prescribe sales practice rules for the government securities market; increased authority to the SEC to prevent fraudulent and manipulative acts and practices; prohibition on false and misleading statements in government securities offerings; and authority to the SEC to receive records of government securities transactions for trade reconstruction purposes.

¹² P.L. 103-202, Sec. 104; 15 U.S.C. 78o-5(f).

¹³ Floor statement on S. 422, The Government Securities Act Amendments of 1993, representing the views of the Chairman and Ranking Minority Member of the House Committee on Energy and Commerce and the Chairman and Ranking Minority Member of the House Subcommittee on Telecommunications and Finance, *Congressional Record* (November 22, 1993) at H. 10967. For other legislative history, see S. Rpt. 103-109 (July 27, 1993); *Congressional Record* (July 27, 1993) at S. 9563-9866; H. Rpt. 103-255 (September 23, 1993); and *Congressional Record* (October 5, 1993) at H. 7907-7905.

¹⁴ House Committee on Energy and Commerce, Report to Accompany H.R. 618, H.R. Rep. No. 103-255, 103rd Cong., 1st Sess. (September 23, 1993), at 24, 25 and 44.

¹⁵ 17 CFR Parts 15.00-18.06.

¹⁶ P.L. No. 101-432, 104 Stat. 963 (1990).

¹⁷ Securities Exchange Act Release No. 29593 (August 22, 1991), 56 FR 42550 (August 28, 1991); and Securities Exchange Act Release No. 33505 (February 9, 1994), 59 FR 7917 (February 17, 1994).

¹⁸ 15 U.S.C. 78m(d); SEC Rule 14D; 17 CFR 240.14d-1-240.14d-102.

beneficial owner must file its report within 10 business days with the SEC, the issuer and the exchange on which the securities are traded.

In addition, the FRBNY requires primary dealers in Treasury securities to submit several position reports on a regular basis. These include weekly reports of positions (with separate reporting for each when-issued and recently issued security), cumulative transactions, and financing transactions (repos, reverse repos, securities borrowed and lent, collateralized loans and matched-book transactions) and a daily report of when-issued transactions.

II. Purposes, Objectives and Features of Treasury Large Position Rules

The Treasury actively supported large position reporting during the legislative process that resulted in the passage of the GSAA and is committed to implementation of rules that make sense from both a regulatory and market efficiency perspective. As the agency of the Federal government most concerned with minimizing the interest cost on the public debt, Treasury believes that the U.S. is best served by an efficient and liquid market for Treasury securities that is not overburdened with regulation but, at the same time, is not viewed as being subject to manipulation.

Large position rulemaking is a complex and important task. For example, defining a "reporting entity" (i.e., persons holding, maintaining or controlling large positions) or determining what constitutes a position in a Treasury security will be very difficult given the many issues that need to be considered. Although everyone would likely agree that a position would include securities owned by and in the possession or control of the reporting entity, there are many views as to whether, and if so how, repos, reverse repos, when-issued trades, futures, forwards, options, bonds borrowed and falls should be included in a position. Determining how to treat repos and reverse repos is likely to be particularly complex, given the potential for duplicate reporting of the same security in both counterparties' positions, and the difficulty of defining control for different types of repo arrangements, such as tri-party repos.

Treasury plans to take a measured approach in exercising its large position reporting authority, including the related recordkeeping requirements, and to actively involve market participants in the rulemaking process. Treasury will take into consideration the costs to market participants, the potential impact on the efficiency and liquidity of

the market for Treasury securities and any implications on the Federal government's cost of borrowing.

The principal purpose of large position reporting is to enable Treasury and the other regulators to better understand the possible reasons for apparent significant price distortions in to-be-issued and recently issued Treasury securities. This information would enable policymakers to make better decisions concerning any possible government actions that might be taken in response to apparent price anomalies. The ability to identify concentrations of ownership and to obtain information on large positions being held or controlled in to-be-issued or recently issued Treasury securities is important in enabling regulators responsible for market surveillance and enforcement to understand the causes of market shortages.

Another important goal of large position reporting is to assist securities regulators in conducting market surveillance. The enactment of this authority was largely based on a belief that the government needs surveillance tools, similar to those employed in other financial markets, in order to monitor developments in the Treasury securities market and to better police against fraud and manipulation. Information about large positions may be critical to the SEC in carrying out its enforcement duties under the federal securities laws. Large position reporting will also enable regulators to monitor the positions of major market participants other than government securities brokers and dealers (e.g., large investment firms that are largely unregulated, custodians, and foreign and domestic customers) under certain circumstances.

Large position records and reports could also provide regulatory agencies with an early warning of potential market problems. If a problem develops, such records and reports could assist regulators in, and reduce the cost of, any investigation.

It is important to recognize that large position reporting merely creates a requirement to maintain records and report information about such positions. Large positions are not inherently harmful and there is no presumption of manipulative or illegal intent solely because a position is large enough to be subject to reporting rules that may be prescribed by the Treasury. Additionally, there is no intention of establishing trading or position limits as part of any rulemaking. Nor is the Treasury planning to institute a recordkeeping and reporting system that would require the identification of large traders or the reporting of large trades.

The statutory provision regarding the minimum size of a position subject to reporting is meant to ensure that the minimum size will be large enough to require reports only of positions that could be used to significantly affect the market for a particular security. It is Treasury's current view that the size of a reportable position would most likely be in the billions of dollars and much larger than the reporting thresholds in the futures market. As a result, it is expected that very few entities would likely have to file large position reports.

The GSAA specifically provides that the Treasury shall not be compelled to disclose publicly any information required to be kept or reported for large position reporting. In particular, such information is exempt from disclosure pursuant to Exemption 3 of the Freedom of Information Act.¹⁹

The Treasury contemplates granting exemptions from the large position recordkeeping and reporting rules for foreign central bank, foreign government and official international financial institution holdings at the FRBNY.

III. Specific Considerations and Questions

The Treasury welcomes comments, reactions and suggestions on the above issues. Additionally, advice and recommendations regarding an approach and structure for a large position recordkeeping and reporting system that meet the purposes, objectives and features addressed above are invited from all interested persons. Specifically, in developing such recommendations, suggestions and advice, commenters are requested to consider the following questions:

A. Reporting Entities—Persons holding, maintaining or controlling large positions, as yet to be defined, are reporting entities. The questions in this section are directed toward determining which entities should be affected by the regulations. In particular, the questions focus on how affiliated entities are to be treated, what entities should be exempt and whether classes of entities may warrant special treatment:

1. How should we define a "reporting entity"? Should it be similar to the definition of a bidder in Treasury's rules governing the sale and issue of Treasury bills, notes and bonds (i.e., Uniform Offering Circular at 31 CFR Part 356)?

2. What aggregation rules should apply for affiliated entities? Assuming there are aggregation rules, should there be an exception for affiliates that cannot or do not share information? For example, how should different funds

¹⁹ 5 U.S.C. 552.

within a mutual fund family be treated? Should customer securities that are subject to a broker-dealer's investment discretion be included? Should any exception be the same as the exception provided for in Appendix A to the Uniform Offering Circular?

3. Should reporting entities that are foreign-based be treated differently than domestic entities given the potential enforcement difficulty and geographic separation? Are any exemptions needed for foreign-based entities regarding items such as affiliation rules, location of records, form of reporting, or reporting time frames? What would be the complications of requiring foreign-based entities to comply with such rules as if they were U.S. domestic entities?

4. What exemptions should be considered beyond any for foreign central banks, foreign governments and official international financial institutions holding at the FRBNY?

B. What constitutes "control"? For the purposes of this ANPR, "control" includes the statutory terms "holding" and "maintaining". The following questions are designed to provide guidance on when these three statutory conditions may be met.

1. Is control evidenced by beneficial ownership, investment discretion, custody or any combination of the three? Is there the possibility of extensive double counting? If so, is it a problem?

2. Should custodial accounts for which the custodian has no investment discretion be the reporting responsibility of the custodian, the customer or both? If the custodian is responsible for reporting, should all custody holdings in a specific security be aggregated, or should the threshold amount established for reporting be applied individually to each customer?

C. What securities should be covered and what size is "large"? The questions in this section seek guidance on the securities to which the rule should apply and how to determine the reporting threshold.

1. How long should a security be outstanding before it is no longer considered recently issued? Should the reopening date of notes and bonds that are reopened by the Treasury, be the date from which "recent" is measured?

2. Should any securities be excluded, e.g., Treasury bills, due to the cost/complexity of calculating a position in them versus the expected benefits of reporting?

3. How should the "large" threshold be determined—a percentage of the issue? A standard dollar amount? Should different classes of securities—notes vs. bonds, short-term notes vs.

intermediate notes—have different definitions of "large"? Should there be a different reporting threshold for pre- and post-issuance? Should there be a different reporting threshold for securities reopened by the Treasury?

D. What transactions should be included in a "position"?

1. Should the definition of "position" developed for this rulemaking be consistent with the definition of "net long position" in the Uniform Offering Circular? If they are generally consistent, the following questions should be considered as possible exceptions.

2. How should when-issued positions in outstanding securities with the same CUSIP be treated (i.e., reopenings)?

3. How should financing transactions, such as repurchase and reverse repurchase agreements, dollar rolls and bonds borrowed, be treated in defining a position? Should more than one counterparty to the transaction be required to include the transaction in its position? Should contract terms, such as maturity, right to substitute, tri-party relationships and termination notice, be considered?

4. Should large short positions be included in "position"? What amount of netting should be permitted or should gross long (short) positions be reported?

5. Should forward contracts, options, futures, and open fails be included? Should some of these items only be included under certain circumstances? For example, only include written (sold) options or only include fails to deliver but not fails to receive. If so, what might these circumstances be?

6. Should the various components of a large position, such as outright holdings, repos, forward contracts, etc., be separately identified in any required reports?

E. Recordkeeping.

1. What records should be kept by a reporting entity? Should the recordkeeping requirement be dependent on whether the reporting entity is regulated? Should the reporting entity keep copies only of any reports it has filed, or, in addition, documents and other records sufficient to reconstruct the size of its position?

2. Should there be a requirement to maintain a calculation/worksheet supporting the determination of a large position by detailing the elements comprising any large positions?

3. How long should large position calculations and supporting records be retained?

4. Should the records be kept in a standardized format? Would a requirement to maintain records in

electronic form be feasible and practical?

5. Should unregulated entities be required to submit some form of independent verification that they have in place an appropriate record maintenance system, e.g., an accountant's letter?

F. Reporting.

1. Should the reporting requirement be automatic, whereby the reporting entity would file a report any time it has reached the threshold for a particular issue?

2. If reports are periodic at the request of the Treasury, what mechanism should be used to communicate a request to the market? How can it be assured that a potential "reporting entity" receives notice of the request for a report? How much lead time would be necessary to assure that everyone who needs to get the notice will receive it?

3. Would it be reasonable for a reporting entity to comply with a request for a large position report on the business day immediately following receipt of the request? If not, what would be a reasonable time period?

4. Should requests for reports follow a sequential process whereby dealers and custodians would be asked to report initially followed, where appropriate, by a more targeted follow-up as to specific customers? For example, an initial report indicates that custodian A has 75% of an issue. A subsequent request is made only to the custodian's customers to determine if any of them have large positions.

5. Is there a need for the reports to be filed using a standardized format? If so, should they be made in machine readable form?

6. Is there a reason for the Secretary to specify that reports would be submitted to parties other than the FRBNY?

7. Should a request for reports on a specific security be: (i) a one-time request (snapshot as of a given date); (ii) an initial report with a continuing obligation to report subsequent significant changes until further notice; or (iii) an individually specified request (i.e., report on any large positions in a specific security for the next 6 business days)?

8. Should there be a responsibility for a broker-dealer to report the name of any customer whose trading activity in the specified security may indicate that the customer could be a holder of a large position even if the customer does not hold such a position at the broker-dealer?

G. Implementation.

1. How much lead-time is necessary for market participants to be able to comply with such a new regulation?

Treasury staff consulted with staff of the SEC, Federal Reserve Board, FRBNY and CFTC in developing the questions that are contained in this ANPR. As the rulemaking process continues in the months ahead, we will continue to solicit the views of these agencies, share information with them and include them in the deliberative process.

The preliminary views expressed in this notice may change in light of comments received. In any case, the Treasury will publish proposed large position reporting rules for public comment after we have had an opportunity to review the comments that we receive in response to this ANPR.

List of Subjects

17 CFR Part 404

Banks, banking, Brokers, Government securities, Reporting and recordkeeping requirements.

17 CFR Part 405

Brokers, Government securities, Reporting and recordkeeping requirements.

Authority: Sec. 101, Pub. L. 94-571, 100 Stat. 3209; Sec. 436, Pub. L. 101-432, 104 Stat. 963; Sec. 102, Sec. 106, Pub. L. 103-202, 107 Stat. 2344; 15 U.S.C. 78e-5 (b)(1)(B), (b)(1)(C), 78e-7.

Dated: January 17, 1995.

Frank N. Newman,

Deputy Secretary.

[FR Doc. 95-1662 Filed 1-17-95; 8:45 am]

BILLING CODE 4810-39-P

DEPARTMENT OF THE INTERIOR

Office of Surface Mining Reclamation and Enforcement

30 CFR Part 944

Utah Regulatory Program

ACTION: Proposed rule; reopening and extension of public comment period on proposed amendment.

SUMMARY: OSM is announcing receipt of revisions and additional explanatory information pertaining to a previously proposed amendment to the Utah regulatory program (hereinafter, the "Utah program") under the Surface Mining Control and Reclamation Act of 1977 (SMCRA). The revision and additional explanatory information for Utah's proposed rules pertain to the confidentiality of coal exploration information. The amendment is

intended to revise the Utah program to be consistent with the corresponding Federal regulations.

DATES: Written comments must be received by 4:00 p.m., m.s.t., February 8, 1995.

ADDRESSES: Written comments should be mailed or hand delivered to Thomas E. Ehmett at the address listed below.

Copies of the Utah program, the proposed amendment, and all written comments received in response to this document will be available for public review at the addresses listed below during normal business hours, Monday through Friday, excluding holidays. Each requester may receive one free copy of the proposed amendment by contacting OSM's Albuquerque Field Office.

Thomas E. Ehmett, Acting Director,
Albuquerque Field Office, Office of
Surface Mining Reclamation and
Enforcement, 505 Marquette Avenue
NW., Suite 1200, Albuquerque, New
Mexico 87102

Utah Coal Regulatory Program, Division
of Oil, Gas and Mining, 355 West
North Temple, 3 Triad Center, Suite
350, Salt Lake City, Utah 84180-1203.
Telephone: (801) 538-5340.

FOR FURTHER INFORMATION CONTACT:
Thomas E. Ehmett, Telephone: (505)
766-1486.

SUPPLEMENTARY INFORMATION:

I. Background on the Utah Program

On January 21, 1981, the Secretary of the Interior conditionally approved the Utah program. General background information on the Utah program, including the Secretary's findings, the disposition of comments, and the conditions of approval of the Utah program can be found in the January 21, 1981, *Federal Register* (46 FR 5899). Subsequent actions concerning Utah's program and program amendments can be found at 30 CFR 944.17, 944.16, and 944.30.

II. Proposed Amendment

By letter dated September 9, 1994, Utah submitted a proposed amendment to its program pursuant to SMCRA (administrative record No. UT-971). Utah submitted the proposed amendment in response to the required program amendment at 30 CFR 944.16(a). The provisions of the Utah Coal Mining Rules that Utah proposed to revise were at Utah Administrative Rule (Utah Admin. R.) 645-203-200, Confidentiality.

OSM announced receipt of the proposed amendment in the September 27, 1994, *Federal Register* (59 FR 49227), provided an opportunity for a

public hearing or meeting on its substantive adequacy, and invited public comment on its adequacy (administrative record No. UT-971). Because no one requested a public hearing or meeting, none was held. The public comment period ended on October 27, 1994.

During its review of the amendment, OSM identified concerns relating to the provisions of Utah's rules at Utah Admin. R. 645-203-200 and 645-203-210, confidentiality of coal exploration information. OSM notified Utah of the concerns by letter dated November 15, 1994 (administrative record No. UT-991). Utah responded in a letter dated January 5, 1994, by submitting a revised amendment and additional explanatory information (administrative record No. UT-1003).

Utah proposes revisions to Utah Admin. R. 645-203-200, by deleting the phrase "or that the information is confidential under the standards of the Federal Act." In addition, Utah provides additional explanatory information pertaining to Utah Admin. R. 645-203-210, by stating that there is some question as to the repetitious aspects of Utah Admin. R. 645-203-210. Utah states that Utah Admin. R. 654-203-210 requires the Division of Oil, Gas and Mining (Division) to "keep" information confidential while Utah Admin. R. 645-203-200 directs the Division to "not make" information available.

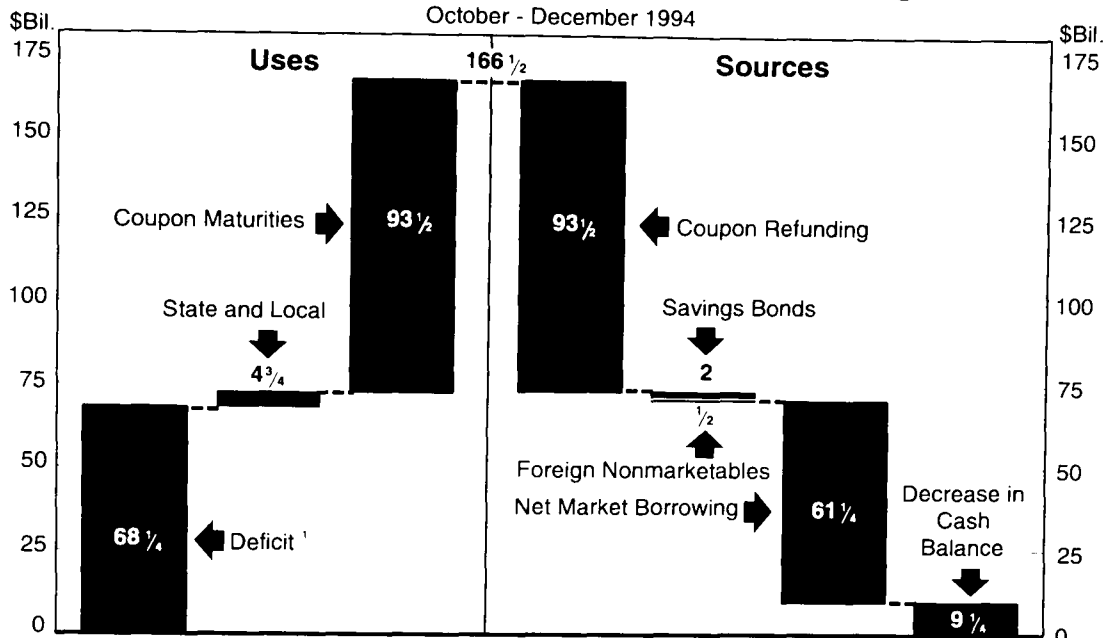
III. Public Comment Procedures

OSM is reopening the comment period on the proposed Utah program amendment to provide the public an opportunity to reconsider the adequacy of the proposed amendment in light of the additional materials submitted. In accordance with the provisions of 30 CFR 732.17(h), OSM is seeking comments on whether the proposed amendment satisfies the applicable program approval criteria of 30 CFR 732.15. If the amendment is deemed adequate, it will become part of the Utah program.

Written comments should be specific, pertain only to the issues proposed in this rulemaking, and include explanations in support of the commenter's recommendations. Comments received after the time indicated under **DATES** or at locations other than the Albuquerque Field Office will not necessarily be considered in the final rulemaking or included in the administrative record.

TREASURY FINANCING REQUIREMENTS

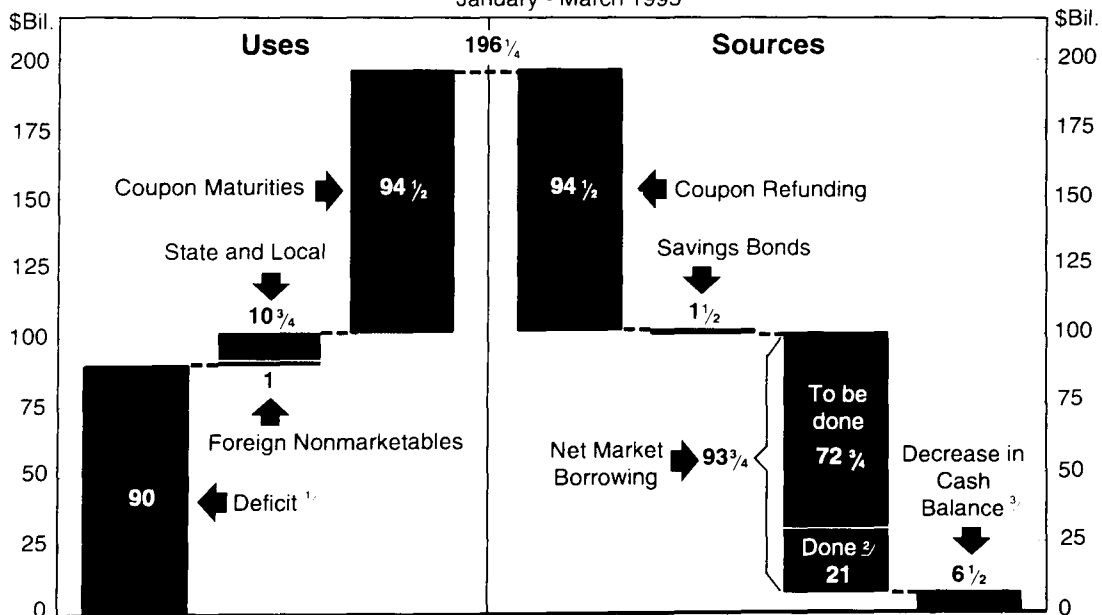
October - December 1994



¹ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

TREASURY FINANCING REQUIREMENTS

January - March 1995



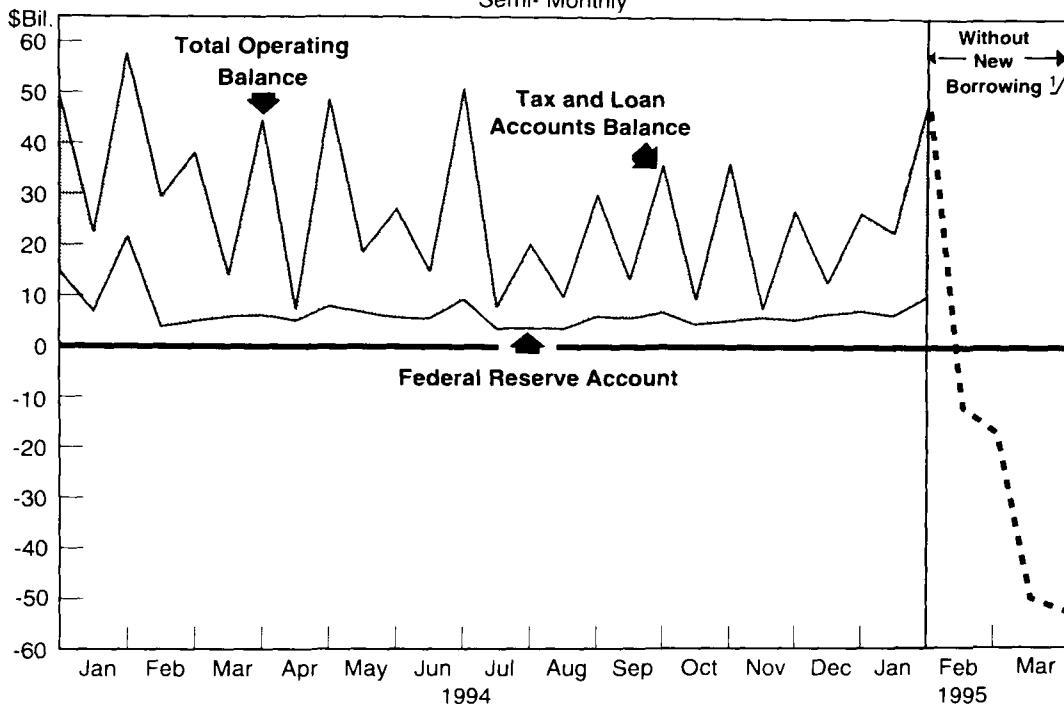
¹ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

² Issued or announced through January 27, 1995.

³ Assumes a \$20 billion cash balance March 31, 1995.

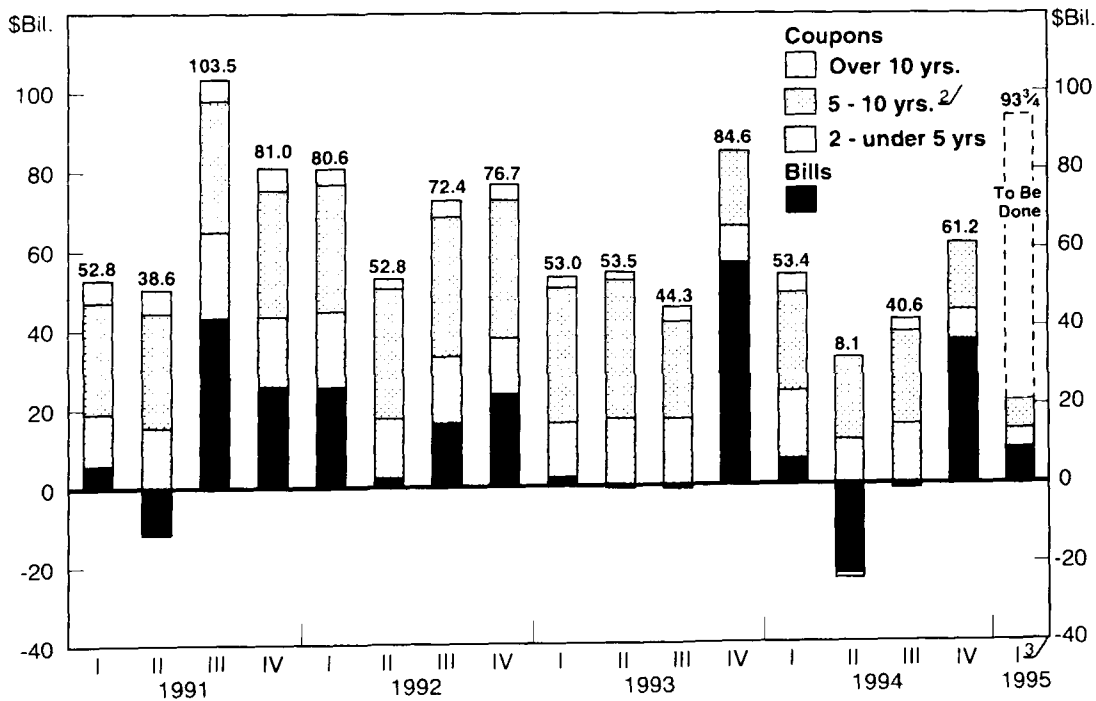
TREASURY OPERATING CASH BALANCE

Semi-Monthly



1/ Assumes refunding of maturing issues.

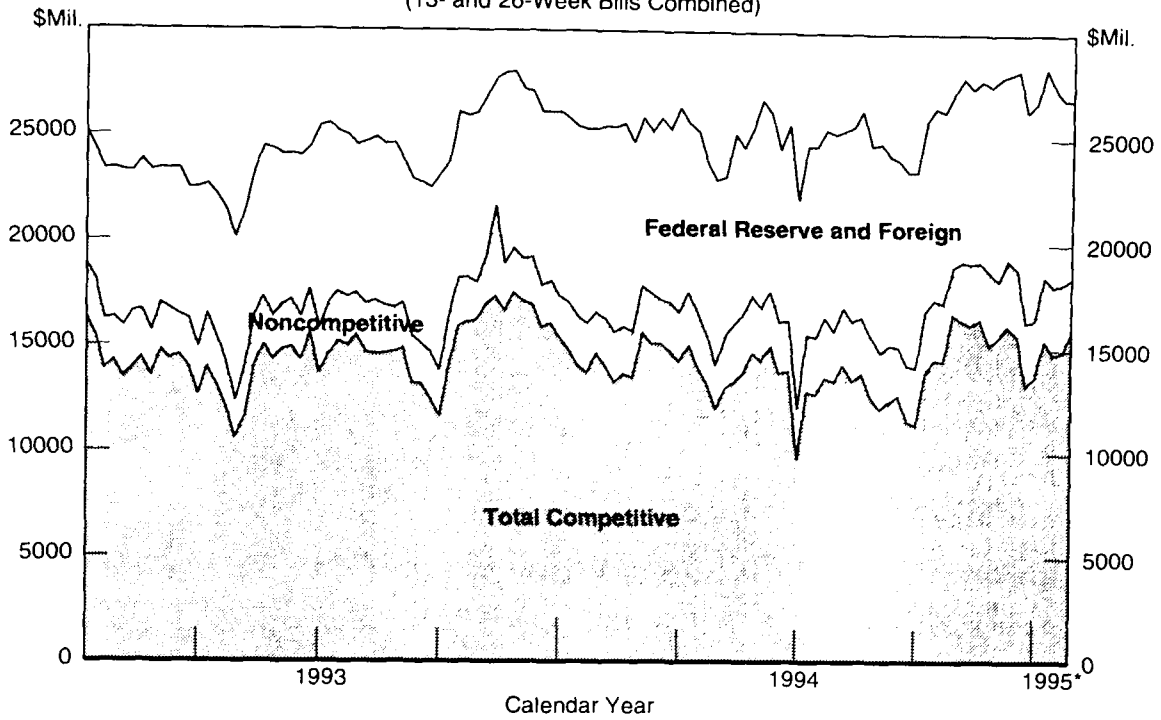
TREASURY NET MARKET BORROWING 1/



- 1/ Excludes Federal Reserve and Government Account Transactions.
- 2/ 7 year note discontinued after April 1993.
- 3/ Issued or announced through January 27, 1995.

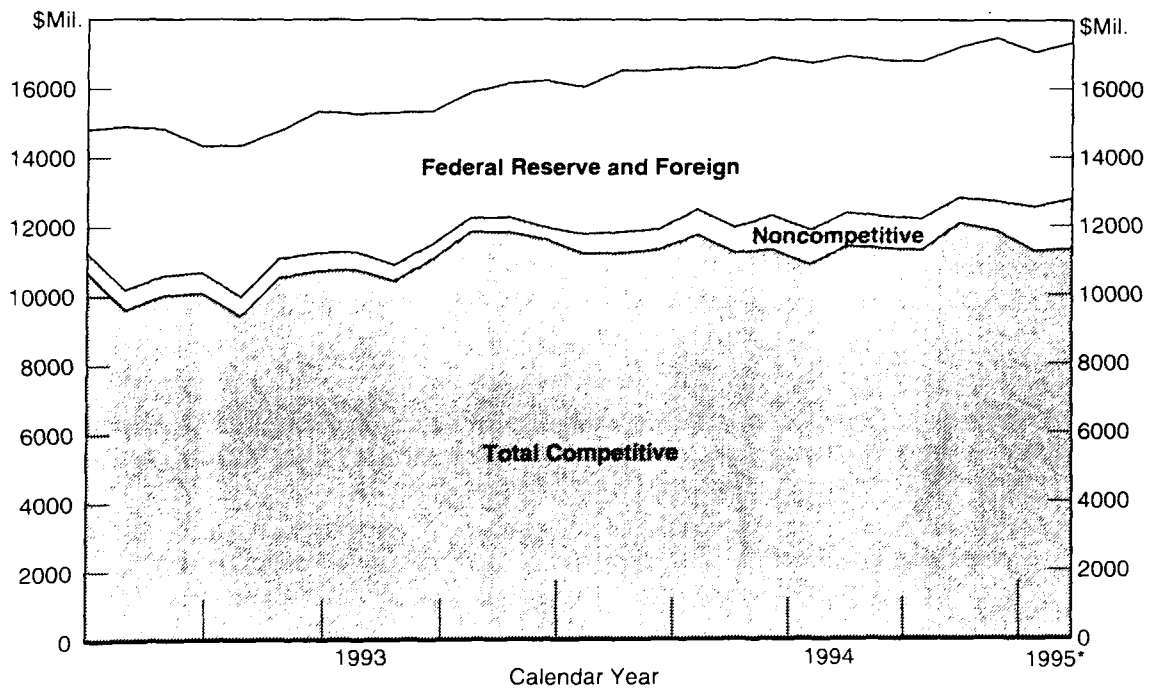
AWARDS IN WEEKLY BILL AUCTIONS

(13- and 26-Week Bills Combined)



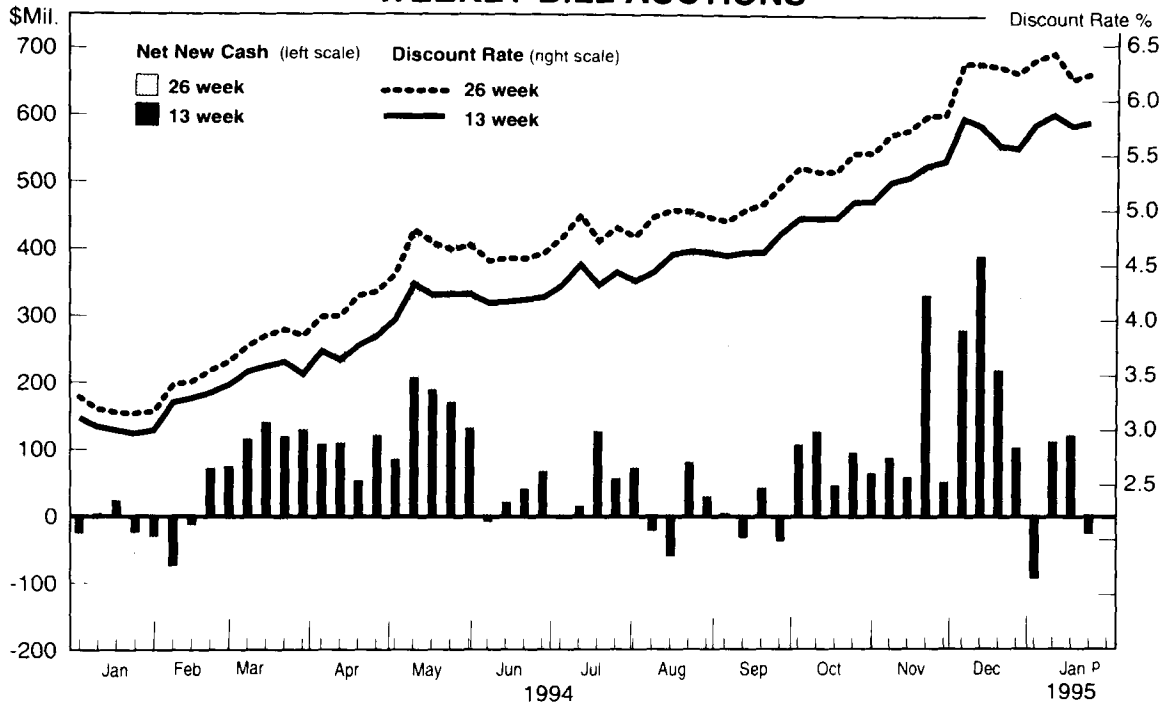
*Data through January 23, 1995 Auction.

AWARDS IN 52-WEEK BILL AUCTIONS



*Data Through January 5, 1995 Auction.

NET NEW CASH FROM NONCOMPETITIVE TENDERS IN WEEKLY BILL AUCTIONS^{1/}



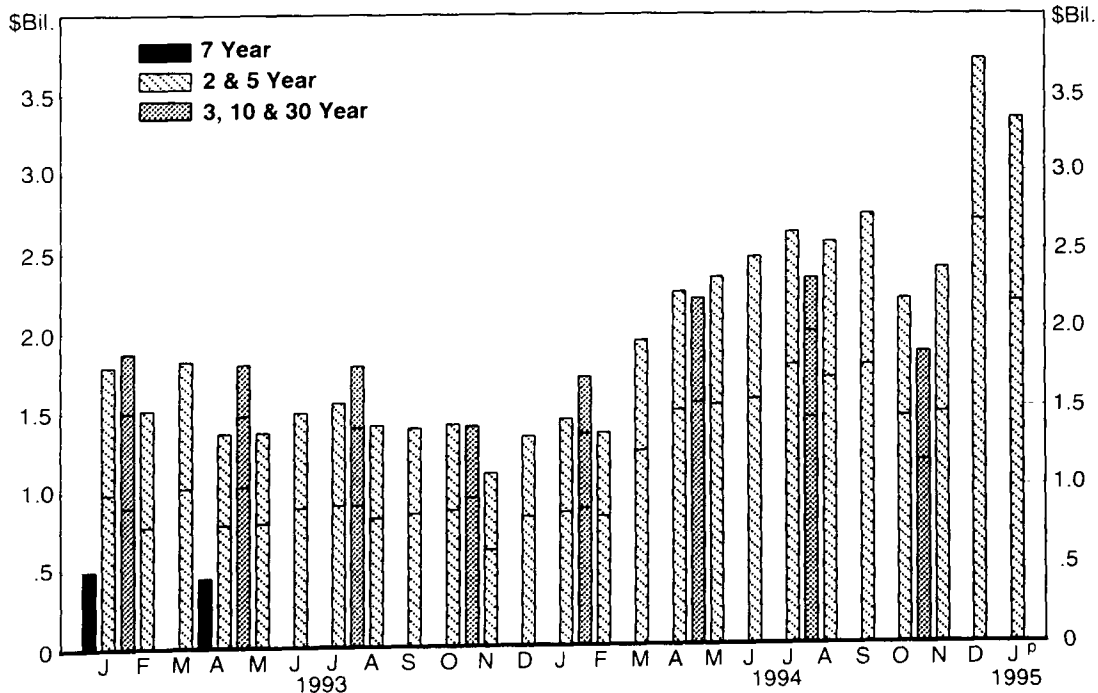
^{1/} Excludes noncompetitive tenders from foreign official accounts and the Federal Reserve account.

p Preliminary

Department of the Treasury
Office of Market Finance

January 30, 1994-27

NONCOMPETITIVE TENDERS IN TREASURY NOTES AND BONDS^{1/}



^{1/} Excludes foreign add-ons from noncompetitive tenders.

p Preliminary

Treasury increased the maximum noncompetitive award to any noncompetitive bidder to \$5 million effective November 5, 1991.

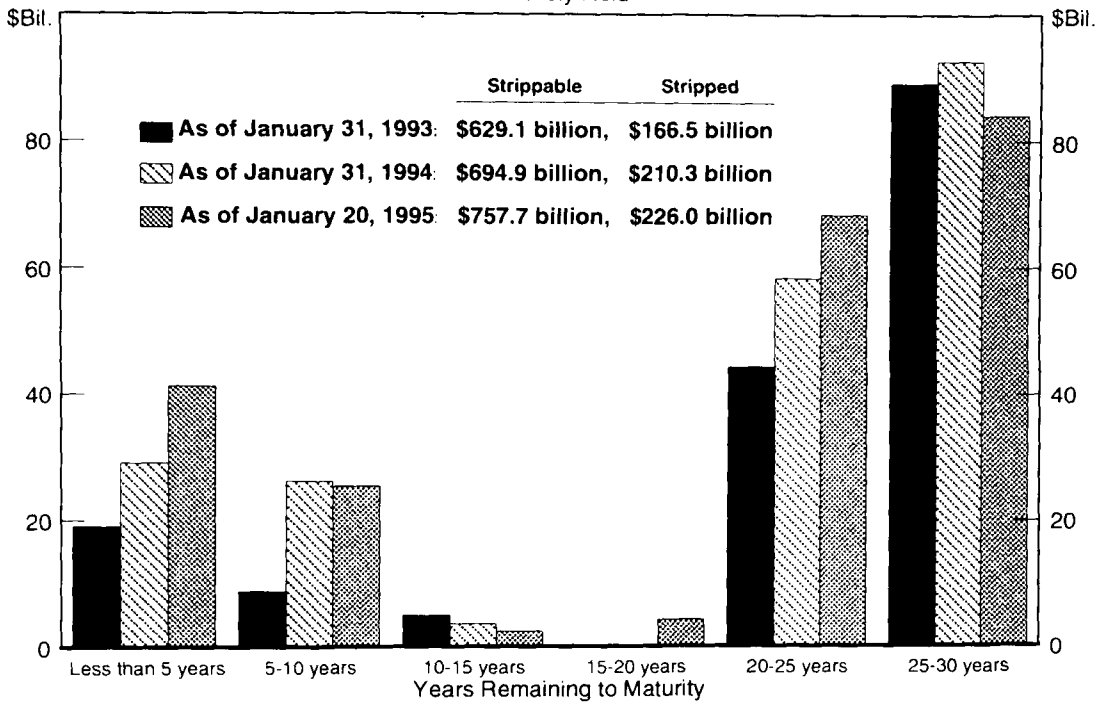
Effective February 11, 1992 a noncompetitive bidder may not hold a position in WI trading, futures, or forward contracts, nor submit both competitive and noncompetitive bids for its own account.

Department of the Treasury
Office of Market Finance

January 30, 1995-3

SECURITIES HELD IN STRIPS FORM 1993-1995

Privately Held



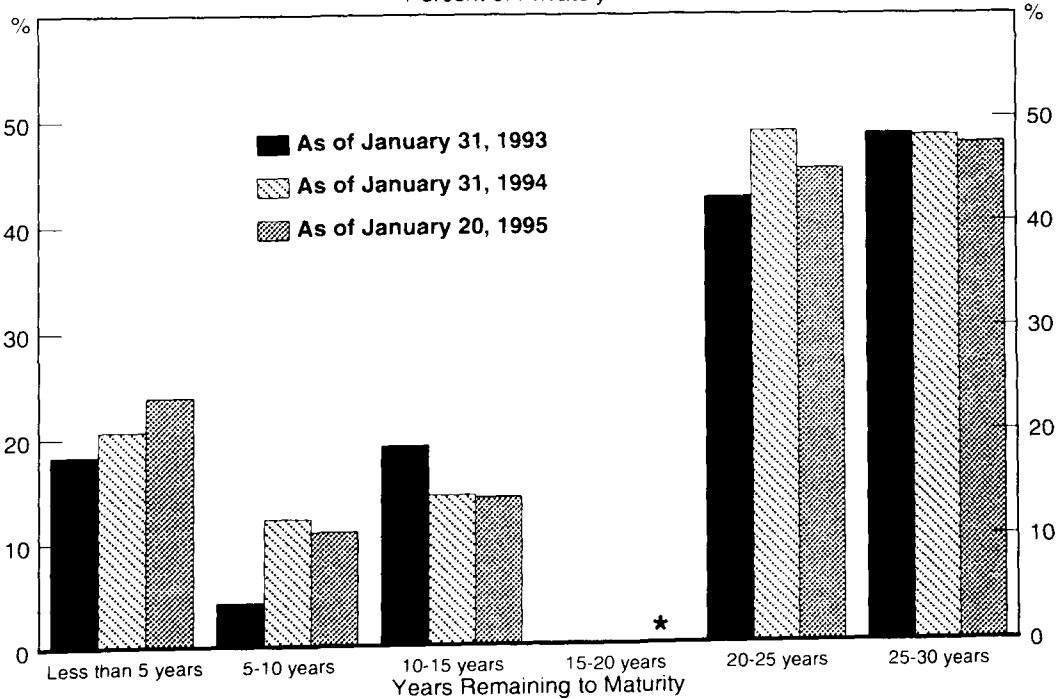
Note: The STRIPS program was established in February 1985. The 11 5/8% note of November 15, 1994, issued on November 15, 1984, was the first STRIPS-eligible security to mature.

Department of the Treasury
Office of Market Finance

January 30, 1995-30

SECURITIES HELD IN STRIPS FORM 1993-1995

Percent of Privately Held



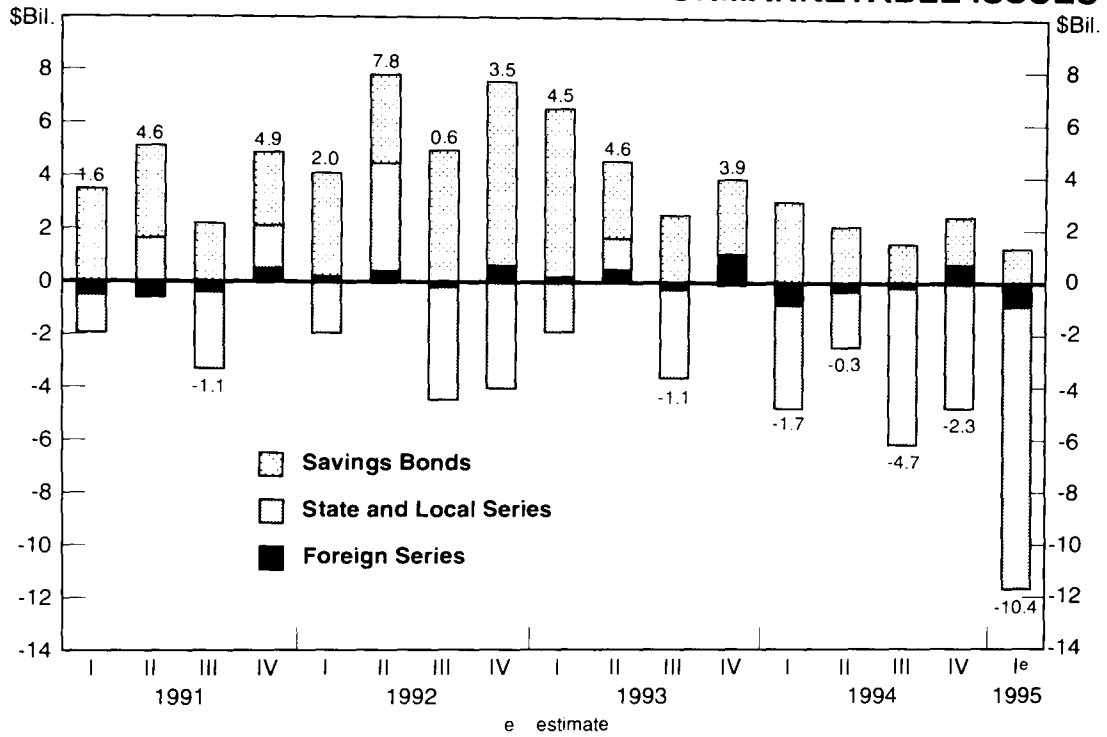
* The 11 3/4% bond of 11/15/09-14 had \$4.9 billion (privately-held) available for stripping, of which 87% was held in stripped form.

Note: The STRIPS program was established in February 1985. The 11 5/8% note of November 15, 1994, issued on November 15, 1984, was the first STRIPS-eligible security to mature.

Department of the Treasury
Office of Market Finance

January 30, 1995-29

TREASURY NET BORROWING FROM NONMARKETABLE ISSUES

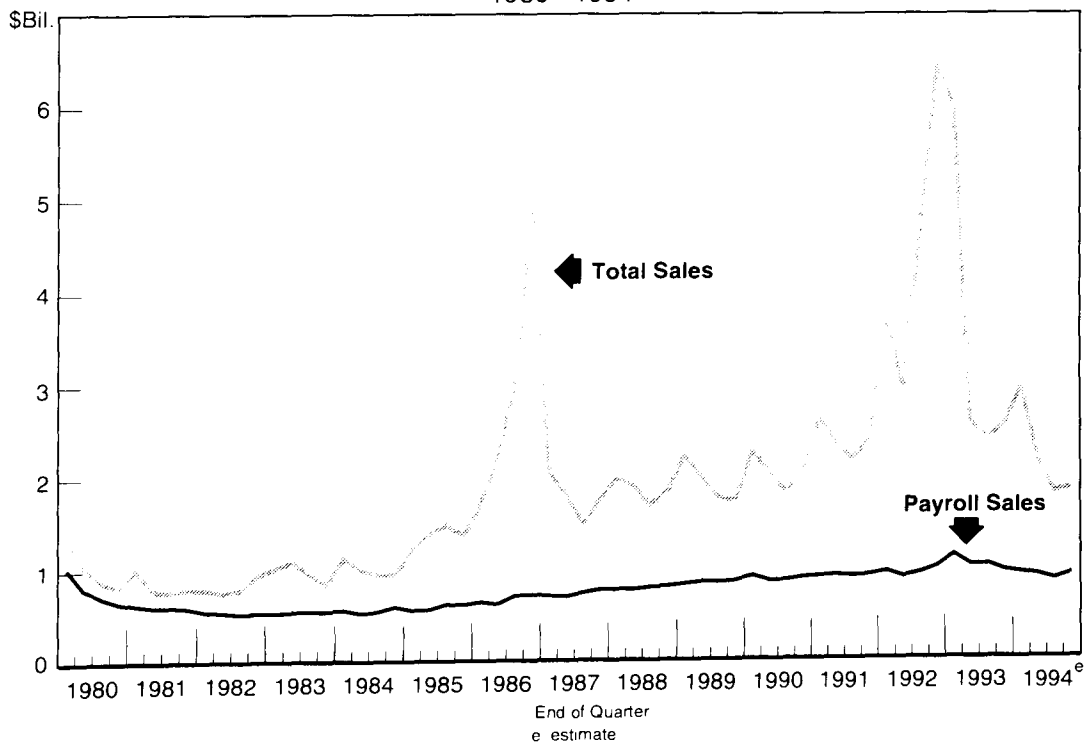


Department of the Treasury
Office of Market Finance

January 30, 1995-19

SALES OF UNITED STATES SAVINGS BONDS

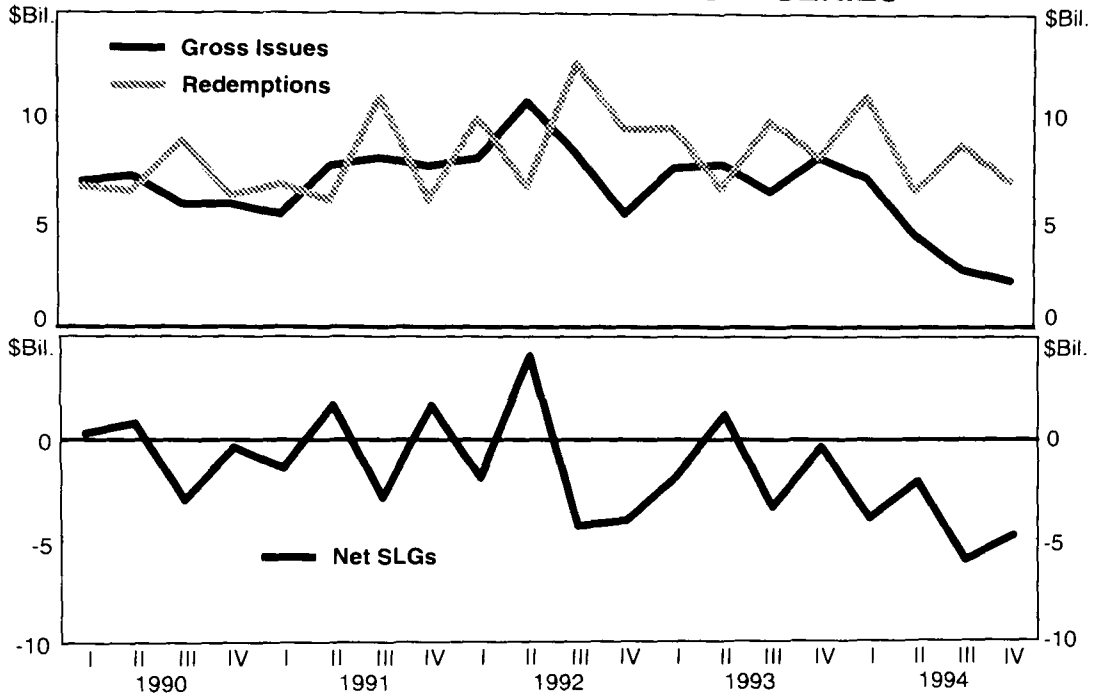
1980 - 1994



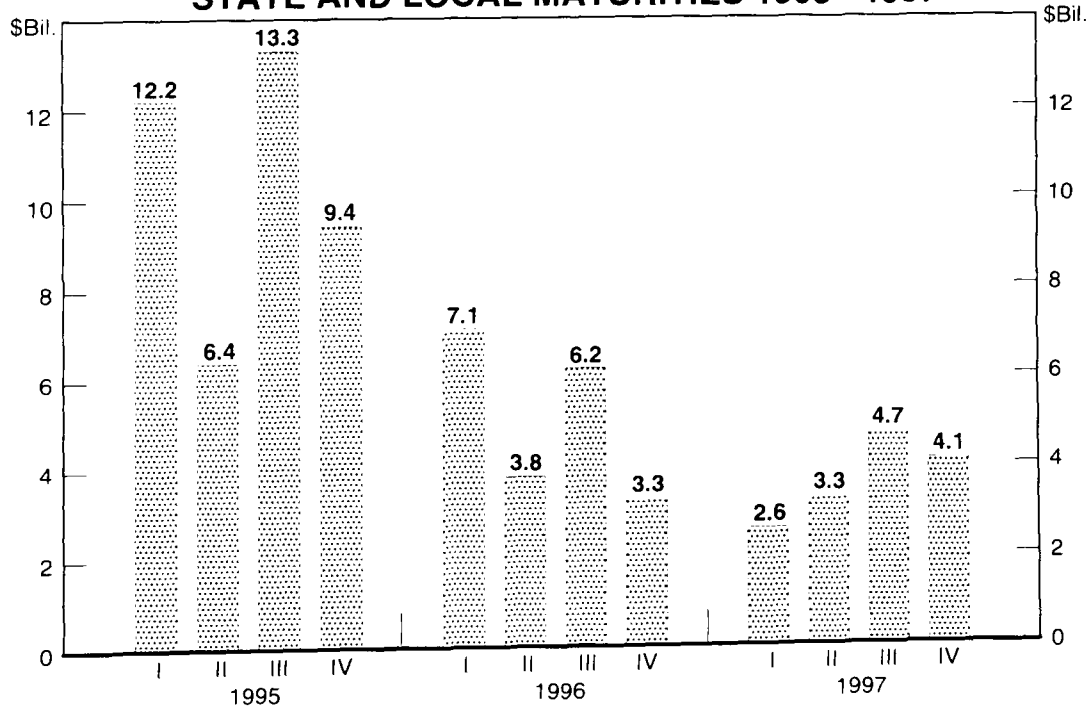
Department of the Treasury
Office of Market Finance

January 30, 1995-1

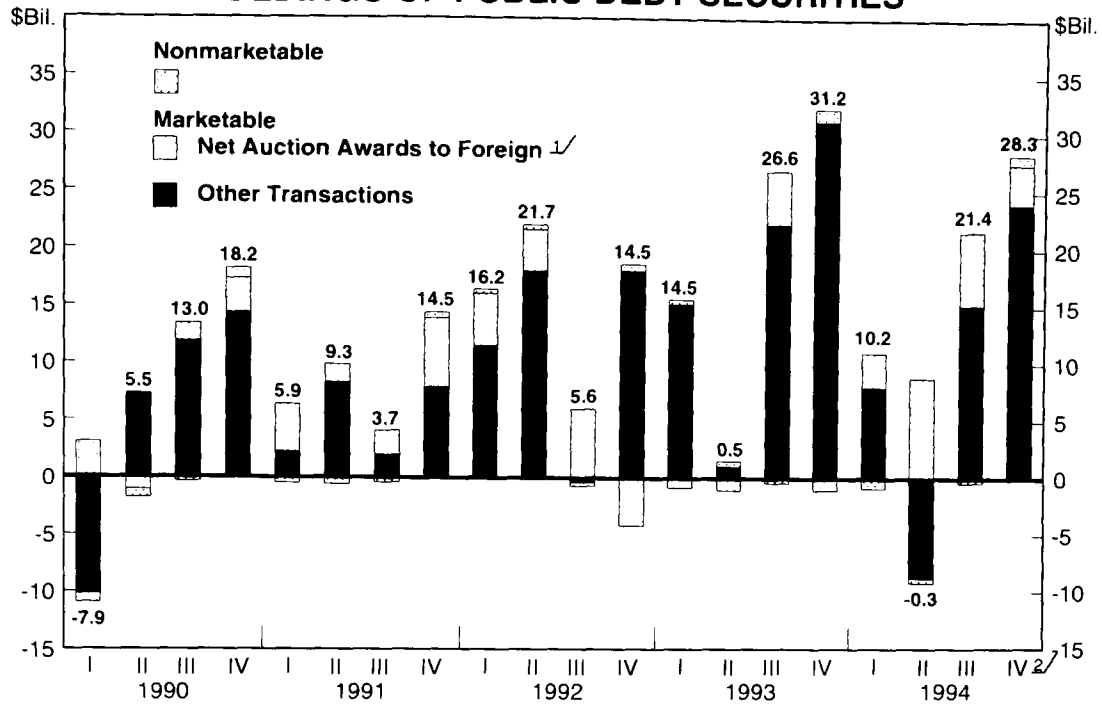
STATE & LOCAL GOVERNMENT SERIES



STATE AND LOCAL MATURITIES 1995 - 1997



QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES



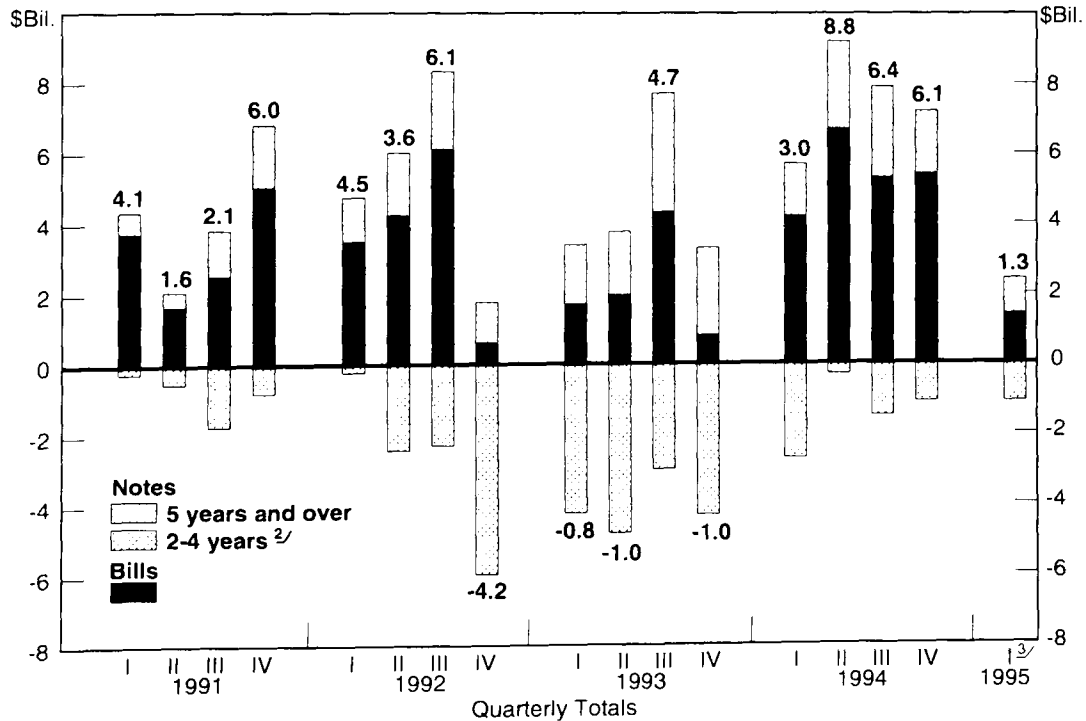
1/ Auction awards to foreign official purchasers netted against holdings of maturing securities.

2/ Data through November 30, 1994.

Department of the Treasury
Office of Market Finance

January 30, 1995-20

NET AWARDS TO FOREIGN OFFICIAL ACCOUNTS 1/



1/ Noncompetitive awards to foreign official accounts held in custody at the Federal Reserve in excess of foreign custody account holdings of maturing securities.

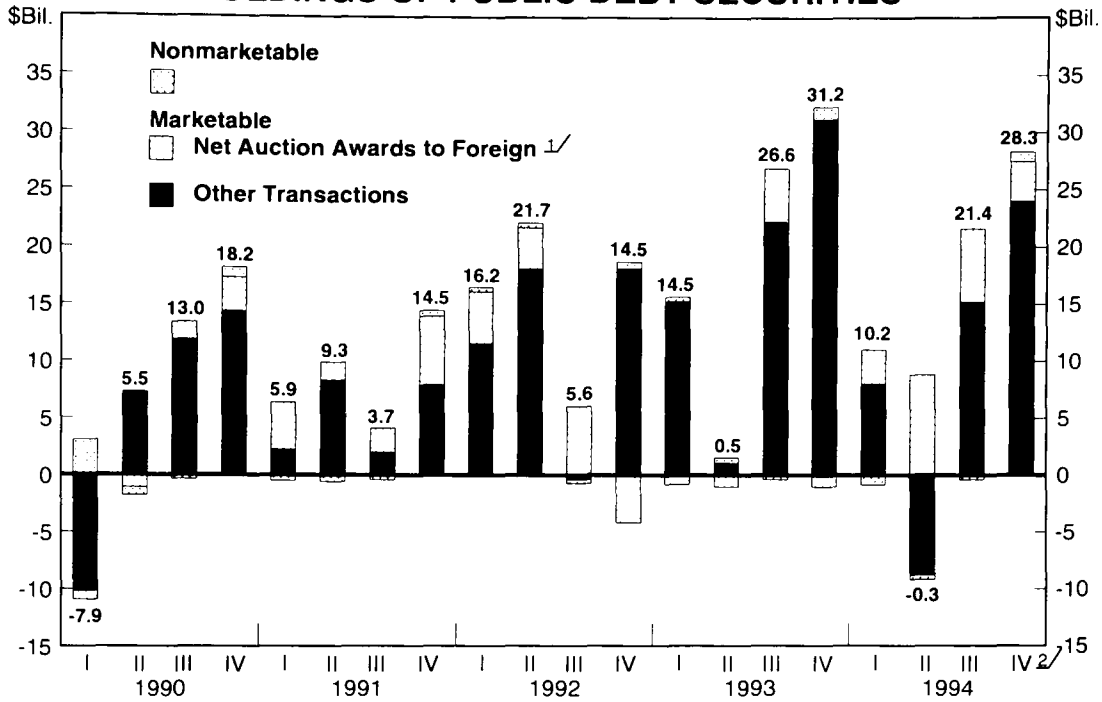
2/ 4 year notes not issued after December 31, 1990.

3/ Through January 27, 1995.

Department of the Treasury
Office of Market Finance

January 30, 1995-21

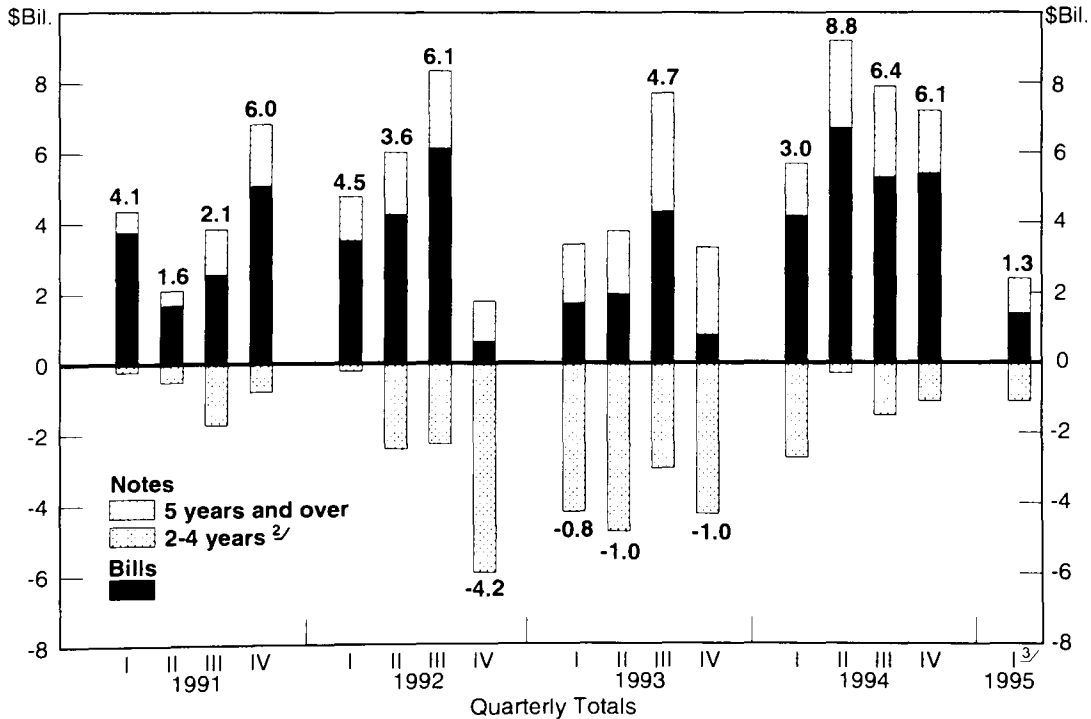
QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES



^{1/} Auction awards to foreign official purchasers netted against holdings of maturing securities.

^{2/} Data through November 30, 1994.

NET AWARDS TO FOREIGN OFFICIAL ACCOUNTS ^{1/}



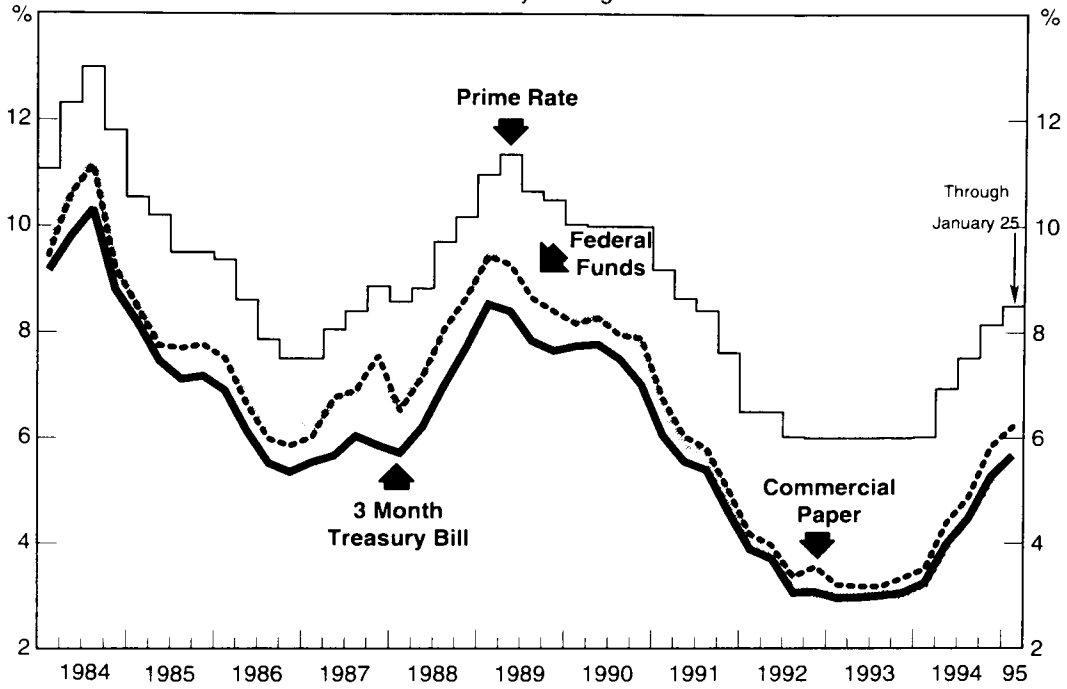
^{1/} Noncompetitive awards to foreign official accounts held in custody at the Federal Reserve in excess of foreign custody account holdings of maturing securities.

^{2/} 4 year notes not issued after December 31, 1990.

^{3/} Through January 27, 1995.

SHORT TERM INTEREST RATES

Quarterly Averages

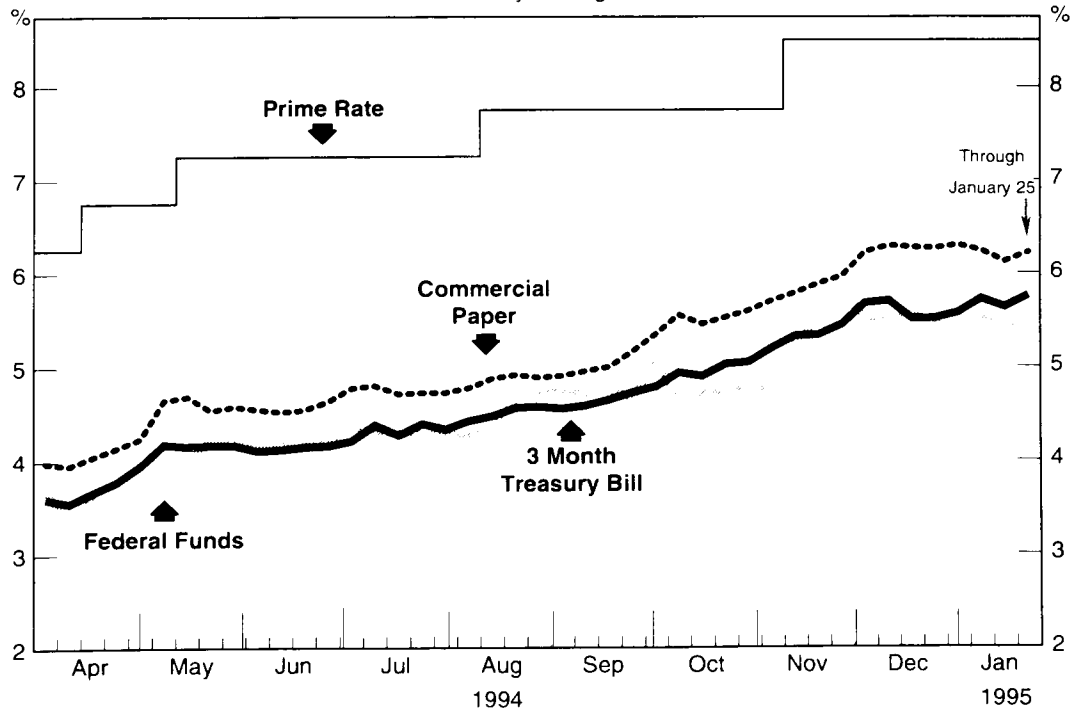


Department of the Treasury
Office of Market Finance

January 30, 1995-22

SHORT TERM INTEREST RATES

Weekly Averages

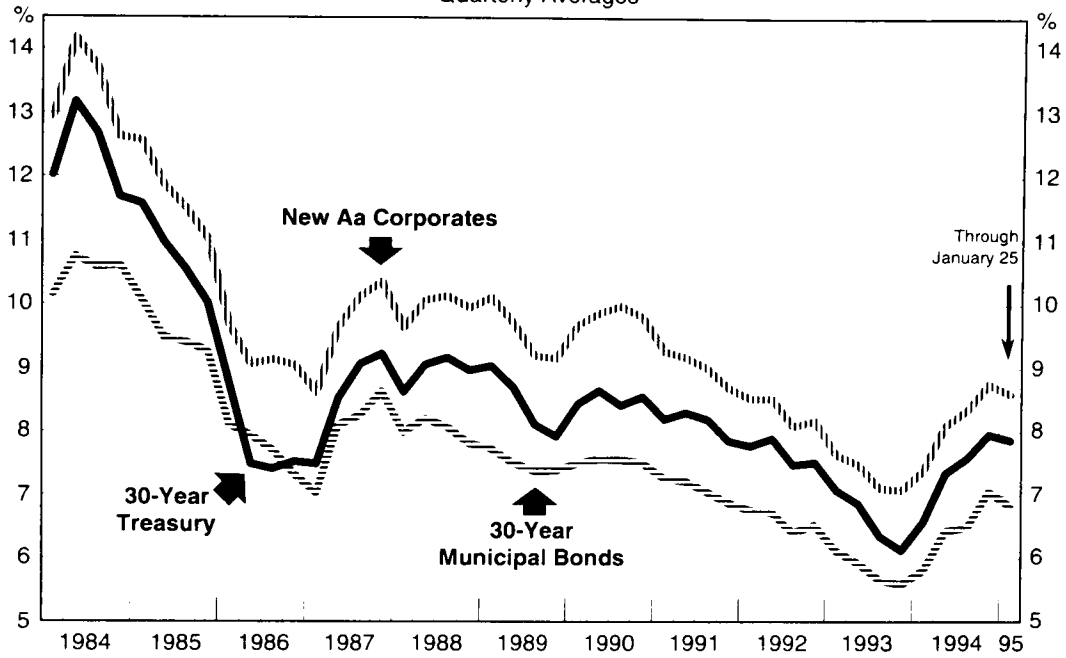


Department of the Treasury
Office of Market Finance

January 30, 1995-23

LONG TERM MARKET RATES

Quarterly Averages

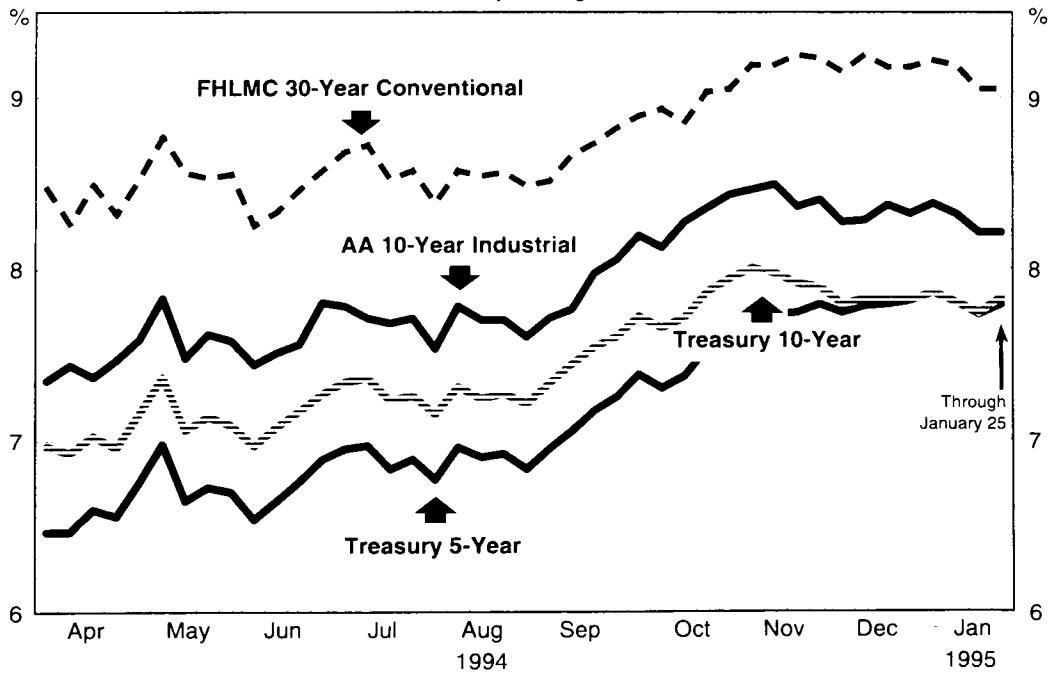


Department of the Treasury
Office of Market Finance

January 30, 1995-24

INTERMEDIATE TERM INTEREST RATES

Weekly Averages*

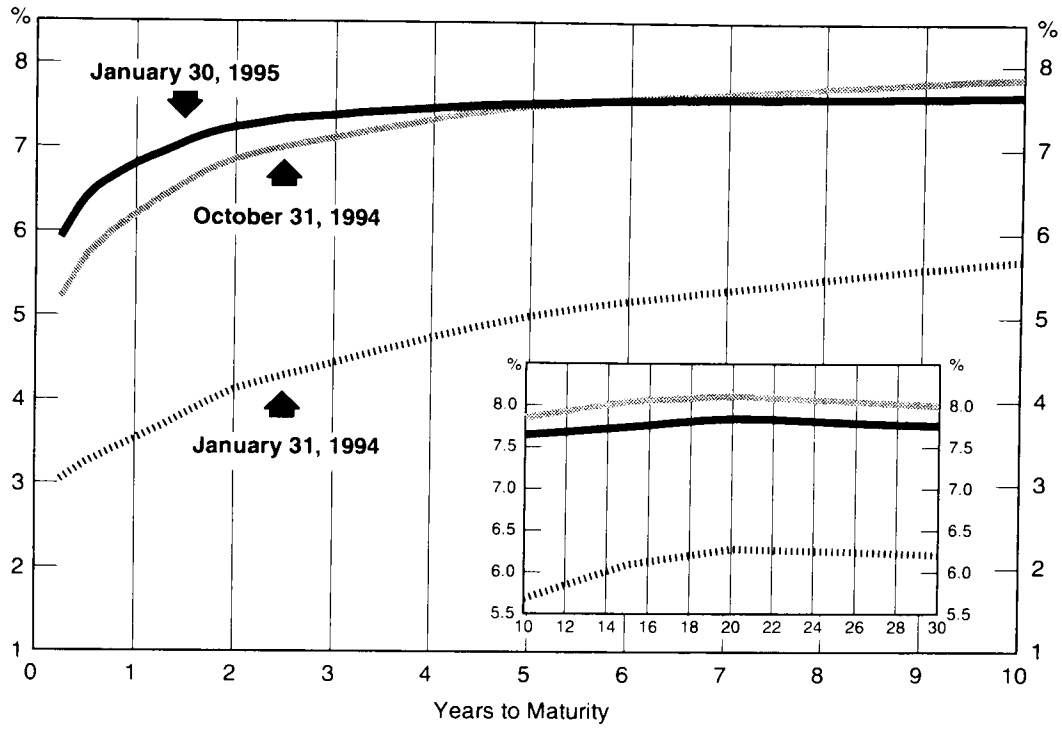


* Salomon 10-yr. AA Industrial is a Thursday rate.

Department of the Treasury
Office of Market Finance

January 30, 1995-25

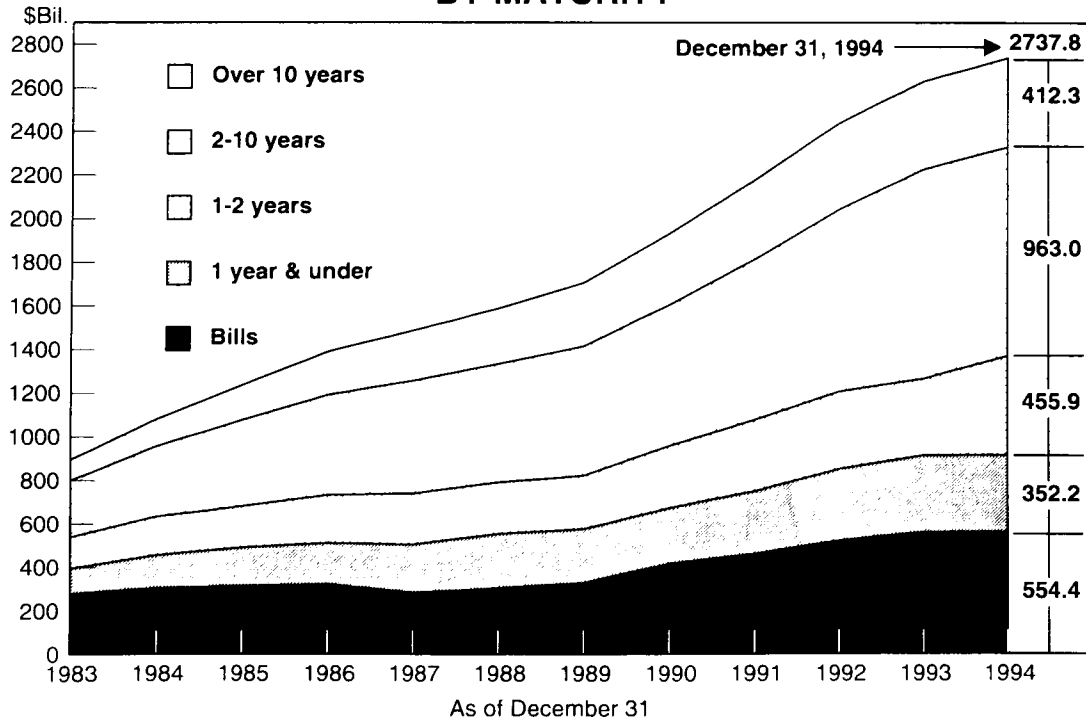
MARKET YIELDS ON GOVERNMENTS



Department of the Treasury
Office of Market Finance

January 31, 1995-31

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY

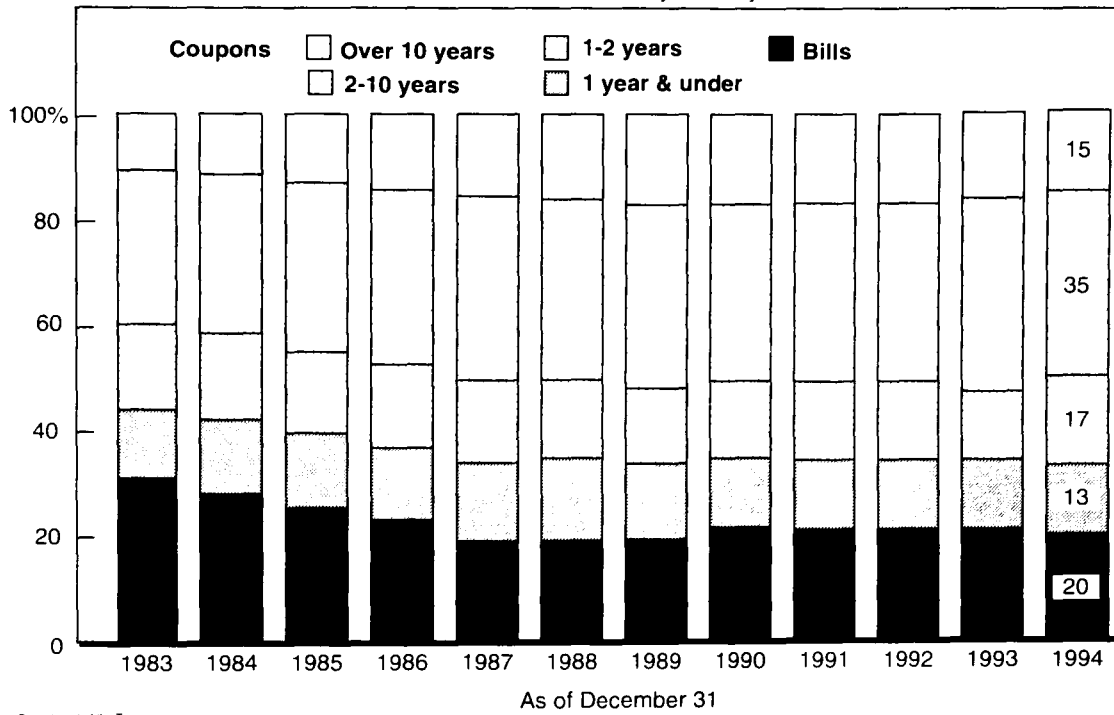


Department of the Treasury
Office of Market Finance

January 30 1995-5

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT

Percent Distribution By Maturity

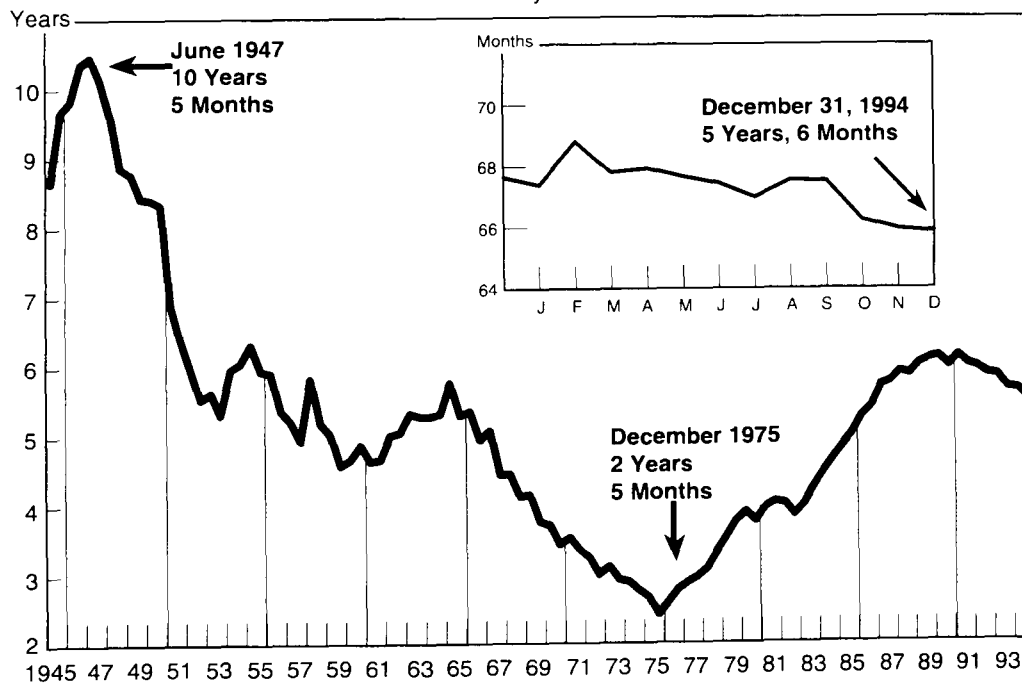


Department of the Treasury
Office of Market Finance

January 30, 1995-6

AVERAGE LENGTH OF THE MARKETABLE DEBT

Privately Held



Department of the Treasury
Office of Market Finance

January 30, 1995-4

MATURING COUPON ISSUES

February - June 1995

(in millions of dollars)

Maturing Coupons	December 31, 1994			
	Total	Held by		
		Federal Reserve & Government Accounts	Private Investors	Foreign ^{1/} Investors
11 1/4% Note 2/15/95	6,934	1,453	5,481	70
7 3/4% Note 2/15/95	8,344	103	8,241	433
5 1/2% Note 2/15/95	17,774	2,374	15,400	1,018
3 % Bond 2/15/95	102	57	45	0
10 1/2% Bond 2/15/95	1,502	182	1,320	50
7 7/8% Bond 2/15/95 ^{2/}	2,749	777	1,972	0
3 7/8% Note 2/28/95	16,613	1,146	15,467	1,508
3 7/8% Note 3/31/95	17,305	2,095	15,210	1,419
8 3/8% Note 4/15/95	7,018	370	6,648	700
3 7/8% Note 4/30/95	16,797	703	16,094	2,063
11 1/4% Note 5/15/95	7,127	798	6,329	185
8 1/2% Note 5/15/95	8,293	273	8,020	1,021
5 7/8% Note 5/15/95	19,152	3,829	15,323	2,373
12 5/8% Bond 5/15/95	1,503	417	1,086	4
10 3/8% Bond 5/15/95	1,504	126	1,378	251
4 1/8% Note 5/31/95	17,527	1,227	16,300	2,813
4 1/8% Note 6/30/95	18,164	1,392	16,772	3,008
Totals	168,408	17,322	151,086	16,916

^{1/} F.R.B. custody accounts for foreign official institutions; included in Private Investors.

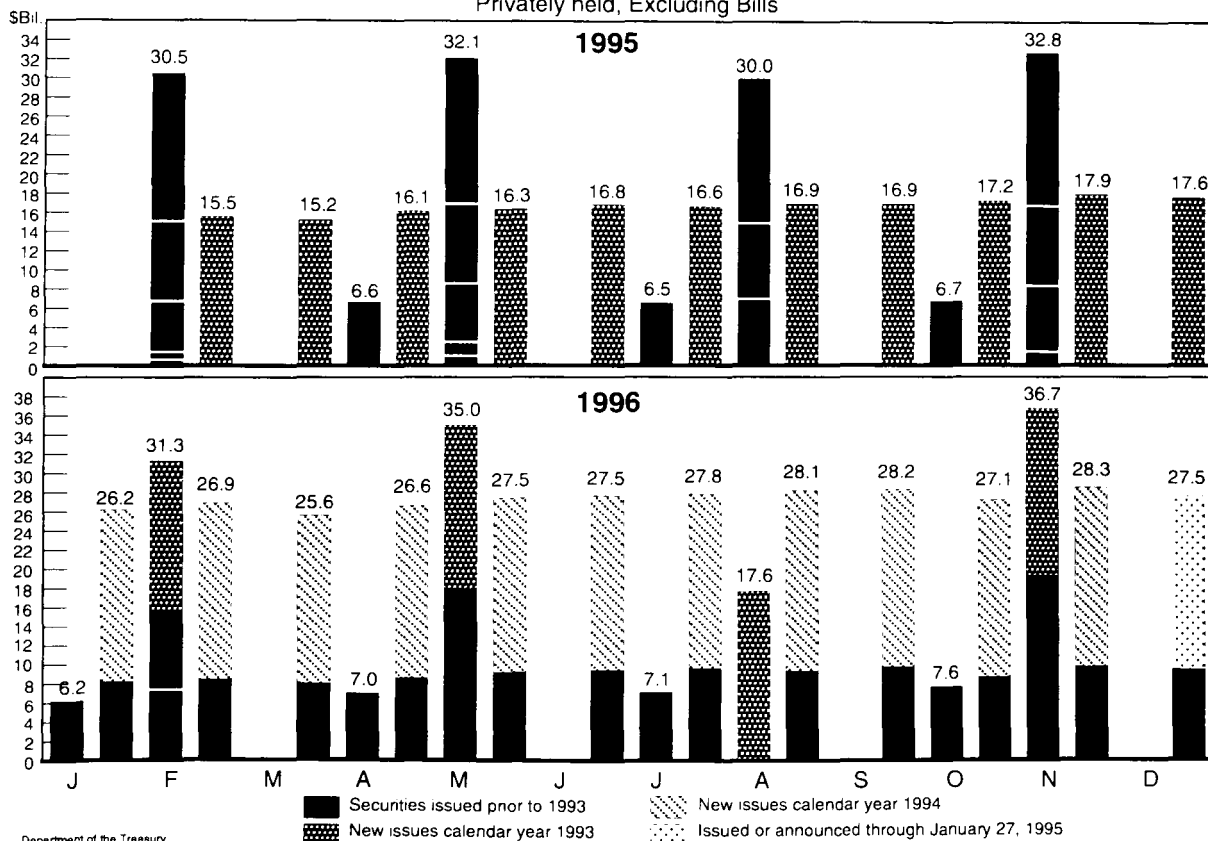
^{2/} On October 12, Treasury called for redemption at par the 7 7/8% Bonds 1995-00, issued February 15, 1975.

Department of the Treasury
Office of Market Finance

January 30, 1995-7

TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills

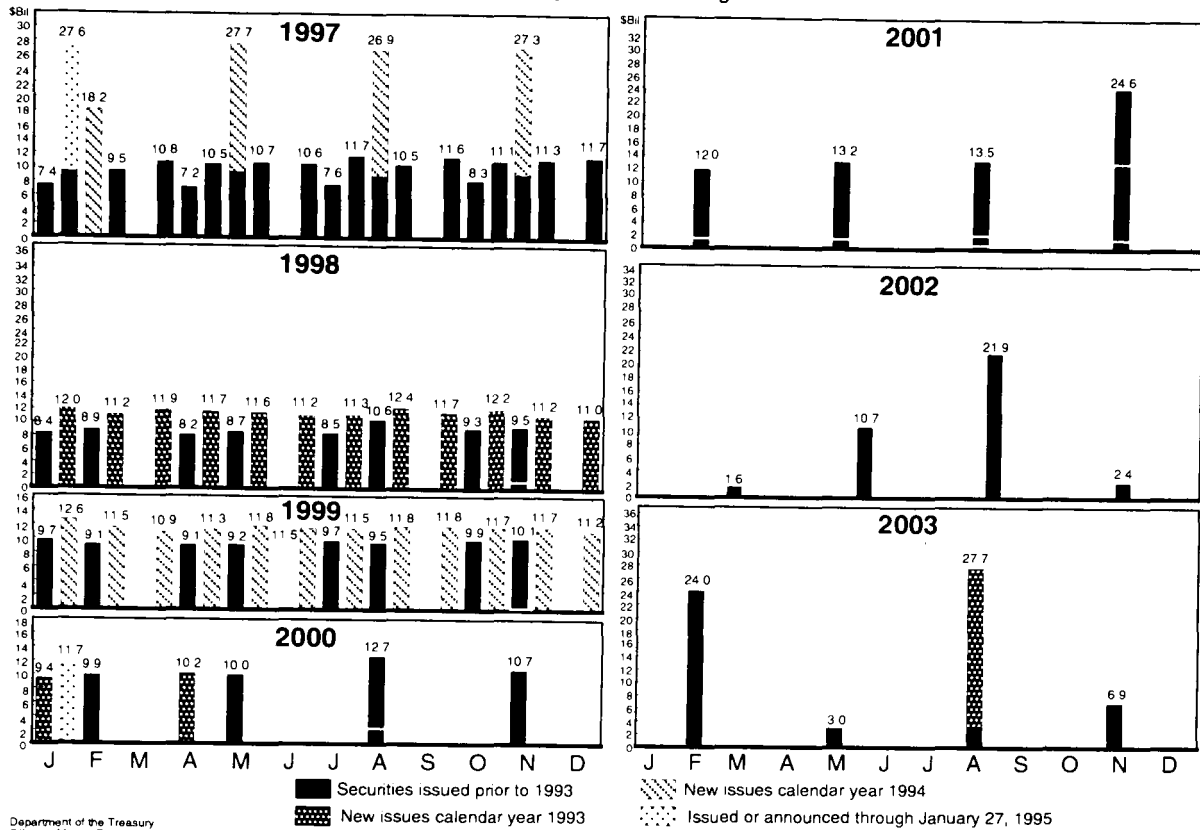


Department of the Treasury
Office of Market Finance

January 30, 1995-8

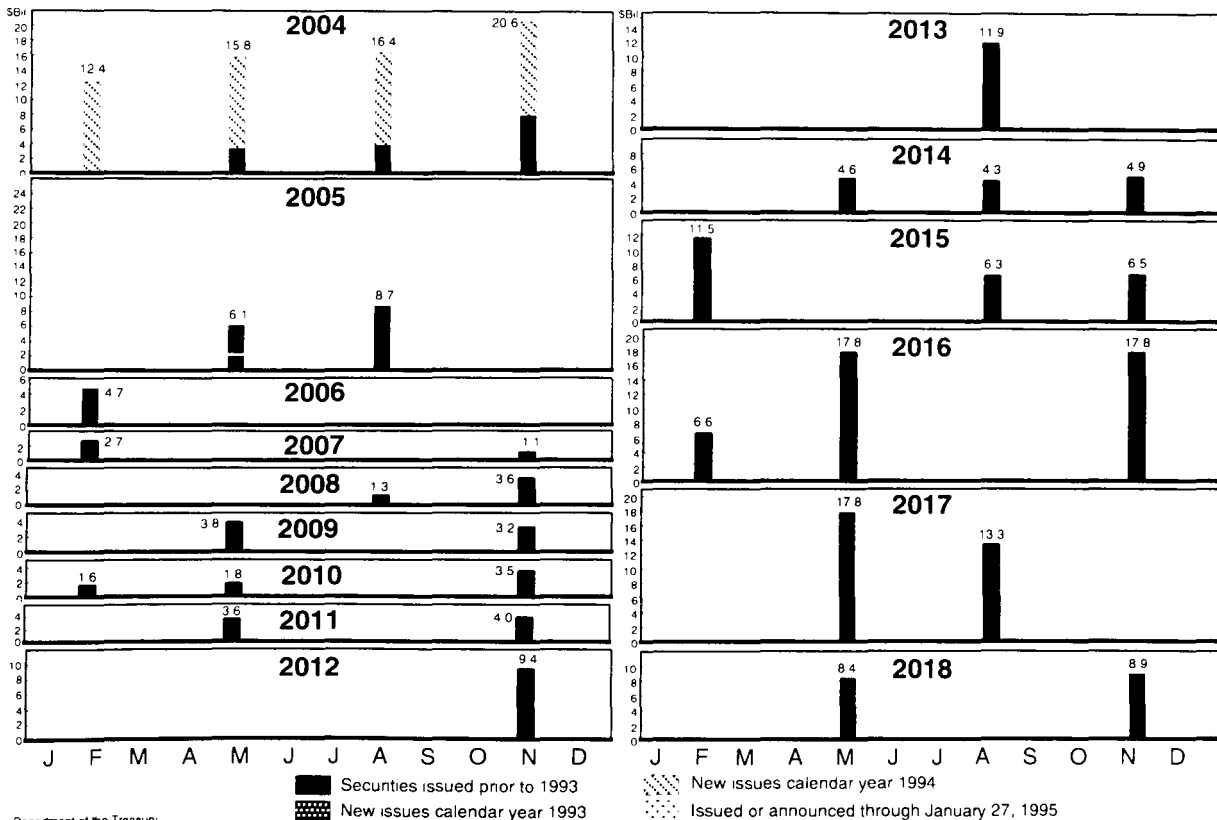
TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills



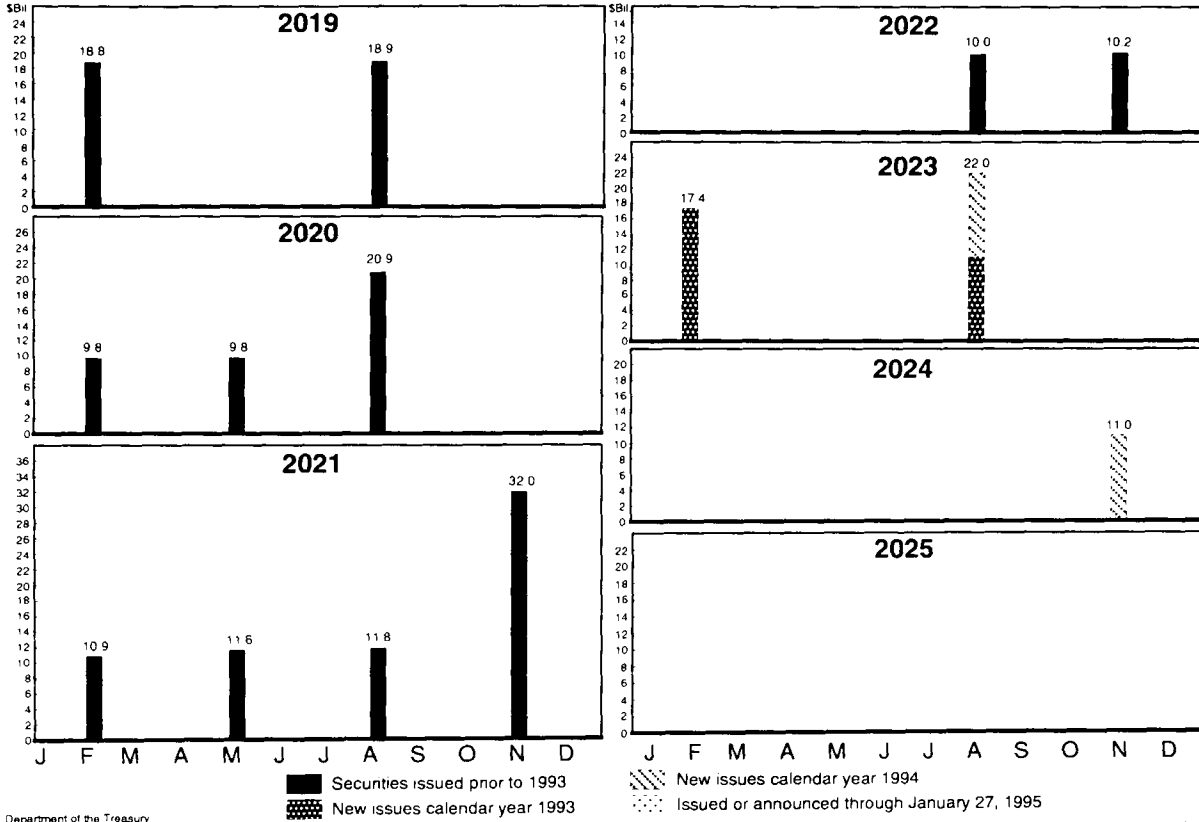
TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills



TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills



Department of the Treasury
Office of Market Finance

January 30, 1995-11

SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN FEBRUARY 1995 ^{1/}

Monday	Tuesday	Wednesday	Thursday	Friday
		1	2 Auction 52 week ^{2/}	3
6	7	8	9	10
13	14	15 Announce 2 year 5 year	16	17
20 Holiday	21	22 Auction 2 year ^{3/}	23 Auction 5 year ^{3/}	24 Announce 52 week ^{4/}
27	28			

^{1/} Does not include weekly bills

^{2/} For settlement February 9

^{3/} For settlement February 28

^{4/} For auction March 2 and settlement March 9

Department of the Treasury
Office of Market Finance

February 1, 1995-13

**SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED
IN MARCH 1995 ^{1/}**

Monday	Tuesday	Wednesday	Thursday	Friday
		1	2 Auction 52 week ^{2/}	3
6	7	8	9	10
13	14	15	16	17
20	21	22 Announce 2 year 5 year	23	24 Announce 52 week
27	28 Auction 2 year ^{3/}	29 Auction 5 year ^{3/}	30 Auction 52 week ^{4/}	31

^{1/} Does not include weekly bills
^{2/} For settlement March 9
^{3/} For settlement March 31
^{4/} For settlement April 6

Department of the Treasury
Office of Market Finance

February 1, 1995-14

**SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED
IN APRIL 1995 ^{1/}**

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
10	11	12	13	14
17	18	19 Announce 2 year 5 year	20	21 Announce 52 week
24	25 Auction 2 year ^{2/}	26 Auction 5 year ^{2/}	27 Auction 52 week ^{3/}	28

^{1/} Does not include weekly bills
^{2/} For settlement May 1
^{3/} For settlement May 4

Department of the Treasury
Office of Market Finance

February 1, 1995-15

**REPORT TO THE SECRETARY OF THE TREASURY
FROM THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE
PUBLIC SECURITIES ASSOCIATION**

FEBRUARY 1, 1995

Dear Mr. Secretary:

During the three months since the Committee's last meeting with the Treasury in November 1994, economic activity has remained robust. Price increases for final goods are still subdued, but inflationary pressures in raw materials and intermediate goods are intensifying. In response, the Federal Reserve has continued to tightened monetary policy, and the Federal funds rate now stands at 5.5%, 0.75% higher than in early November.

Yields on Treasury securities have moved in divergent directions during the three-month interval. At the extremes, yields on maturities under six months rose by approximately 75 basis points, whereas yields on maturities of ten years and longer declined by approximately 20 basis points. The result was a substantial flattening of the yield curve. Its present shape and forward prices for various fixed-income instruments indicate market participants continue to expect further increases in interest rates in the coming months, but to a lesser extent and at a slower pace than previously.

Within this context, to refund the \$30.5 billion of notes and bonds maturing on February 15, 1995 that are privately held and to raise additional cash of \$16.5 billion, the Committee recommends that the Treasury auction \$47.0 billion of the following securities:

- \$17.0 billion 3-year notes due February 15, 1998;
- \$12.0 billion 10-year notes due February 15, 2005;
- \$11.0 billion 30 1/4-year bonds due May 15, 2025; and,
- \$7.0 billion cash management bills due April 20, 1995.

The Committee was unanimous in its recommendation on the size of each of the refunding issues and on the maturity of the 3-year offering. With respect to the 10-year offering, 14 of the 16 Committee members present for the meeting favored a new issue rather than a reopening of the 7 7/8% note due November 15, 2004. The principal argument cited in favor of this position was that a reopening would raise the total amount maturing on that date to over \$32 billion. The already uneven schedule of maturities in the years 2001 to 2004 would be exacerbated

while the February 15, 2005 maturity slot would be left vacant. The two remaining members of the Committee had no strong views on the matter and abstained.

With respect to the bond offering, three options were considered: a new 30 1/4-year issue, a new 30-year issue, and a reopening of the 7 1/2% bond due November 15, 2024. Nine members of the Committee favored a new 30 1/4-year issue, citing the belief that the longer issue with May and November coupons would be particularly attractive for stripping purposes and possibly as a consequence be issued at a modestly lower yield. The six members who favored a reopening of the 7 1/2% bond due November 15, 2024 concurred in the preference for an issue with May and November coupons but thought that the larger issue which would result from a reopening offered the prospect of greater liquidity and thus some potential saving in cost.

With the aim of achieving a cash balance of \$20 billion on March 31, the Committee unanimously recommends that for the remainder of the quarter the Treasury meet its borrowing requirement in the following manner:

- Two 5-year notes totaling \$11.0 billion each, to raise \$22 billion of new cash;
- Two 2-year notes totaling \$17.25 billion each, to raise \$3.8 billion of new cash;
- One 1-year bill totaling \$17.25 billion, to raise \$750 million of new cash;
- Weekly 3- and 6-month bills totaling \$27.6 billion through the remainder of the quarter, to raise \$12.8 billion of new cash;
- A cash management bill totaling \$14.0 billion to mature on April 20 to meet the seasonal cash need in early March; and,
- Redemption on February 15 of bonds called earlier, to reduce cash by \$2.0 billion.

Including the \$16.5 billion raised in the mid-quarter refunding as well as anticipated foreign add-ons of \$4.9 billion, the proposed financing schedule will raise a total of \$72.75 billion. When added to the \$21.0 billion already raised or announced during quarter, this amount will accomplish the total net borrowing requirement of \$93.75 billion.

For the April-June quarter, the Treasury estimates a paydown of \$5 to \$10 billion of marketable securities with a cash balance of \$35 billion at the end of June. To accomplish the anticipated paydown, the Committee recommends the following provisional financing schedule:

<u>Auctions</u>	<u>Size</u> <u>(\$billions)</u>	<u>Raising</u> <u>(\$billions)</u>
Refunding:		
3-year note	17.0	
10-year note	<u>12.0</u>	
	29.0	(3.1)
Other:		
5-year notes	3 x 11.0	33.0
2-year notes	3 x 17.25	2.6
1-year bills	4 x 17.25	2.1
3- and 6-month bills	2 x 27.6	
	11 x 25.4	(20.1)
Estimated foreign add-ons		<u>6.0</u>
Subtotal		20.5
Less:		
Redemption of April cash management bills		(21.0)
Redemption of 7-year notes		<u>(7.0)</u>
Total Net Market Paydown		(7.5)

The Committee also notes the likely need for the issuance of intra-quarter cash management bills to cover cash low points during the quarter.

In formulating its response to the request for the Committee's views on possible adjustments to the Treasury's borrowing pattern beginning in January 1996, when the 5-year note series will have come full cycle and no longer provide significant amounts of new cash, the Committee first sought to identify the basic principles which should guide its recommendations. Committee members agreed on two areas of major concern: the average length of the debt and the schedule of maturities.

Although the Committee is aware of no compelling study or argument that points to an optimal average length for the debt, the present pace of decline, if continued, will increase the Treasury's exposure to variations in the level of interest rates and could become a subject of worry to investors. From its recent peak of 6 years in June 1991, the average length of privately-held marketable debt has fallen to 5 years, 6 months. If the present borrowing strategy is continued into 1996 and beyond, the pace of the decline would continue unabated. Though it cannot say when, the Committee does believe that at some stage the trend will attract the notice of investors in the US and abroad and begin to raise concerns. The consequences are unknown, but it seems highly likely there would be a negative effect on the Treasury's cost of borrowing over the longer-term.

This concern led the Committee to the principle of having as one objective of its recommendations for adjustments to the Treasury's borrowing pattern

beginning in January 1996 a slowing or an arresting of the pace of decline in the average length of the debt.

Of comparable importance in the Committee's judgment is the schedule of maturities of the marketable debt. For the past several years, the proportion of the debt maturing under two years, for example, has been reasonably stable at levels under 50 per cent. With the current borrowing strategy, the proportion is destined to rise, as it has been recently. While again the Committee knows of no convincing case that points to some ideal schedule of maturities, a rise in the proportion of debt maturing within one or two years, especially in conjunction with a steady decline in the average length of the debt, seems bound ultimately to raise concerns among investors. In the inevitable periods of stress in the financial markets, it is likely that a heavy concentration of maturities to be refinanced in the near-term could add materially to the Treasury's cost of borrowing.

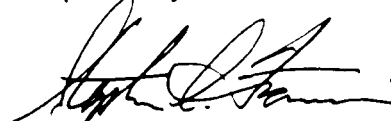
This concern led the Committee to the view that the second objective of its recommendations for adjustments to the Treasury's borrowing pattern beginning in January 1996 should be to ensure a more even spread in the schedule of maturities across the full maturity spectrum and a concomitant avoidance of undue reliance on short-term financing.

Given these principles and objectives, the Committee unanimously recommends that the sources of new borrowing be concentrated in longer-term maturities. Specifically, consideration should be given to increasing the cycle frequency of either the 10-year note or 30-year bond. For example, the frequency of issuance for the 10-year note could be increased to eight times a year, or the frequency of issuance for the 30-year bond could be returned to four times a year. To facilitate an increase in the cycle frequency, the size of individual offerings could be reduced from present levels while enlarging the total amount raised over the cycle.

In recommending that new borrowing stress longer-term coupon issues, the Committee rejected the alternative of increasing the frequency and proportionate sizes of either 52-week bills or 3-year notes or other shorter-term issues. However, the Committee remains in favor of pursuing the feasibility of issuing new types of securities, including variable rate notes, which offer the prospect of lowering the Treasury's cost of borrowing.

Mr. Secretary, that concludes the Committee's report. We welcome any questions or comments.

Respectfully submitted,



Stephen C. Francis
Chairman

**MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE PUBLIC SECURITIES ASSOCIATION
JANUARY 31 AND FEBRUARY 1, 1995**

January 31

The Committee convened at 11:30 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Mr. Capra, Ms. Kenworthy, Mr. Kessenich, and Mr. Stark. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Darcy Bradbury welcomed the Committee to the meeting. Assistant Secretary for Economic Policy Alicia Munnell gave a summary of the current state of the U.S. economy. Jill Ouseley, Director, Office of Market Finance, presented Treasury borrowing estimates and statistical information on recent Treasury borrowing and market interest rates. The borrowing estimates and other information in chart form had been released to the public on January 30, 1995.

The portion of the meeting open to the public ended at 12:05 p.m.

The Committee reconvened in closed session at the Madison Hotel at 2:15 p.m. The members listed above, Ms. Bradbury, and Ms. Ouseley were present. Ms. Bradbury gave the Committee its Charge, which is also attached. The Committee first discussed the size of the cash balances on March 31 and June 30 and agreed by consensus to the estimates of \$20 billion for March 31 and \$35 billion for June 30 assumed by the Treasury. A draft proforma that had been prepared by a member of the Committee (attached) was used during the discussion.

February refunding

The Committee next agreed by consensus to recommend a 3-part midquarter refunding, consisting of \$17 billion of 3-year notes, \$12 billion of 10-year notes, and \$11 billion of long-term bonds, for a total of \$40 billion. The Committee then turned its attention to the Treasury's request for recommendations on reopening the most recently offered 10- and 30-year securities.

The Committee voted by 14 yeas and 2 abstentions to recommend that the Treasury a new 10-year note. A new note was preferred to reopening the 7-7/8% note of November 15, 2004, largely because a heavy volume of issues already mature on November 15, 2004.

The Committee turned to a discussion of whether to recommend reopening the 7-1/2% bond of November 15, 2024. The consensus was that there is no shortage of the 7-1/2% bond in the cash or collateral market. The Committee did not believe that the Treasury would achieve meaningful savings from issuing a new 30-year bond, but thought that there is a need in the STRIPS market for more long-term bonds with May and November coupons. Nine members voted to recommend a new 30-1/4 year bond to mature on May 15, 2025, while 6 voted to reopen the 7-1/2% bond, and 1 voted for a new 30-year bond.

The Committee consensus was that the cash management bill to be sold as part of the refunding should mature on April 20, after the April individual tax payment date.

Financing schedule through June

The consensus was that the Treasury can leave the 2- and 5-year notes at the size of the most recent offering in February and March and vary the bill sizes to finance the rest of the Treasury's borrowing needs in the January-March quarter. Another cash management bill is expected in early March, also to mature on April 20.

The Committee consensus view is that the Treasury can meet its April-June borrowing requirements by leaving the coupon sizes unchanged and reducing bill sizes to allow for the announced paydown of \$5 to \$10 billion during the quarter. The possibility that cash management bills will be needed to bridge the cash low point in June was also foreseen.

Post 1995 borrowing pattern

The Committee discussed and agreed by consensus to recommend that, as a general debt management principle, the Treasury stabilize the maturity distribution of the debt by continuing to issue securities across the maturity spectrum. The Committee consensus opposed increasing the frequency of 52-week bill and 3-year note offerings, favoring instead increasing the frequency of 10-year notes or 30-year bonds and possibly introducing a new instrument, such as a floating-rate note with a final maturity in a range of 2 to 5 years.

May 1995 refunding meeting

Planning ahead, Committee members agreed to discuss the concept of regular offerings of Treasury inflation-indexed bonds at its regular quarterly meeting in connection with the May 1995 refunding.


The meeting adjourned at 4:10 p.m.

February 1

The Committee reconvened at 9:05 a.m. at the Treasury in closed session. The 16 members who attended the January 31 meeting were present. The Chairman presented the Committee report (copy attached) to Deputy Secretary Frank N. Newman and Deputy Assistant Secretary Bradbury.

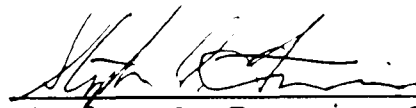
A discussion of the refunding recommendations, especially the recommendation that the Treasury issue a new 30-1/4 year bond, followed the reading of the Committee report. There was also discussion of the Committee's view that the Treasury should issue more securities that mature in 10 or 30 years in order to prevent the the average life of the marketable debt from declining (and the proportion maturing within two years from increasing) substantially further.

The meeting adjourned at 9:35 a.m.


Jill K. Ouseley, Director
Office of Market Finance
Domestic Finance
February 1, 1995

Attachments

Certified by:


Stephen C. Francis, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
February 1, 1995

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Currency Facility, 9000 Blue Mound
Road, Fort Worth, Texas 76131

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Manager, Human Resources
Management Division, Bureau of
Engraving and Printing, Western
Currency Facility, 9000 Blue Mound
Road, Fort Worth, Texas 76131

Dated: January 3, 1995.

Alex Rodriguez,

Deputy Assistant Secretary (Administration).

[FR Doc. 95-649 Filed 1-10-95, 8:45 am]

BILLING CODE 4840-01-M

Departmental Offices

**Debt Management Advisory
Committee; Meeting**

Notice is hereby given, pursuant to 5
U.S.C. App. section 10(a)(2), that a
meeting will be held at the U.S.
Treasury Department, 15th and
Pennsylvania Avenue, N.W.,
Washington, D.C., on January 31 and
February 1, 1995, of the following debt
management advisory committee:

Public Securities Association
Treasury Borrowing Advisory Committee

The agenda for the meeting provides
for a technical background briefing by
Treasury staff on January 31, followed
by a charge by the Secretary of the
Treasury or his designate that the
committee discuss particular issues, and
a working session. On February 1, the
committee will present a written report
of its recommendations.

The background briefing by Treasury
staff will be held at 11:30 a.m. Eastern
time on January 31 and will be open to
the public. The remaining sessions on
January 31 and the committee's
reporting session on February 1 will be

closed to the public, pursuant to 5
U.S.C. App. section 10(d)

This notice shall constitute my
determination, pursuant to the authority
placed in heads of departments by 5
U.S.C. App. section 10(d) and vested in
me by Treasury Department Order No.
101-05, that the closed portions of the
meeting are concerned with information
that is exempt from disclosure under 5
U.S.C. 552b(c)(9)(A). The public interest
requires that such meetings be closed to
the public because the Treasury
Department requires frank and full
advice from representatives of the
financial community prior to making its
final decision on major financing
operations. Historically, this advice has
been offered by debt management
advisory committees established by the
several major segments of the financial
community. When so utilized, such a
committee is recognized to be an
advisory committee under 5 U.S.C. App.
section 3.

Although the Treasury's final
announcement of financing plans may
not reflect the recommendations
provided in reports of the advisory
committee, premature disclosure of the
committee's deliberations and reports
would be likely to lead to significant
financial speculation in the securities
market. Thus, these meetings fall within
the exemption covered by 5 U.S.C.
552b(c)(9)(A).

The Office of the Under Secretary for
Domestic Finance is responsible for
maintaining records of debt
management advisory committee
meetings and for providing annual
reports setting forth a summary of
committee activities and such other
matters as may be informative to the
public consistent with the policy of 5
U.S.C. 552b.

Dated: January 4, 1995

Frank N. Newman,

(Acting) Secretary of the Treasury

[FR Doc. 95-618 Filed 1-10-95, 8:45 am]

BILLING CODE 4810-25-M

Financial Management Service

**Privacy Act of 1974, New System of
Records**

AGENCY: Financial Management Service,
Treasury.

ACTION: Notice of proposed system of
records.

SUMMARY: This notice sets forth a system
of records, the Debt Collection
Operations System. The purpose of this
system is to maintain a record of
individuals and entities that are
indebted to various Federal Government

departments and agencies and whose
accounts are being serviced for
collection by the Financial Management
Service (FMS), in accordance with
written agreements reached between the
relevant agency ("client") and FMS. The
records ensure that: Appropriate
collection action on debtors' accounts is
taken and properly tracked; monies
collected are credited; and accounts are
returned to the appropriate agency at
the time the account is collected or
closed.

DATES: Comments must be received no
later than February 10, 1995. The
proposed system of records will be
effective February 21, 1995, unless FMS
receives comments which would result
in a contrary determination.

ADDRESSES: Comments must be
submitted to the Debt Collection
Operations Staff, Financial Management
Service, 401 14th Street SW., room 415
B, Washington, DC 20227. Comments
received will be available for inspection
at the same address between the hours
of 9 a.m. and 4 p.m. Monday through
Friday.

FOR FURTHER INFORMATION CONTACT:
Kathleen Downs or Marty Mills, Debt
Collection Operations Staff, (202) 874-
6670.

SUPPLEMENTARY INFORMATION: The Debt
Collection Operations System is
established to collect and store
information on individuals and entities
indebted to various Federal Government
departments and agencies which have
contracted with the Financial
Management Service (FMS) for the
servicing or collection of such
indebtedness.

The Financial Management Service
has been designated by the Office of
Management and Budget as lead agency
in credit management and debt
collection. In this capacity, FMS works
with other Federal departments and
agencies to implement sound and
effective credit management/debt
collection policies, procedures, and
standards, develops and disseminates
procedures and standards, provides
training to agency personnel on credit-
related subjects, and maintains and
enhances such debt collection tools as
Federal employee salary offset, tax
refund offset, and the use of private
collection agencies. In furtherance of the
goal to improve governmentwide credit
management/debt collection, FMS has
developed the capability to service and
collect the debts of other agencies in
accordance with the requirements of the
Federal Claims Collection Act of 1966,
the Debt Collection Act of 1982, as
amended, and the Deficit Reduction Act
of 1984, as amended.

**Treasury Borrowing Advisory Committee
of the
Public Securities Association**

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Managing Director
Fischer, Francis, Trees & Watts, Inc.
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New York, NY 10022

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 667 Madison Avenue
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 World Financial Ctr, 8th Fl.
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 375 Park Avenue, 18th Floor
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 Managing Director
 Chemical Bank
 270 Park Avenue
 New York, NY 10017

Stephen Thieke
 Chairman, Market Risk
 Committee
 JP Morgan & Company, Inc.
 60 Wall Street, 20th Floor
 New York, NY 10260

Marcy Recktenwald
 Managing Director
 Bankers Trust Company
 1 Appold Street
 Broadgate
 London EC2A 2HE
 England

Craig M. Wardlaw
 Executive Vice President
 Nations Bank Corporation
 Nations Bank Corporate Center
 Mail Code NCI 007-0606
 Charlotte, NC 28255-0001

January 31, 1995

COMMITTEE CHARGE

The Treasury would like the Committee's specific advice on the following:

- the composition of a financing to refund \$30.5 billion of privately held notes and bonds maturing on February 15 and to raise about \$15 to \$17 billion of cash in 3-, 10-, and 30-year notes and bonds, and a cash management bill;
- reopening the 7-7/8% note of November 15, 2004;
- reopening the 7-1/2% bond of November 15, 2024;
- the maturity of the cash management bill to be issued in the refunding; and
- the composition of Treasury marketable financing for the remainder of the January-March quarter and the April-June quarter, given the levels of Treasury cash balances on March 31 and June 30.

Other topics

We would like to have the Committee's views on possible adjustments to the Treasury borrowing pattern in 1996 to raise needed cash in light of the monthly maturities of 5-year notes, beginning in January 1996. For example, the Treasury might increase the frequency of 52-week bills or 3-year notes, while at the same time testing the market for new types of securities.

The Treasury would welcome any comments that the Committee might wish to make on related matters.

**Summary of January to March 1995
Estimated Net Marketable Borrowing
(Billions of dollars)**

Net new money raised or announced as of 1/30/95 :

Regular weekly Treasury bills (includes \$1,380 million foreign add-ons)	6.4
52-week bills	2.0
Cash management bills	0.0
2-year notes (includes \$1,758 million foreign add-ons)	4.6
5-year notes (includes \$950 million foreign add-ons)*	23.0
4-year notes redemption	-8.5
7-year notes redemption	-7.3
	<u>20.1</u>

Net new money left to be raised:

Regular weekly Treasury bills	9.2
52-week bills	1.0
Cash management bills	25.0
2- & 5-year notes	25.8
Refunding	6.7
	<u>67.7</u>

Total net marketable borrowing:

(assumes a total of \$10 billion foreign add-ons)	<u><u>93.7</u></u>
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Note: Assumes an end-of-quarter cash balance of \$20 billion.

**Summary of April to June 1995
Estimated Net Marketable Borrowing
(Billions of dollars)**

Net new money to be raised:

Regular weekly Treasury bills	-14.8
52-week bills	3.1
Cash management bills redemption	-25.0
2- & 5-year notes	35.7
Refunding	-3.2
7-year notes redemption	-7.0
	<u>-11.2</u>

Total net marketable borrowing in quarter:

(assumes a total of \$6 billion foreign add-ons)	<u><u>-5.2</u></u>
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Note: Assumes an end-of-quarter cash balance of \$35 billion

Estimated Treasury Marketable Borrowing
(Billions of dollars)

January - March 1995

Total estimated marketable borrowing		93.7
Total net marketable borrowing issued or announced through	January 30, 1995	20.3
Total remaining net marketable borrowing		73.4
Cash balance at end of quarter		20.0

	Amount Maturing	Amount Offered	Foreign Add-Ons	Cash Raised	Cumulative Cash Raised
<u>3&6 MONTH BILLS</u>					
01/05	25.3	26.8	1.2	2.7	
01/12	25.6	27.0	0.2	1.6	
01/19	25.9	27.0	0.0	1.0	
01/26	26.3	26.9	0.0	0.6	
02/02	26.5	27.0	0.0	0.5	
02/09	26.6	27.2	0.4	0.9	
02/16	27.1	27.2	0.4	0.4	
02/23	26.2	27.2	0.4	1.4	
03/02	26.3	27.2	0.4	1.3	
03/09	26.1	27.2	0.4	1.4	
03/16	25.9	27.2	0.4	1.7	
03/23	24.9	27.2	0.4	2.6	
03/30	24.9	27.2	0.4	2.6	18.7
<u>52-WEEK BILLS</u>					
01/12	16.0	17.3	0.0	1.2	
02/09	16.5	17.3	0.2	0.9	
03/09	16.5	17.5	0.2	1.2	3.3
<u>CASH MANAGEMENT BILLS</u>					
Settlement Date	Maturity Date				
01/03	01/19	14.0	14.0	0.0	
02/15	04/20	0.0	10.0	10.0	
03/02	04/20	0.0	15.0	15.0	25.0
<u>COUPONS</u>					
December 2-Year Note		15.9	17.3	0.8	2.1
December 5-Year Note		8.5	11.0	0.2	2.7
January 7-Year Note		7.3	0.0		-7.3
January 2-Year Note		15.7	17.3	1.0	2.5
January 5-Year Note		0.0	11.0	0.7	11.7
February 3-Year Note	}		17.0	0.7	
February 10-Year Note		33.3	12.0	0.2	
February 30-Year Bond			11.0	0.0	
Refunding		33.3	40.0	0.8	7.5
February 2-Year Note		15.4	17.3	0.7	2.5
February 5-Year Note		0.0	11.0	0.2	11.2
March 2-Year Note		15.2	17.3	0.7	2.7
March 5-Year Note		0.0	11.0	0.2	11.2
Grand Total		512.2	595.9	10.0	93.7

Estimated Treasury Marketable Borrowing
(Billions of dollars)

April - June 1995

Total estimated marketable borrowing		-5.2
Total net marketable borrowing issued or announced through	January 30, 1995	0.0
Total remaining net marketable borrowing		-5.2
Cash balance at end of quarter		35.0

	Amount Maturing	Amount Offered	Foreign Add-Ons	Cash Raised	Cumulative Cash Raised
<u>3&6 MONTH BILLS</u>					
04/06	26.3	27.2	0.2	1.1	
04/13	26.8	27.2	0.2	0.6	
04/20	26.6	27.2	0.2	0.8	
04/27	27.1	25.2	0.2	-1.7	
05/04	27.5	25.2	0.2	-2.1	
05/11	27.3	25.6	0.2	-1.5	
05/18	27.5	25.6	0.2	-1.7	
05/25	27.3	25.6	0.2	-1.6	
06/01	27.6	26.0	0.2	-1.4	
06/08	27.7	26.0	0.2	-1.6	
06/15	27.9	26.0	0.2	-1.7	
06/22	26.8	26.0	0.2	-0.6	
06/29	27.1	26.0	0.2	-0.9	-12.3

52-WEEK BILLS

04/06					
05/04	16.6	17.5	0.2	1.1	
06/01	16.6	17.5	0.2	1.1	
06/29	16.9	17.5	0.2	0.8	
	16.8	17.5	0.2	0.9	3.8

CASH MANAGEMENT BILLS

Settlement Date	Maturity Date				
02/15	04/19	10.0	0.0		-10.0
03/02	04/20	15.0	0.0		-15.0
04/03	04/20	10.0	10.0		0.0
					-25.0

COUPONS

April 7-Year Note		7.0	0.0	0.0	-7.0
April 2-Year Note		16.0	17.3	0.6	1.8
April 5-Year Note		0.0	11.0	0.2	11.2
May 3-Year Note	}		17.0	0.6	
May 10-Year Note		<u>32.2</u>	<u>12.0</u>	<u>0.2</u>	—
		32.2	29.0	0.7	-2.5

Refunding

May 2-Year Note		16.1	17.3	0.6	1.7
May 5-Year Note		0.0	11.0	0.2	11.2
June 2-Year Note		16.9	17.3	0.6	0.9
June 5-Year Note		0.0	11.0	0.2	11.2
					28.3
Grand Total		543.8	532.6	6.0	-5.2

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
February 1, 1995

JOINT STATEMENT BY TREASURY SECRETARY ROBERT RUBIN
AND COUNCIL OF ECONOMIC ADVISERS CHAIR LAURA D'ANDREA TYSON

The Administration respects the independence of the Federal Reserve and neither endorses nor criticizes its actions.

In 1994, the American economy enjoyed the best combination of rapid growth and modest inflation in thirty years. All of the recent statistics indicate that the economy continues on a healthy course of sound growth with modest inflation and we do not plan to change our economic forecast as a result of the Federal Reserve's announcement.

The Administration will continue to work for policies that will sustain economic growth with low inflation and rising incomes for all Americans.

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TREASURY



NEWS

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FOR IMMEDIATE RELEASE
February 1, 1995

Contact: Jon Murchinson
(202) 622-2960

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin will brief the press tomorrow, Thursday, February 2, on the upcoming Toronto G-7 meeting.

The briefing will be in Room 3327, Main Treasury, 1500 Pennsylvania Avenue NW, at 2 p.m.

The Toronto G-7 meeting will be Friday, February 3 and Saturday, February 4.

Cameras should set up between 1:15 p.m. and 1:30 p.m. Media without Treasury, White House, State, Defense or Congressional credentials wishing to attend should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, Social Security number and date of birth, by noon tomorrow. This information can be faxed to (202) 622-1999.

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DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
February 2, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY CLARIFIES WHEN-ISSUED TRADING OF CASH MANAGEMENT BILL

On Wednesday, February 1, 1995, Treasury announced a 64-day cash management bill to be auctioned February 9, 1995, issued February 15, 1995, and to mature April 20, 1995. When-issued trading of this security can begin immediately.

For your information, the CUSIP number for this bill will be 912794R63.

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AUCTION
RESULTS

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE
February 2, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for \$17,331 million of 52-week bills to be issued February 9, 1995 and to mature February 8, 1996 were accepted today (CUSIP: 912794W91).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	6.57%	7.01%	93.357
High	6.59%	7.03%	93.337
Average	6.59%	7.03%	93.337

Tenders at the high discount rate were allotted 76%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$51,324,370	\$17,331,346
Type		
Competitive	\$44,869,767	\$10,876,743
Noncompetitive	<u>1,643,903</u>	<u>1,643,903</u>
Subtotal, Public	\$46,513,670	\$12,520,646
Federal Reserve	4,400,000	4,400,000
Foreign Official Institutions	<u>410,700</u>	<u>410,700</u>
TOTALS	\$51,324,370	\$17,331,346

TREASURY



NEWS

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REMARKS AS PREPARED DELIVERY
FOR RELEASE UPON EMBARGO LIFTING
TIME TO BE SET AT BRIEFING
February 2, 1995

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
G-7 PRESS BRIEFING

We will have a very full agenda for Toronto. We will discuss Mexico, the various issues surrounding the economic transformation of Russia and Ukraine, looking at the global economic outlook which has improved substantially in recent months, and we'll be talking about Halifax and the future of the international financial institutions.

I believe, and I know from talking with my colleagues in Europe yesterday and this morning, that it is absolutely critical that we have effective cooperation on these problems. I will make that as much my priority as it was that of my predecessor.

At the G-7 tomorrow and Saturday we will examine, in the context of Halifax, how the international financial institutions can be made as modern as the problems they face. The last few weeks have been a lesson in how important that is.

We have been busy with the situation in Mexico, and I want to dwell on that for a moment as an example of the importance of global integration.

Increasingly, there is a new economic world, and we've been watching a clear demonstration of how it is all linked together -- the developing world and the industrial nations.

We must be forward-looking.

The President understood this and acted boldly and quickly when it became clear that going the legislative route would take too long and allow the situation to deteriorate even more. It was a politically tough decision, but it was a necessary one and I think the right one.

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That is one of the points I will be making in Toronto, how it was necessary to act quickly and decisively. We did, and so did the IMF. The International Monetary Fund offered a fast, creative and forceful response to the situation, and we must ensure that our international institutions have that capacity in the future.

I consider it one of my responsibilities at Treasury to improve public understanding of this new world, and how it can work for them. I want to work with my G-7 colleagues to further that understanding and confidence in all societies.

There must be a broad understanding that we are in a new world and we are depending on other nations in ways we never were before. There must be a broad understanding of how we're all in a global economy where it will require international institutions with the appropriate missions and capabilities to deal with the challenges the new global economy will bring us.

We're at a very good juncture now to effect change. With President Clinton's leadership, the U.S. economy is stronger than it has been in years. Economies within the G-7 and elsewhere are strengthening. Now is the time to put in place long term innovative solutions that will deal with the problems we will face in the coming years.

BRIEFING
BY TREASURY SECRETARY ROBERT RUBIN
AND
BACKGROUND BRIEFING
BY A SENIOR TREASURY OFFICIAL
ON THE
TORONTO G-7 FINANCE MINISTERS MEETING

WASHINGTON, D.C.
THURSDAY, FEBRUARY 2, 1995

BRIEFING BY TREASURY SECRETARY

ROBERT E. RUBIN ON THE TORONTO G-7 MEETING

February 2, 1995

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BRIEFING BY
TREASURY SECRETARY ROBERT E. RUBIN
ON THE
TORONTO G-7 MEETING
Thursday, February 2, 1995
2:00 P.M.
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20005

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[1] PROCEEDINGS

[2] **SECRETARY RUBIN:** Thank you, Joan. Let me [3] start with a few comments, if I may, and then I would [4] be delighted to take questions and then after I take [5] questions the Senior Treasury Official would be very [6] happy to fill in and continue the process.

[7] As you know, we will be going to Toronto [8] tomorrow, will be there tomorrow night and Saturday [9] for what will be my first G-7 Finance Ministers [10] meeting, since the administration took office. Let me [11] make a couple of comments about the upcoming meeting. [12] I think it will be a very interesting meeting. I was [13] talking to one of the Finance Ministers today and he [14] said, and I think rightly so, he said these meeting [15] can either be rather, can be interesting but they can [16] have no particular focus or they can really have some [17] very serious business to deal with and I think in this [18] instance we do have very serious business to deal [19] with.

[20] We will certainly discuss Mexico, we will [21] discuss the various issues surrounding the economic [22] transformation of Russia and the Ukraine and

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[1] conditions in both those countries. We will be [2] looking at the global economic outlook, which as you [3] know has improved substantially in the recent months [4] and we will be talking about Halifax and the future of [5] international financial institutions.

[6] I believe and I know from talking with my [7] colleagues in Europe yesterday and this morning that [8] they certainly also believe that it's absolutely [9] critical that we have effective cooperation on all of [10] these problems and I will make that a priority every [11] bit as much as my predecessor, Roy Bentson, so [12] effectively did.

[13] At the G-7 tomorrow and Saturday, looking [14] toward Halifax, we are going to examine the [15] international financial institutions and how they can [16] be made as modern both in their mission and their [17] capabilities as the challenges of the global financial [18] world, the global financial markets and the [19] inter-relationships that now exists between the [20] developing world

and the developed world. In other [21] words, we need international financial institutions [22] that are as modern as the problems that they face.

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[1] Increasingly there is a new economic world. [2] And it really is a world of inter-relationships. I [3] said in a speech yesterday or I referred in a speech [4] yesterday to an article that the President circulated [5] about a year ago. The article described how the [6] devastation of the poorest developing countries isn't [7] only a problem for those countries but it's a problem [8] even for the most prosperous countries, so that [9] diseases that begin in the poorest of developing [10] countries, with modern transportation can so quickly [11] spread to the developed world or the destruction of [12] rain forests in South America can effect global [13] warming in the mid-western United States and on the [14] other segment of the interrelationship between the [15] world economics, we have the well-known phenomenon of [16] the global financial markets and how quickly and in [17] what extraordinary size capital moves across countries [18] in the world that we live in today.

[19] The President has understood this from the [20] very beginning of this administration and well before [21] the beginning of this administration. If you look [22] back at his earlier speeches what you see is a

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[1] President looking toward the 21st century, looking [2] toward what he refers as to the new global economy, [3] and talking about not only getting this country back [4] on the right track for the short term but also [5] positioning for the long term, positioning for the [6] kind of world that I have just described.

[7] In this particular case, the Mexican [8] situation, by Monday night we were told that the, by [9] the congressional leadership, that Congress was not [10] going to be able to act in a timely fashion relative [11] to the circumstances that had developed in Mexico. [12] And Mexico as you might remember on Monday had the [13] lowest Peso in history, its stock market was off I [14] believe six percent at the close, something like that. [15] The Brazilian stock market in sympathy to that was off [16] eight percent. There were other effects in other [17] countries and we felt we were on the verge, the [18] possibility of some relatively serious and distressful [19] circumstances.

[20] We worked with the President that evening, [21] we worked with him the next morning and out of that [22] came his decision to act in I think in an

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[1] extraordinarily bold and Presidential fashion to deal [2] with this matter in the manner that is has since been [3] announced and widely discussed.

[4] The bipartisan leadership came down to the [5] the White House, they sat with the President and [6] relevant officials of the administration. They very [7] quickly understood why the President needed to act [8] and, as you know, they were extremely supportive and [9] by midday or a little bit thereafter had all announced [10] their support for this plan.

[11] This is one of the matters that we will [12] certainly be discussing in Toronto. Not only the [13] Mexican situation, but how the G-7 will function in [14] the new world that we live in where at times it may be [15] necessary to move very, very quickly to avert [16] financial distress, and how can we all cooperate and [17] function together in an effective fashion when the [18] time pressures are immense.

[19] In this case the International Monetary [20] Fund acted very quickly, creatively and forcefully and [21] played a critical role in being able to put together [22] the package that is responsive to and has enabled the

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[1] world community to in effect deal with this situation [2] in Mexico.

[3] To sum up and before I take questions, our [4] world has changed enormously in the ways I just [5] described. The interdependencies are now a part of [6] our daily lives and I think in ways that are very [7] little understood by the general public, and for [8] understandable reasons. It's a very complicated and [9] relatively new world.

[10] One of my priorities as Secretary of The [11] Treasury will be to do everything I can to try to [12] explain these interdependencies to the public domain [13] and try to improve public understanding, which in turn [14] will provide, hopefully provide additional support for [15] public policy that is commensurate with the world that [16] we live in.

[17] Another subject that I will be discussing [18] with my G-7 colleagues and that came up this morning [19] in conversation with one of the Finance Ministers is [20] that they face exactly the same problems. They need [21] far greater understanding of these interdependencies [22] in their countries in order to have support for the

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[1] kinds of policies that are commensurate with the kinds [2] of issues that we face.

[3] To repeat what I said a moment ago, there [4] must be a broad understanding

February 2, 1995

that we really and truly (5) are in a new world and a new world where we are (6) dependent on other nations in ways that we never were (7) before in which we have global financial goals and (8) global goals of trade and services.

(9) Let me close by saying that I think the G-7 (10) is in a very good juncture for dealing with these (11) issues. The United States economy is strong and I (12) think in some fair measure due to the economic (13) policies that the President put in place in 1993 and (14) 1994. The European economies are doing well, the G-7 (15) is functioning economically in a very positive way and (16) it seems to me it's at that time that you can best try (17) to deal with these issues and try to focus on having (18) the kinds of international institutions that we are (19) going to need to go forward.

(20) With that I would be delighted to respond (21) to questions.

(22) **QUESTIONER:** Mr. Secretary, how close were

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(1) we really to a global financial meltdown and what can (2) the G-7 do to make sure that this doesn't happen (3) again?

(4) **SECRETARY RUBIN:** I don't — let me (5) describe it, respond a little bit differently than in (6) the terms that the question was phrased, but I think (7) it's an extremely important question. We felt with (8) the Peso at an all time low on Monday that the (9) probability was that we were very close to very (10) serious financial distress in Mexico. We felt and (11) have felt all along that the issue here was partly (12) Mexico and partly the potential, the potential, for (13) significant spill-over effects in other developing (14) nations in Latin America and developing and emerging (15) nations outside of Latin America.

(16) How great those spill-over effects would be (17) both in terms of the market and the mind sets of (18) investors with respect to investing in those countries (19) and the determination of those countries to go ahead (20) with reform I don't know. But it was certainly our (21) view that there was the potential for significant (22) adverse impacts in that spill-over effect.

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(1) **QUESTIONER:** And what could the G-7 do to (2) make sure that that doesn't happen or is there (3) anything?

(4) **SECRETARY RUBIN:** I think there are two (5) things we need to do. Number one, Mexico was the (6) prototype for a developing country entering the (7) international financial markets, and I think that it (8) is critical in order to avoid the reversal of the new (9) and more positive

mind set toward developing countries (10) in the international financial community that (11) Mexico's financial distress be arrested and the fact (12) situation be corrected.

(13) The second thing we can do is to continue (14) on the path that started in Naples when the President (15) talked to the leaders of the other G-7 nations about (16) modernizing both the mission and the capabilities of (17) the international financial institutions so that they (18) would have both a mission and the capabilities that (19) are commensurate with the problems that we face. And (20) that's a very tall order and it's something I'm sure (21) people will be working on for a long time to come. (22) But we want to make a good start in Halifax.

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(1) **QUESTIONER:** Mr. Secretary, there have been (2) a number of economic commentators, including a Wall (3) Street Journal editorial this morning linking the (4) Mexican crisis to Canada and raising similar if lesser (5) concerns about a lot of external debt. Do you see any (6) substance to that?

(7) **SECRETARY RUBIN:** I really don't. I think (8) Canada is a very different economic situation. I do (9) not believe there is any substance to that.

(10) **QUESTIONER:** Mr. Secretary, are you going (11) to seek funds among the G-7 for Mexico or that's left (12) to the International Monetary Fund to their 10 billion (13) dollars? And do you think that the worst is over for (14) Mexico?

(15) **SECRETARY RUBIN:** This program is grounded (16) in two fundamental commitments; the United States, 20 (17) billion dollars, and the IMF, which has approved as (18) you know yesterday, 17.8 billion dollars. So you have (19) 37.8 billion dollars of money that is available in (20) medium term maturities and that is the core of this (21) program. There is also a facility being put together, (22) a short-term facility by the BIS that has not been put

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(1) together yet but that is in the process of happening, (2) it's our hopes and expectations that it will happen, (3) but the core of this program is a 20 billion dollar (4) Exchange Stabilization Fund commitment from the United (5) States, 17.8

(6) **QUESTIONER:** But is the crisis over in (7) Mexico? Is the worst over?

(8) **SECRETARY RUBIN:** We believe this is a (9) program that will work, so the answer to your question (10) is yes.

(11) **QUESTIONER:** Regarding Mexico, will the (12) conditions that you talked about that will, that the (13) U.S. will apply to Mexico, will they be similar if

not (14) identical to the conditions that the IMF outlined this (15) morning and will the U.S. actually publish the (16) conditions that are going to apply to Mexico and can (17) you spell them out a little more specific than what (18) you have done so far?

(19) **SECRETARY RUBIN:** We want to address the (20) same areas that the IMF has addressed and I think that (21) it would be fair to say that although, the IMF (22) obviously developed ITS conditions on its own, as it

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(1) does and should do, we have worked and consulted with (2) the IMF. I think that substantively we are very much (3) in accord with the IMF conditions but we haven't (4) finalized our own view totally so I can't fully (5) respond to that. All I can tell you is we want to (6) have conditions in place that fully protect the loans (7) or loan guaranties that we will make and I think (8) everything that we have seen, the IMF has done a very (9) good job in that respect.

(10) **QUESTIONER:** Will you publish your (11) conditions?

(12) **SECRETARY RUBIN:** At an appropriate time (13) our conditions will, I assume, become public. I think (14) that's — yes. It would be my expectation that they (15) will.

(16) **QUESTIONER:** Mr. Secretary, can you be any (17) more specific about your own notions as to how the IMF (18) and The World Bank should be modernized and would you (19) also comment on Mr. Candessus' remark this morning (20) that an earlier than planned quota increase may well (21) be necessary?

(22) **SECRETARY RUBIN:** Well, I think I probably

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(1) would be wiser not to respond to that. I heard about (2) the comment and we have not had a chance to focus on (3) that comment. In terms of the modernization of (4) mission and capability, I think with respect to The (5) World Bank there has been real progress with respect (6) to administrative expenses, overhead, project (7) monitoring, the effectiveness of loan programs. We (8) have urged and I think with good effect that (9) development be bottom up, not top down, that it focus (10) on education, on training, that it focus on people (11) rather than big projects, that it be complimentary to (12) the private sector not a substitute to the private (13) sector.

(14) It's those kinds of things. Focus on (15) women, the role of women in developing nations. I (16) think environmental focus is very important, because (17) the environment issues affect economies not only of (18) the host countries but

effect our country as well in [19] the manner I described. It's those kinds of concerns [20] that we have.

[21] In terms of global financial markets, I [22] think that the comments that was made relates really

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[1] to The World Bank and those kinds of issues. In terms [2] of the global financial markets, I think Mexico gives [3] us a very good experience from which to talk about how [4] we can work better and more effectively together to [5] deal with financial market disruptions.

[6] **QUESTIONER:** Mr. Secretary, two quick [7] questions. One is the U.S. has raised the issue of [8] transparency in the context of the Mexican conditions. [9] That's not a condition that the IMF has raised itself. [10] And could you tell us about that condition a little [11] bit more in terms of the U.S. views and is there any [12] other conditions that you are discussing now or that [13] you perhaps discussed with Mr. Ortiz today that are [14] different from the IMF issues?

[15] **SECRETARY RUBIN:** Deputy Secretary Newman, [16] Undersecretary Summers and Assistant Secretary Shafer [17] and I met with Finance Minister Ortiz and his team [18] today and we discussed a number of matters. One of [19] them was transparency. We do believe that — not only [20] transparency but timely transparency are both very [21] important. What specifically that will amount to I [22] think I — first, we haven't fully worked it out;

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[1] secondly, I think I ought not discuss it until we do [2] work it out. But he related to our comments and I [3] don't think we will have any problems in that respect.

[4] **QUESTIONER:** Will you be signing a document [5] with the Mexicans about this deal? Will they have to [6] actually sign on the dotted line?

[7] **SECRETARY RUBIN:** We will ultimately have [8] to have a loan agreement or loan guaranty agreement or [9] some kind — a master agreement covering this [10] relationship, yes.

[11] **QUESTIONER:** Mr. Secretary, are you [12] advocating an increase in the lending capacity of the [13] IMF or have you thought through whether that is [14] necessary?

[15] **SECRETARY RUBIN:** I don't think I'm [16] prepared to comment yet on what I think with respect [17] to the lending capacity of the IMF. I think the only [18] comment I will make is I think that it is very [19] important that we all focus on these, as I said [20] before, on the IMF, The World Bank and these other [21] institutions to make sure that both

the mission is [22] properly defined and the capabilities are adequate and

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[1] I really think beyond that I would not rather comment.

[2] **QUESTIONER:** A lot of questions have been [3] raised about the Exchange Stabilization Fund and [4] whether the administration has the authority to use [5] it. Legislation was introduced today to try to block [6] you. Are you concerned about that or a possible court [7] challenge that could slow this down?

[8] **SECRETARY RUBIN:** No.

[9] **QUESTIONER:** So in other words —

[10] **SECRETARY RUBIN:** To state the obvious, we [11] would not have proceeded if there was a question about [12] our authority to act and I think if you look at the [13] statement that was signed by the leaders and the [14] President you will see the relevant citation.

[15] **QUESTIONER:** Sir, could you elaborate on [16] why you think the Canadian situation is different from [17] the Mexican situation and whether you expect to [18] discuss the Canadian dollar at the G-7?

[19] **SECRETARY RUBIN:** Exchange rate matters may [20] come up at G-7 finance ministers meetings. I think [21] it's almost inconceivable that they won't, but I don't [22] think there will be any particular focus on the

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[1] Canadian dollar, no.

[2] **QUESTIONER:** And why do you think the [3] situation is different?

[4] **SECRETARY RUBIN:** I think it would be like [5] discussing any two economies, that are very different. [6] I can take — Howard is going to fire me. We will [7] take a couple more questions.

[8] **QUESTIONER:** Do you plan to raise any [9] objections —

[10] **SECRETARY RUBIN:** Maybe I will — I may [11] regret this.

[12] **QUESTIONER:** Mr. Secretary, do you plan to [13] raise any objection to the Japanese government's [14] suggestion of a tax increase to pay for the Kobe [15] earthquake consequences?

[16] **SECRETARY RUBIN:** We discussed that a [17] little bit this morning. No. I don't think so. But [18] let me say this. I don't want to — I should really [19] withdraw that comment. We discussed that very briefly [20] this morning. We have not developed a view on that [21] yet. I got a little ahead of myself. We need to [22] discuss that.

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[1] **QUESTIONER:** Will you talk about the [2] economic impact of the earth-

quake which hit Japan [3] recently in G-7?

[4] **SECRETARY RUBIN:** I'm sorry?

[5] **QUESTIONER:** The economic impact, inference [6] of the earthquake?

[7] **SECRETARY RUBIN:** I am really not equipped [8] to discuss — it's obviously a horrendous event with [9] personal and economic consequences that are enormous [10] but I'm not the right person to analyze the economic [11] impact.

[12] **QUESTIONER:** Could you talk a little more [13] — are you —

[14] **SECRETARY RUBIN:** Wait a minute. I didn't [15] call on you. I called on the gentleman in the back.

[16] **QUESTIONER:** Mr. Secretary, we have had two [17] bailouts now or rescue packages for Mexico in 13 [18] years. Are you concerned that Mexico may have a [19] psychology that the U.S. will always act as a lender [20] of last resort?

[21] **SECRETARY RUBIN:** No. I think that there [22] was an enormous change under Mr. Salinas and even to

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[1] some extent understand his predecessor. Good question. [2] I think what you had in Mexico with the implementation [3] of substantial reforms that effected their economy in [4] many, many ways. They made one very serious set of [5] mistakes and that is related to the maintenance of [6] current — the current account deficit and the effort [7] to fix the exchanged rate, but I think what you have [8] in Mexico now is a greatly reformed economy, a [9] fundamentally sound economy, an economy that has the [10] potential for being everything that we had hoped it [11] could be. I think what we do need to do is work our [12] way through a difficult period and I think that the [13] program we put in place will accomplish that. Now we [14] will take one more question. Yes, sir.

[15] **QUESTIONER:** Are you saying it would be [16] conceivable for the exchange market — for the [17] exchange rate to come up at the G-7? How would you [18] address the exchange rate?

[19] **SECRETARY RUBIN:** About exchange rates?

[20] **QUESTIONER:** Yes. Would you also —

[21] **SECRETARY RUBIN:** I have no particular [22] views on the EN. All I said was I think it's unlikely

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[1] that a group of people would get together who spend so [2] much time thinking about exchange rates and the issue [3] would never come up. I suspect they will discuss [4] exchange rates. I have no particular views to [5] discuss.

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[6] Thank you. Senior Treasury Official, do [7] you want to —

[8] **SENIOR TREASURY OFFICIAL:** We are going [9] have them turn off the cameras, first.

[11] (There was a pause in the proceedings)

[13] **SENIOR TREASURY OFFICIAL:** This is the [14] background. Since Secretary Rubin went on and [15] answered quite a number of questions I'm only going to [16] take a few.

[17] **QUESTIONER:** For clarification, was there [18] discussion with the Japanese Finance Minister, between [19] Secretary Rubin and the Japanese Finance Minister?

[20] **SECRETARY RUBIN:** I expect they will have [21] an opportunity to meet and to talk in Toronto.

[22] **QUESTIONER:** Can you tell us anything more

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[1] about the meeting with Ortiz today and what your time [2] frame is for actually signing an agreement?

[3] **SENIOR TREASURY OFFICIAL:** No.

[4] **QUESTIONER:** You talked about a new IMF [5] facility for dealing with short-term liquidity [6] problems. What's the U.S. view on that?

[7] **SENIOR TREASURY OFFICIAL:** Clearly there [8] have been some discussions in the past. I think the [9] Mexican experience is one that will very much [10] influence any future decision and, frankly, we have [11] got something we will be and we suspect other G-7 [12] countries will be discussing very intensively in the [13] future how best to respond to situations of this kind. [14] I suspect that there will be a major role for, a major [15] role not just for dealing with crises when they come [16] up but also for anticipating and preventing these [17] kinds of situations, which is surely the best way to [18] respond to them. But beyond that I don't have any [19] details to give you at this point.

[20] **QUESTIONER:** How could you prevent [21] something like this from happening?

[22] **SENIOR TREASURY OFFICIAL:** Well, I think

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[1] that transparency, I think that this is something [2] that, in retrospect I think it appears that mistakes [3] were made during 1994. If there had been more [4] effective warnings about those mistakes it might have [5] been possible to, by the international financial [6] institutions, that might have had, that might have had [7] some influence. I think there are lessons for policy [8] in emerging market countries from this that may, that [9] may

flow. I think you have got to ask the question — [10] you have got to ask not just the question how do you [11] respond when the crisis comes but how do you make the [12] crisis less likely.

[13] **QUESTIONER:** Senior Treasury Official, [14] could you — the Secretary talked only briefly about [15] the financial economic outlook in the G-7. Could you [16] describe it a little bit more? Do you expect much [17] focus on it at this meeting?

[18] **SENIOR TREASURY OFFICIAL:** There will be [19] the usual surveillance, the surveillance discussion. [20] I think it will be taking note of the quite favorable [21] outlook in the G-7 with the best combination of growth [22] prospects and strong growth prospects and low

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[1] inflation prospects that we have seen in a number of [2] years. Recovery in the United States seems to be [3] proceeding very strongly with inflation pressures [4] still very much quiescent. Growth appears to have [5] been established in Europe and in Japan, and in Japan [6] as well, so I would say that there will be a [7] discussion of surveillance but it will be one that [8] will take note of the fact that when you are starting [9] from I think a quite strong conjunctural situation, [10] which I think goes back to the multi-pronged growth [11] strategy that you have heard us talk about in the [12] past.

[13] **QUESTIONER:** Senior Treasury Official, on [14] the economic conditions on the Mexican loan, the IMF [15] sets forth some limits on say credit growth and stuff [16] in their thing. I'm presuming from what Mr. Rubin [17] said that those are very similar to what the U.S. [18] would insist on.

[19] **SENIOR TREASURY OFFICIAL:** I think that [20] would be good background, yeah.

[21] **QUESTIONER:** And he mentioned transparency [22] as another thing. And obviously there is the

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[1] collateral, which is another thing. What are some of [2] the other categories of things where the U.S. will —

[3] **SENIOR TREASURY OFFICIAL:** I don't want to [4] go into — before we make disbursement of a long-term [5] nature there will be a memorandum of understanding. [6] We will provide a clear, on a number of issues but I [7] don't want to attempt to anticipate that memorandum of [8] understanding at this point.

[9] **QUESTIONER:** Secondly, what will Rubin and [10] the Senior Treasury Official tell the G-7 about [11] whether the

U.S. economy has slowed to a sustainable [12] growth rate?

[13] **SENIOR TREASURY OFFICIAL:** I think we will [14] say the same kinds of things that the administration [15] has been saying and I will leave that to the [16] administration's domestic spokespersons.

[17] **QUESTIONER:** Would you be ready to go along [18] with the demand that some other G-10 countries are [19] making that the United States make its money [20] available on a first-in, last-out basis?

[21] **SENIOR TREASURY OFFICIAL:** I would not [22] argue in that direction.

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[1] **QUESTIONER:** I wonder if you could say [2] something more about this question of modernizing [3] international financial institutions and give us a [4] sense in a little more detail what that might entail, [5] whether the primarily problem is financial, whether it [6] it personnel, whether it's technical capability?

[7] **SENIOR TREASURY OFFICIAL:** Look, I think [8] it's got a variety, I think it's got a variety of [9] elements to it. One element is the kinds of issues [10] that come up in discussions of re-invention of [11] governmentment here. Efficiency, decentralization, [12] leaner, meaner management, control of administrative [13] costs, avoidance of duplication.

[14] Another dimension is addressing problems of [15] the kind that are salient today but would have been [16] less salient some time ago; some of the global [17] consequences of problems in developing countries that [18] Secretary Rubin referred to in his statement.

[19] Another dimension is addressing the kind of [20] change in the whole nature of contemporary capital [21] markets from what would have been the case five ten or [22] even five years ago and I think that's what's pointed

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[1] out by the, by the Mexican experience.

[2] **QUESTIONER:** How will you address that?

[3] **SENIOR TREASURY OFFICIAL:** Try as you will, [4] you are not going to elicit, you are not going to [5] elicit that.

[6] **QUESTIONER:** There are concerns among G-7 [7] countries about rising interest rates in the latter [8] half of the — from five percent.

[9] **SENIOR TREASURY OFFICIAL:** Good try. [10] Thanks a lot.

[12] (The press conference was concluded at 2:37 p.m.)

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FOR IMMEDIATE RELEASE
February 3, 1995

MEDIA ADVISORY

The Treasury Department will hold a background press briefing Monday, February 6, on the tax provisions included in President Clinton's fiscal 1996 budget.

The briefing will be in Room 3327, Main Treasury, 1500 Pennsylvania Ave., N.W. at 1 p.m.

Media without Treasury, White House, State, Defense or Congressional credentials wishing to attend should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, Social Security number and date of birth by noon Monday. This information can be faxed to (202) 622-1999.

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FOR IMMEDIATE RELEASE
February 6, 1995

Contact: Scott Dykema
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CLINTON BUDGET PROPOSES \$63 BILLION TAX CUT

President Clinton's fiscal 1996 budget package includes a \$63 billion tax cut for working middle class Americans and a new compliance package aimed at curbing tax avoidance.

"After successfully bringing down the budget deficit, the administration now is working to boost Americans' standards of living," said Treasury Secretary Robert Rubin. "It will help Americans get better paying jobs by encouraging them to get the training and education they need to improve their skills," Rubin said.

A full 86 percent of the benefits will go to families with incomes between \$20,000 and \$100,000.

"This tax-cutting plan is fiscally responsible. The tax cut for middle income families won't add to the budget deficit and is paid for by \$144 billion in spending reductions over the next five years. In fact, the deficit is projected to shrink by a net \$81 billion over the period," Rubin said.

Middle Class Tax Cut

The middle class tax cut plan includes three major elements. All of the cuts can benefit a taxpayer regardless of whether or not a taxpayer itemizes deductions on the tax return.

First, a \$500 non-refundable credit for each dependent child under the age of 13. The credit will be phased-out for taxpayers with adjusted gross income (AGI) between \$60,000 and \$75,000. The maximum credit will be \$300 in 1996-98 and \$500 thereafter.

Second, a deduction for up to \$10,000 spent on post-secondary school education and training expenses of a taxpayer, a spouse or any dependents. The maximum

(more)

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deduction allowed would be phased out for taxpayers filing a joint return with AGI between \$100,000 and \$120,000. The maximum deduction will be \$5,000 in 1996-98 and \$10,000 thereafter.

Third, expanded individual retirement accounts (IRAs) for families with incomes under \$100,000 and individuals with income under \$70,000. Families would get tax breaks for up to \$2,000 a year for contributing to IRAs and, for the first time, could take money out without a penalty to buy a first home, for education, for medical expenses, unemployment costs, and nursing home expenses.

Proposals to Prevent Tax Avoidance

The budget includes revenue raising compliance provisions relating to the earned income tax credit (EITC). The EITC would be denied to undocumented workers. Under this compliance proposal, only individuals who are authorized to work in the United States would be eligible for the EITC. In addition, the EITC would be denied to individuals whose interest and dividend income exceeds \$2,500.

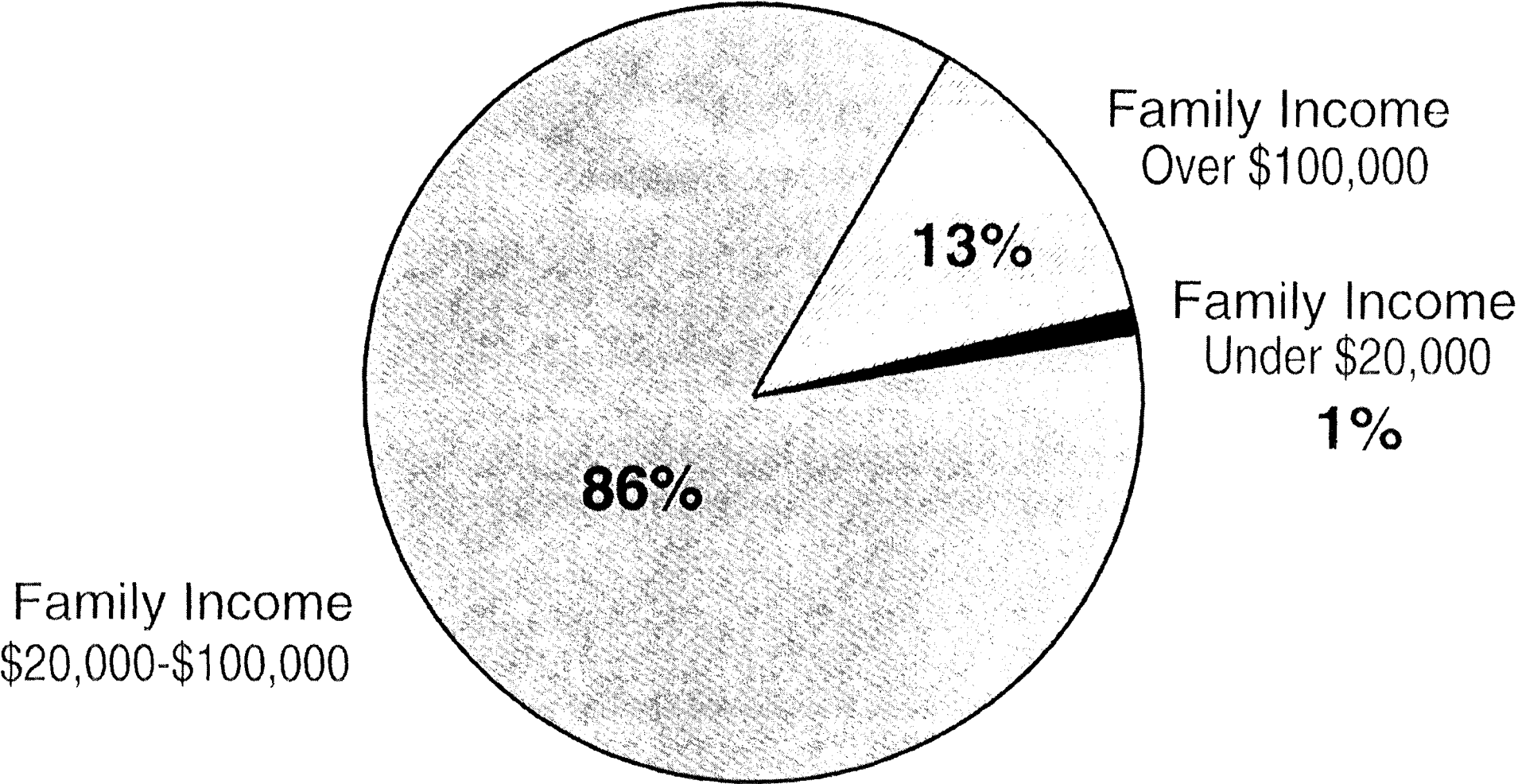
Several proposals aimed at curbing offshore tax sheltering also are in the budget package. One proposal would close a loophole in federal tax law that allows wealthy Americans to renounce their citizenship and avoid paying billions of dollars in taxes on appreciated assets. Another would tighten tax rules governing foreign trusts set up by U.S. taxpayers and foreigners.

Other proposals

Several other revenue proposals also are included in the President's new budget. These include expanding the number of Empowerment Zones by two and reducing the manufacturers vaccine excise tax.

More detailed information about all the major tax proposals in the President's budget is attached.

Tax Cut Targeted to Middle-Income Families



ADMINISTRATION'S TAX PROPOSALS

I. MIDDLE CLASS BILL OF RIGHTS

\$500 Child Tax Credit

A \$500 non-refundable credit will be allowed for each dependent child under the age of 13. The credit will be phased-out for taxpayers with adjusted gross income (AGI) between \$60,000 and \$75,000. No credit will be available to taxpayers with AGI in excess of \$75,000. The maximum credit will be \$300 in 1996-98 and \$500 thereafter.

Education and Job Training Tax Deduction

A deduction would be permitted for up to \$10,000 spent on post-secondary education and training expenses. The deduction applies to expenses paid for the education or training of the taxpayer, the taxpayer's spouse, or dependents (i.e., persons for whom the taxpayer is entitled to claim a dependency exemption). This deduction is used in determining the taxpayer's adjusted gross income (that is, taken above the line) and is, therefore, available to those who do not itemize their deductions, as well as to those who itemize. The maximum allowable deduction would be phased out ratably for taxpayers filing a joint return with adjusted gross income (before the deduction) between \$100,000 and \$120,000 (for individuals \$70,000 and \$90,000). The maximum deduction will be \$5,000 in 1996-98 and \$10,000 thereafter.

Expansion of Individual Retirement Accounts

This proposal would expand the availability of traditional deductible individual retirement accounts (IRAs) to couples with income under \$100,000 and individuals with income under \$70,000. These thresholds and the current \$2,000 contribution limit would be indexed for inflation. Everyone eligible for a deductible IRA would have the option of either deducting the amount deposited or contributing to a new "Special IRA". There would be no immediate deduction for contributions to a Special IRA, but all withdrawals after five years would be tax-free. Early withdrawals from both deductible and Special IRAs would be permitted penalty-free to the extent they were used to pay for higher education costs, first-home purchases, unemployment and catastrophic medical and nursing home costs.

II. OTHER REVENUE PROVISIONS

Additional Empowerment Zones. The Secretary of Housing and Urban Development would be authorized to designate two urban empowerment zones in addition to the six urban and three rural zones designated on December 21, 1994. This would have the effect of extending the empowerment zone tax incentives to these additional areas. Other current-law limitations, such as those regarding population, size, poverty, and application requirements, would be applicable to these areas.

Reduce Vaccine Excise Tax. Under current law, tax is levied on certain vaccines. These taxes are deposited in the Vaccine Injury Compensation Trust Fund and provide a source of revenue to compensate individuals who sustain certain injuries following administration of these vaccines. Because of large balances in the trust fund, the Administration proposes a reduction in these taxes. The decrease will allow continued program compensation while lowering the costs of vaccines to both public and private purchasers.

Earned Income Tax Credit

EITC denied to undocumented workers. Under this compliance proposal, only individuals who are authorized to work in the United States would be eligible for the earned income tax credit (EITC). When claiming the EITC, taxpayers would be required to provide a valid social security number for themselves, their spouses, and their qualifying children. Only social security numbers that are valid for employment purposes in the U.S. would enable the individual to claim the EITC. In addition, the proposal would modify the IRS procedure for processing returns with erroneous or missing taxpayer identification numbers so as to reduce improperly claimed credits. These proposals would be effective in 1996.

EITC denied if interest and dividends exceed \$2,500. Under current law, an individual must have earned income in order to be eligible for the EITC. Because the EITC is designed to benefit low-income workers, the amount of the credit should decrease as the taxpayer's income increases. A taxpayer with relatively low earned income, however, may be eligible for the EITC even though he or she has significant interest and dividend income from investment assets. Under this proposal, taxpayers would not be eligible to receive the EITC if their combined interest and dividend income for the year exceeds \$2,500. This proposal would be effective in 1996.

Tax Responsibilities of Americans Who Renounce Citizenship. The proposal would tax the untaxed gains of U.S. citizens who renounce citizenship. The tax would also apply to aliens who have been lawful permanent residents for at least ten years and then cease to be subject to U.S. tax. No tax would be paid on the first

\$600,000 of gain, and U.S. real estate and pension assets would be exempt. Canada currently imposes a similar tax.

Foreign Trusts. The foreign trust proposal is designed to address two categories of tax planning opportunities with foreign trusts. First, U.S. persons sometimes transfer their assets to foreign trusts. The proposal would impose enhanced information reporting requirements (with penalties for failure to comply) on U.S. persons who transfer assets to foreign trusts. Also, the proposal clarifies current tax rules that generally apply to these trusts. The second category involves foreign families who establish foreign trusts for the benefit of U.S. family members. Under current law, the United States treats such trust assets as owned by the foreign family, and any distribution of income earned by the trust to the U.S. beneficiary is treated as a nontaxable gift to the U.S. person. The proposal would tax this trust income.

Extension of Superfund Tax. Four different taxes are imposed under present law to fund the Hazardous Substance Superfund (Superfund) program including a corporate environmental income tax equal to 0.12 percent of the amount of modified alternative minimum taxable income in excess of \$2 million, and excise taxes on domestic or imported crude oil or refined products, certain hazardous chemicals, and certain imported substances. These taxes are scheduled to expire generally after December 31, 1995.

**Revenue Estimates
Tax Legislation Affecting Receipts
FY 1996 Budget 1/**

	05-Feb-95	Fiscal Years										1995 - 2000	1995 - 2005
	05:16 PM	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004			2005
		(\$'s in billions)											
Middle-Class Bill of Rights													
Tax credit for dependent children	0.0	-3.5	-6.8	-6.6	-8.3	-10.1	-10.1	-9.9	-9.7	-9.4	-9.8	-35.4	-84.2
Education and training tax deduction	0.0	-0.7	-4.7	-4.9	-5.7	-7.5	-7.5	-7.8	-8.1	-8.3	-8.4	-23.5	-63.7
Expanded individual retirement accounts	0.0	0.4	-0.3	-0.8	-1.0	-2.0	-3.3	-3.8	-3.9	-4.2	-4.5	-3.8	-23.3
Subtotal, Middle-Class Bill of Rights	0.0	-3.8	-11.8	-12.4	-15.1	-19.6	-20.9	-21.3	-21.7	-21.9	-22.7	-62.7	-171.2
Other Tax Proposals													
Increase number of empowerment zones	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.0	-0.7	-1.1
Reduce excise taxes on certain vaccines 2/	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.6
Compliance Proposals													
Earned income tax credit compliance proposals	0.0	0.0	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1.9	4.4
Receipts effect	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	1.0
Outlay effect 3/	0.0	0.0	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.5	3.4
Interest and dividend test for earned income tax credit	0.0	0.0	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.4	3.4
Receipts effect	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.8
Outlay effect 3/	0.0	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.1	2.6
Tax responsibilities of Americans who renounce citizenship 4/	0.1	0.2	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.1	1.2	2.2	6.9
Revise taxation of foreign trusts 4/	0.1	0.3	0.5	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5	2.4	4.9
Subtotal, Other Tax and Compliance Proposals	0.1	0.4	1.3	1.5	1.7	1.9	1.9	2.1	2.2	2.3	2.5	6.9	17.8
Receipts effect	0.1	0.4	0.8	0.9	1.0	1.2	1.3	1.4	1.5	1.6	1.7	4.3	11.9
Outlay effect 3/	0.0	0.0	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	2.5	6.0
Extend corporate environmental income tax	0.0	0.3	0.5	0.5	0.5	0.5	0.2	0.0	0.0	0.0	0.0	2.4	2.7
Total, Tax Legislation	0.1	-3.1	-9.9	-10.3	-12.8	-17.3	-18.7	-19.3	-19.5	-19.6	-20.3	-53.4	-150.7
Receipts effect	0.1	-3.1	-10.5	-10.9	-13.5	-17.9	-19.4	-19.9	-20.1	-20.3	-21.0	-55.9	-156.7
Outlay effect 3/	0.0	0.0	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	2.5	6.0

Department of the Treasury
Office of Tax Analysis

NOTE: Details may not add to totals due to rounding.

1/ The FY 1996 Budget presents several fees and miscellaneous proposals affecting receipts not shown in this table.

2/ Estimate is net of income offset.

3/ Reduction in outlays is presented as a positive number for purposes of this table.

4/ Estimates appearing in the FY 1996 Budget were based upon an incorrect effective date.

Example

Head of Household Earning \$30,000, With Two Children Under Age 13

	Current Law	Administration Proposal
Earnings	30,000	30,000
Standard Deduction	5,750	5,750
Personal Exemptions (3 @ \$2,500)	<u>7,500</u>	<u>7,500</u>
Taxable Income	16,750	16,750
Federal Income Tax Before Credits	===== 2,513	===== 2,513
Per Child Credits	<u>0</u>	<u>1,000</u>
Federal Income Tax After Credits	2,513	1,513
Tax Reduction		1,000 40%

Example

Four-Person, Two-Earner Family Earning \$80,000, One Child in College with \$10,000 of Education Expenses, and \$4,000 IRA Contribution

	Current Law	Administration Proposal
Earnings	80,000	80,000
Deduction for Higher Education Expenses	0	10,000
Deduction for IRA Contributions	0	4,000
Itemized Deductions	12,000	12,000
Personal Exemptions (3 @ \$2,500)	<u>7,500</u>	<u>7,500</u>
Taxable Income	60,500	46,500
	=====	=====
Federal Income Tax	11,870	7,950
Tax Reduction		3,920 33%

Example

Five-Person, One-Earner Family Earning \$55,000, One Child in College with \$10,000 of Education Expenses, Two Children under Age 13, and \$2,000 IRA Contribution

	Current Law	Administration Proposal
Earnings	55,000	55,000
Deduction for Higher Education Expenses	0	10,000
Deduction for IRA Contributions	0	2,000
Standard Deduction	6,550	6,550
Personal Exemptions (5 @ \$2,500)	<u>12,500</u>	<u>12,500</u>
Taxable Income	35,950	23,950
Federal Income Tax Before Credits	=====	=====
	5,393	3,593
Per Child Credits	0	<u>1,000</u>
Federal Income Tax After Credits	5,393	2,593
Tax Reduction		2,800 52%

Example

Four-Person Family Earning \$40,000, With Two Children under Age 13

	Current Law	Administration Proposal
Earnings	40,000	40,000
Standard Deduction	6,550	6,550
Personal Exemptions (4 @ \$2,500)	<u>10,000</u>	<u>10,000</u>
Taxable Income	23,450	23,450
	=====	=====
Federal Income Tax Before Credits	3,518	3,518
Per Child Credits	<u>0</u>	<u>1,000</u>
Federal Income Tax After Credits	3,518	2,518
Tax Reduction		1,000 28%

TREASURY



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FOR IMMEDIATE RELEASE
February 6, 1995

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CLINTON OFFERS PLAN TO CURB OFFSHORE TAX AVOIDANCE

The Clinton Administration is proposing legislation aimed at stopping U.S. multi-millionaires from escaping taxes by abandoning their citizenship or by hiding their assets in foreign tax havens.

The two proposals are included in President Clinton's fiscal 1996 budget package. The first proposal, effective immediately, would require rich individuals to pay taxes on gains mainly accumulated while they enjoyed the privileges and protections of American citizenship. Another set of proposals is aimed at curbing the use of foreign trusts to avoid federal taxes.

Last year, some 850 Americans abandon their citizenship each year. A few dozen of these people are wealthy citizens who take advantage of this loophole in federal tax law. They renounce their citizenship, taking their wealth with them and not paying any taxes on the appreciation in value of those assets accumulated while they enjoyed the benefits of U.S. citizenship. By simply renouncing their citizenship -- or in the case of resident aliens, by giving up green cards -- these people are escaping hundreds of billions of dollars in U.S. taxes. This proposal would raise about \$2.2 billion over 6 years, ending fiscal year 2000.

The second legislative proposal combats tax avoidance by U.S. citizens funneling assets and income through foreign trusts in offshore tax havens. A combination of tougher compliance rules and new restrictions ensuring that the income of a foreign trust is taxed in the United States would help curb this increasingly popular tax evasion technique.

Foreign trusts are fast becoming a major way of abusing the federal tax system. Treasury believes that tens of billions of dollars are in foreign trusts that benefit U.S. persons.

The administration's proposal is designed to ensure that an appropriate amount of U.S. tax is paid on income earned by foreign trusts created by Americans and foreign

(more)

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trusts created by foreigners for U.S. beneficiaries. This package would raise \$2.4 billion over 6 years, ending fiscal year 2000.

None of these proposals is designed to prevent Americans from shifting their assets and citizenship to a foreign country. Rather, the aim is to make sure that individuals who amassed great wealth through the opportunities and protections offered by the American system face their tax responsibilities.

Taken together, these proposals would curb what is becoming an all too common practice of certain individuals trying to escape income and estate taxes.

Descriptions of the proposals are attached.

SUMMARY OF THE ADMINISTRATION'S PROPOSALS TO PREVENT INTERNATIONAL TAX AVOIDANCE BY INDIVIDUALS

TAX RESPONSIBILITIES OF AMERICANS WHO RENOUNCE CITIZENSHIP

The Administration proposal would require American citizens who relinquish their citizenship and long-term permanent resident aliens who abandon their U.S. residence to pay U.S. income tax on gains on appreciated assets while such taxpayers were subject to U.S. taxing jurisdiction. When a U.S. citizen relinquishes citizenship, all of the individual's property would be deemed to be disposed of for proceeds equal to its fair market value. The tax would also apply to lawful permanent residents who leave the United States if they have been tax residents for at least ten years. This provision is intended to apply only to wealthy persons. Therefore, the tax would only be levied on gains in excess of \$600,000. Qualified retirement plans and U.S. real property interests would be exempt from tax. This proposal would be effective for expatriations that occur on or after February 6, 1995.

FOREIGN TRUSTS

The foreign trust proposal is designed to tax two categories of people. First, U.S. persons sometimes transfer their assets to foreign trusts to protect them from the reach of creditors. These people rarely pay the required U.S. tax on trust income. Therefore, the proposal would require trustees of foreign trusts to file a statement with the Internal Revenue Service agreeing to appoint a U.S. agent who would provide the IRS with trust information and to file an annual information return. Creators of such trusts would be subject to a penalty of 35 percent of the value of property transferred to the trust if the transfer is not reported. In addition, if required information is not provided, the appropriate tax treatment of any trust transactions or operations could be determined by the IRS. The proposals generally would be effective for taxable years of trusts beginning after enactment.

In addition, the proposal clarifies current tax rules that generally apply to this first category of people. A U.S. person who transfers property to a foreign trust with U.S. beneficiaries generally is taxable on trust income. The proposal would curtail certain loopholes that have been used to avoid U.S. tax. Under the proposal, U.S. beneficiaries of a foreign trust created on the death of a U.S. person would be deemed to earn their proportionate share of trust income. Further, most noncommercial sales of property to a foreign trust would be transfers subject to the general rule. In addition, a foreign person who becomes a U.S. person within 5 years of transferring property to a foreign trust would be taxed on trust income if the trust has U.S. beneficiaries. Finally, if a domestic trust becomes a foreign trust, U.S. beneficiaries of the resulting foreign trust would be considered to earn the trust income. Generally, the proposal would be effective for transfers to trusts on or after February 6, 1995. However, the transfer at death provision would only apply to assets transferred after the enactment date.

The second category of people are U.S. persons who are members of wealthy foreign families. These foreign families often establish foreign trusts for a U.S. family member's benefit. Under current law, the United States treats such trust assets as owned by the foreign family, and any distribution of trust income to the U.S. beneficiary is treated as a nontaxable gift. Under the proposal, foreign persons establishing such trusts would no longer be considered to earn trust income. Instead, the trust income would be taxed when distributed to U.S. beneficiaries. The proposed changes would be effective for all such trusts on the date of enactment.

In addition, current tax rules applicable to this second category of foreign trusts would be revised to increase the interest charge imposed on distributions of accumulated income and to tax U.S. beneficiaries when they use assets owned by a foreign trust. This proposal would generally be effective for the trust's taxable years beginning after enactment.

Finally, the proposal would eliminate ambiguities in the current definition of a foreign trust. An estate or trust would be considered a domestic estate or trust if it meets two factors: a court within the United States must be able to exercise primary supervision over the administration of the estate or trust, and U.S. fiduciaries must have the authority to control all important decisions of the trust. A foreign trust would be any trust that is not domestic. This proposal would be effective for taxable years of the trust that begin after December 31, 1996 to allow taxpayers to adjust to the new rules.

TAX RESPONSIBILITIES OF AMERICANS RENOUNCING U.S. CITIZENSHIP PRESS PACKAGE

SUMMARY OF PROPOSAL

Under current law, worldwide gains realized by U.S. citizens and resident aliens are subject to U.S. tax. However, if a U.S. citizen relinquishes citizenship or an alien ceases to be a resident, U.S. tax is generally not imposed on accumulated gains. Gains accruing during the time that a taxpayer was a citizen or long-term permanent resident should be subject to U.S. tax if those persons abandon their U.S. status.

The Administration proposal would require Americans who relinquish their citizenship or long-term permanent resident aliens who abandon their residence to pay U.S. income tax on gains that generally accrued while such taxpayers were subject to U.S. taxing jurisdiction. When a U.S. citizen relinquishes citizenship, all of that person's property would be taxed as if it had been sold at fair market value. The tax would also apply to lawful permanent residents who abandon their green card, if they have been U.S. tax residents for at least ten years. The departure tax is intended to apply only to wealthy persons. Therefore, the tax would only be levied on gains in excess of \$600,000. Qualified retirement plans and U.S. real property interests would be exempt from tax. This proposal would be effective for expatriations that occur on or after February 6, 1995.

Treasury estimates that this proposal would raise \$2.2 billion through the year 2000.

BACKGROUND

- In 1994, approximately 850 U.S. citizens renounced or abandoned their U.S. citizenship. Approximately 3,000 long-term resident aliens abandoned their green cards. Only a few of these persons would be subject to the proposal described below.
- There are many reasons to expatriate other than tax avoidance:
 - a U.S. citizen attains a high rank in another country's government or armed forces
 - a U.S. citizen wants to become a citizen of another country which does not permit dual citizenship (e.g., Korea, Mexico, Bahamas)
 - a U.S. citizen acquires a title of nobility in another country, by marriage or otherwise
- The Administration proposal is intended to apply only to a small number of wealthy persons. The proposal applies only if an expatriate has more than \$600,000 in gains (not \$600,000 in gross assets) without regard to retirement plans

or real estate holdings. Therefore, the proposal would rarely apply to an individual whose gross assets are less than \$5 million. The Treasury Department believes that of the nearly 4,000 citizens and long-term resident aliens who expatriated in 1994, only a few would have been subject to the Administration proposal.

- * Although there appears to be more expatriations now than a few years ago (858 in 1994 as opposed to 571 in 1990), the 1990s levels of expatriations are lower than the early 1980s (952 in 1982 and 1446 in 1981). However, because the number of tax-motivated expatriations is such a small percentage of total expatriations, the trend in overall expatriations may not be relevant in determining the tax avoidance trend.
- * The United States is not a high-tax jurisdiction when compared to other industrialized countries. Treasury does not believe that expatriates are fleeing a repressive U.S. tax system; rather, they are fleeing the tax system that all developed countries must impose to maintain a standard of living demanded by their citizens and residents -- including those who choose to expatriate.
- * In 1972, Canada enacted a departure tax on all capital assets owned by departing residents of Canada. In the early 1990s, the Canadian authorities examined the history of their departure tax, and reaffirmed the value of the rule. In 1992, the Canadian departure tax was expanded to include all of a departing resident's assets, whether or not the assets are capital assets.
- * Other countries have more limited versions of a departure tax. For example, a departing German resident is deemed to have sold any stock he owns in a German corporation. A departing Danish resident moving to a low tax jurisdiction is deemed to continue to be a tax resident of Denmark for several years.

EXAMPLE OF TAX AVOIDANCE THROUGH EXPATRIATION

In 1960 Mr. Greenback started a very successful retailing business, Retail, Inc. Retail, Inc. would not have grown as rapidly as it did without the benefits provided by the U.S. government: protection of franchise rights both in the U.S. and throughout the world, access to retail markets in other countries, labor laws, etc. Retail, Inc. was a success largely because of the dynamic U.S. economy and a workforce that was educated in the United States.

Mr. Greenback's stock in Retail, Inc. has significantly grown in value and is now worth about \$2 billion. The United States has never imposed an income tax on the

appreciation of Mr. Greenback's stock, allowing him to defer the gain until he sells the stock or dies (when his estate would be subject to an estate tax). If Mr. Greenback sold his stock, he would pay approximately \$550 million in income taxes. If he retained the stock until he died, and he then contributed one-half of his stock to the Greenbacks Foundation and left the remainder to his son, his estate would pay estate taxes of approximately \$550 million. If he decides to remain a U.S. citizen he could avoid such immediate taxation but would continue to be subject to annual U.S. income tax liability and estate tax.

Mr. Greenback's salary from Retail, Inc. is \$1 million per year and his investment income totals \$30 million per year. He pays U.S. income taxes of approximately \$12 million per year.

To save taxes, Mr. Greenback renounces his U.S. citizenship and becomes a national of a European Union country. Because this new country does not tax its nationals who do not live in that country, Mr. Greenback is able to travel on a European Union passport, but live on an island in the Caribbean, where there are no income or estate taxes. However, Mr. Greenback wants to spend as much time as possible in the United States. Because his wife retains her U.S. citizenship, Mr. Greenback is able to travel freely in and out of the United States. He spends 120 days per year in the United States without becoming a resident of the United States for tax purposes. He retains his U.S. home, his U.S. country club memberships, his U.S. driver's license, etc.

Under this new arrangement, Mr. Greenback only pays U.S. tax on the portion of his salary that is attributable to his work within the United States. Thus, one-third of his annual salary is taxed in the United States, resulting in U.S. taxes of approximately \$100,000. He invests his passive assets in foreign securities, and thus pays no U.S. income or withholding taxes on his investment income.

The result of his expatriation is that his annual U.S. income tax liability has been reduced from \$10 million to \$100,000. Further, he has permanently avoided U.S. estate taxes of \$550 million.

The Administration's proposal would trigger gain on Mr. Greenback's appreciated assets when he renounces his U.S. citizenship. In this case, Mr. Greenback would be required to pay income taxes of approximately \$550 million.

FOREIGN TRUSTS PRESS PACKAGE

Foreign trusts are fast becoming a major vehicle for abuses of the U.S. tax system. Worldwide, promoters claim that there are trillions of dollars in offshore bank accounts - much of it in trusts. In the Cayman Islands alone, \$440 billion are on deposit -- 60 percent from U.S. sources. (Barron's, January 4, 1993, pg. 14.) In addition, Luxembourg has \$200 billion on deposit from U.S. sources, and the Bahamas has \$180 billion from U.S. sources. (New York Times, October 29, 1989.) This type of activity seems to be increasing. "[U.S.] people are hiding money. . . Legal experts outside the U.S. tell me that they are getting a 100 percent increase in the business every six months." (Washington Post, August 7, 1993, pg. B6.) One promoter advertises that his firm has shipped over \$4 billion worth of assets to offshore asset protection trusts.

The Administration's foreign trust proposal is designed to ensure that an appropriate amount of U.S. tax is paid on income earned by (1) foreign trusts created by U.S. people (outbound trusts), and (2) foreign trusts created by foreign persons for U.S. beneficiaries (inbound trusts). This background document discusses these trusts separately.

Treasury estimates these proposals would raise approximately \$2.5 billion through fiscal year 2000.

OUTBOUND TRUSTS

SUMMARY OF OUTBOUND TRUST PROPOSAL

U.S. persons sometimes transfer their assets to foreign trusts. Although current law requires U.S. people who create or transfer property to foreign trusts to report those transactions to the IRS, the penalties for noncompliance are minimal.

Foreign trusts set up by U.S. persons are frequently located in tax haven jurisdictions with stringent bank secrecy laws. Attempts by the IRS to verify income earned by foreign trusts are often met with silence or a representation that bank secrecy laws prevent the U.S. taxpayer from obtaining required information. Existing penalties have not proven adequate to encourage many U.S. taxpayers to comply with current information reporting rules. These people rarely pay the required U.S. tax on trust income.

Therefore, the Administration's compliance proposal would require a U.S. person who transfers assets to a foreign trust to report that transfer to the IRS. The U.S. transferor would be subject to a penalty of 35 percent of the value of the transferred property if the transfer is not reported. In addition, trustees of foreign trusts would be required to file annual information returns with the IRS and appoint a U.S. agent who would provide the IRS with access to trust information. If the trustee does not comply, the appropriate tax treatment of any trust transactions or operations could be determined

by the IRS. The proposals generally would be effective for taxable years of trusts beginning after enactment.

BACKGROUND ON OUTBOUND TRUSTS

- * The U.S. market for asset protection trusts ("APTs") is exploding. Treasury estimates that assets worth tens of billions of dollars are currently in foreign asset protection trusts, and the number is growing. Most of these trusts were designed to protect assets from creditors, not to evade taxes.
- * However, once assets are in a foreign APT and the U.S. grantor receives his annual report of earnings from the foreign trustee, the grantor often realizes that the IRS is unlikely to ever know of this income. Thus, the grantor often omits this income from his tax return.
- * U.S. persons rarely file information on foreign trusts that is required under current law. In 1990 (the latest year for which information is available), U.S. persons reported that they created 133 foreign trusts with total assets of approximately \$273 million. On annual information returns, U.S. creators of foreign trusts reported \$3.0 million of income from the trusts they created. Obviously, these amounts are a very small fraction of the actual numbers.
- * Treasury believes that U.S. people who create foreign trusts are likely to comply with the new tax rules pertaining to information reporting. Most of these people set up their foreign asset protection trusts to protect their assets, not to evade taxes. When presented with the additional information reporting requirements under the proposal, these people are more likely to report their trust income as taxable income.
- * The Administration's proposed information reporting rules are patterned after a 1989 change to the information reporting rules that apply to foreign corporations that do business with related U.S. corporations. See section 6038A of the Internal Revenue Code. Anecdotal data indicates that the foreign corporation information reporting rule has been very successful in convincing foreign corporations to appoint a U.S. agent who has access to the foreign corporation's foreign records.
- * We have been told that many reputable U.S. banks and trust companies will support the Administration proposal. Under the existing system, these banks and trust companies try to get their U.S. clients to follow the U.S. tax rules. However, some unscrupulous companies don't. Additional information reporting will create a more level playing field, allowing reputable banks and trust companies to better compete with the less reliable ones.

EXAMPLE OF TAX EVASION USING OUTBOUND TRUSTS

Mr. Jones is a successful U.S. entrepreneur. Each year he earns gross income of \$2 million. He has investments worth \$15 million, which generate \$2 million of taxable income each year. He pays annual U.S. income taxes of about \$1.3 million.

Mr. Jones transfers 80 percent of his investments to an irrevocable trust in the Cook Islands for his own benefit. (The Cook Islands is a popular destination for U.S. asset protection trusts because its fraudulent conveyance laws were drafted by U.S. lawyers to accommodate U.S. legal concerns.) Although the Cook Islands trustee is not required to follow Mr. Jones' instructions, it invariably does. Therefore, whenever Mr. Jones wants cash, he has the property wired to him from the Cook Islands. However, because his business income is adequate to support his lifestyle, he rarely receives a distribution from the Cook Islands trust.

Five years later Mr. Jones incurs a debt of \$5 million. When the creditor tries to collect the judgment from the Cook Islands trustee, the trustee replies that it is **not** in the "best interests" of the trust beneficiary (Mr. Jones) to make a distribution at this time. Mr. Jones settles with the creditor for \$750,000, or 15 cents on the dollar. The \$750,000 is paid by the Cook Islands trust.

After the trust is created, Mr. Jones also pays less U.S. income tax. He continues to pay U.S. tax on his salary, but he realizes that the IRS will not know about the investment income in the Cook Islands. Therefore, despite the fact that his lawyer has informed him that he is required to pay U.S. tax on the trust income, he fraudulently omits \$1.5 million of investment income from his taxable income, saving about \$600,000 in income taxes.

Under the Administration's proposal, if Mr. Jones did not report the transfer of \$12 million to the foreign trust, he would be subject to a tax penalty of more than \$4 million. In addition, the Administration proposal would put strong pressure on the Cook Islands trustee to provide the IRS with an annual information return showing Mr. Jones' investment income. (If the trustee did not provide this information, the IRS could impute a rate of return to Mr. Jones' assets that he transferred to the trust, and assume that Mr. Jones earned that amount of income from the trust.) With the information from the Cook Islands trustee provided to the IRS, Mr. Jones would be likely to voluntarily report his trust income on his U.S. tax return.

INBOUND TRUSTS

SUMMARY OF INBOUND TRUSTS PROPOSAL

Wealthy foreign families often set up foreign trusts which benefit a U.S. family member. Under current law, the United States treats such trust assets as owned by the foreign family, and any distribution of trust income to the U.S. beneficiary is treated as a nontaxable gift.

Current rules are intended to prevent wealthy U.S. persons from creating trusts to shift taxable income to U.S. beneficiaries who are likely to be paying taxes at lower marginal tax rates. To avoid this result, the rules treat the creator of the trust as the owner of the underlying trust assets even where he retains no beneficial interest in the trust.

These rules apply even to situations that they were not designed to address. Thus, where a trust is created by a foreign person, existing law allows U.S. beneficiaries, who enjoy the benefits of residing in the United States, to avoid their U.S. tax responsibilities. U.S. beneficiaries receiving distributions of income from a foreign trust should be required to pay U.S. tax on the distribution.

Under the Administration proposal, foreign persons establishing such trusts would no longer be considered to earn trust income. Instead, the trust income would be taxed when distributed to U.S. beneficiaries. The proposed changes would be effective for all such trusts on the date of enactment.

BACKGROUND ON INBOUND TRUSTS

- Foreign trusts established by foreign persons for U.S. beneficiaries have assets worth tens of billions of dollars. Little, if any, of the income earned by these trusts is taxed in the United States – even when the income is distributed to the U.S. beneficiary.
- Under current law, income generated by foreign trust assets frequently is not taxed in any country. Many foreign jurisdictions do not consider the foreign grantor to be the owner of the trust assets, and trusts are normally established in jurisdictions which do not impose tax on trust income. U.S. beneficiaries receiving distributions of untaxed income from a foreign trust should pay tax on that income.
- The Administration proposal is similar to a rule that has existed in the United Kingdom since 1990.

EXAMPLE OF TAX AVOIDANCE USING INBOUND TRUSTS

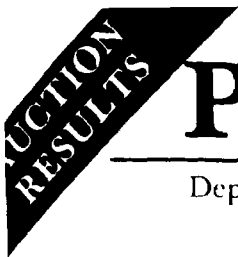
The Smiths are a wealthy foreign family. The patriarch, Mr. Smith, has liquid assets in excess of \$3 billion. Mr. Smith's eldest son, Patrick, and his family takes up permanent residence in the United States and become U.S. citizens.

Mr. Smith sets up an irrevocable trust in the Cayman Islands for the benefit of his offspring. He funds the trust with \$1.5 billion. The trust earns \$150 million in interest and dividend income each year. The trust instrument grants broad, discretionary powers to the Cayman trustee to administer the trust. Mr. Smith gives up all control over the trust assets, retaining only the power to reacquire trust assets if he substitutes other property of equivalent value. Although Patrick has no formal powers under the trust instrument, Mr. Smith gives a letter of wishes to the Cayman trustee which states that the trust is intended to be for the principal benefit of Patrick and his family and that the trustee should take all instructions regarding trust investments and distributions from Patrick. Although not legally bound by this letter, the Cayman trustee follows Mr. Smith's wishes.

On Patrick's recommendation, the trust purchases a luxury condominium in New York City, a Florida vacation home and a Rolls Royce, all of which are used exclusively by Patrick and his family. In addition, the trust makes annual cash distributions for the benefit of Patrick totalling \$2 million. Much of this is made by way of direct payment of store and credit card charges incurred by Patrick and his family.

Under current law, Patrick pays no U.S. income tax on the cash distributions or the other benefits he receives from the trust. In fact, despite the wealth subject to his control, the Internal Revenue Service is unlikely to examine his tax status because Patrick does not have sufficient taxable income to be required to file a U.S. income tax return. All of the income generated by the Cayman trust's assets is deemed owned by, and taxable to, Mr. Smith, who is considered to have made nontaxable gifts to Patrick and his family. However, the tax authorities in Mr. Smith's home country do not consider Mr. Smith to own the trust assets, and therefore do not tax that income. In addition, the Cayman Islands do not tax the trust income. Thus, the trust income of \$150 million is not taxed anywhere in the world.

The Administration's proposal would tax Patrick on the cash distributions made to or for his benefit and the fair market value of trust assets available for use by Patrick and his family.



PUBLIC DEBT NEWS



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

1.1 930 33336

FOR IMMEDIATE RELEASE
February 6, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,848 million of 13-week bills to be issued February 9, 1995 and to mature May 11, 1995 were accepted today (CUSIP: 912794R97).

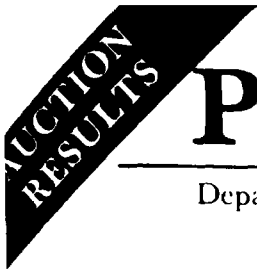
RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount <u>Rate</u>	Investment <u>Rate</u>	<u>Price</u>
Low	5.79%	5.96%	98.536
High	5.83%	6.00%	98.526
Average	5.83%	6.00%	98.526

Tenders at the high discount rate were allotted 39%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$54,543,591	\$13,848,276
Type		
Competitive	\$48,462,425	\$7,767,110
Noncompetitive	<u>1,636,556</u>	<u>1,636,556</u>
Subtotal, Public	\$50,098,981	\$9,403,666
Federal Reserve	3,437,110	3,437,110
Foreign Official		
Institutions	<u>1,007,500</u>	<u>1,007,500</u>
TOTALS	\$54,543,591	\$13,848,276



PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
February 6, 1995

RR 9990 99999

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,889 million of 26-week bills to be issued February 9, 1995 and to mature August 10, 1995 were accepted today (CUSIP: 912794U44).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount	Investment	
	<u>Rate</u>	<u>Rate</u>	<u>Price</u>
Low	6.09%	6.37%	96.921
High	6.10%	6.38%	96.916
Average	6.10%	6.38%	96.916

\$2,579,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 77%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$51,744,115	\$13,888,908
Type		
Competitive	\$45,226,450	\$7,371,243
Noncompetitive	<u>1,603,665</u>	<u>1,603,665</u>
Subtotal, Public	\$46,830,115	\$8,974,908
Federal Reserve	3,550,000	3,550,000
Foreign Official		
Institutions	<u>1,364,000</u>	<u>1,364,000</u>
TOTALS	\$51,744,115	\$13,888,908

PUBLIC DEBT NEWS



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

FOR RELEASE AT 3:00 PM

February 6, 1995

Contact: Peter Hollenbach

(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JANUARY 1995

Treasury's Bureau of the Public Debt announced activity figures for the month of January 1995, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	\$811,131,534
Held in Unstripped Form	\$584,232,344
Held in Stripped Form	\$226,899,190
Reconstituted in January	\$8,155,705

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."

Information about "Holdings of Treasury Securities in Stripped Form" is now available on the Department of Commerce's Economic Bulletin Board (EBB). The EBB, which can be accessed using personal computers, is an inexpensive service provided by the Department of Commerce. For more information concerning this service call 202-482-1986.

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PA-174

(RR-57)

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JANUARY 31, 1995
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month#1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
11-1/4% Note A-1995.....	2/15/95.....	6,933,861	5,594,981	1,338,880	480
11-1/4% Note B-1995.....	5/15/95.....	7,127,086	4,442,446	2,684,640	62,080
10-1/2% Note C-1995.....	8/15/95.....	7,955,901	4,938,701	3,017,200	82,000
9-1/2% Note D-1995.....	11/15/95.....	7,318,550	3,382,550	3,936,000	27,600
8-7/8% Note A-1996.....	2/15/96.....	8,447,058	7,117,458	1,329,600	577,600
7-3/8% Note C-1996.....	5/15/96.....	20,085,643	18,141,643	1,944,000	92,800
7-1/4% Note D-1996.....	11/15/96.....	20,258,810	17,572,410	2,686,400	-0-
8-1/2% Note A-1997.....	5/15/97.....	9,921,237	8,678,437	1,242,800	-0-
8-5/8% Note B-1997.....	8/15/97.....	9,362,836	7,769,236	1,593,600	16,000
8-7/8% Note C-1997.....	11/15/97.....	9,808,329	7,385,929	2,422,400	44,800
8-1/8% Note A-1998.....	2/15/98.....	9,159,068	7,967,708	1,191,360	25,280
9% Note B-1998.....	5/15/98.....	9,165,387	6,732,387	2,433,000	15,000
9-1/4% Note C-1998.....	8/15/98.....	11,342,646	8,646,646	2,696,000	8,800
6-7/8% Note D-1998.....	11/15/98.....	9,902,675	6,979,675	2,923,200	75,200
6-7/8% Note A-1999.....	2/15/99.....	9,719,623	8,113,223	1,606,400	22,400
9-1/8% Note B-1999.....	5/15/99.....	10,047,103	6,760,703	3,286,400	36,400
8% Note C-1999.....	8/15/99.....	10,163,644	8,167,444	1,996,200	77,825
7-7/8% Note D-1999.....	11/15/99.....	10,773,960	7,770,760	3,003,200	129,600
8-1/2% Note A-2000.....	2/15/00.....	10,673,033	8,791,833	1,881,200	800
6-7/8% Note E-2000.....	5/15/00.....	10,496,230	6,056,230	4,440,000	22,400
6-3/4% Note C-2000.....	8/15/00.....	11,080,646	8,042,086	3,038,560	54,880
6-1/2% Note D-2000.....	11/15/00.....	11,519,680	8,628,882	2,890,800	46,800
7-3/4% Note A-2001.....	2/15/01.....	11,310,600	9,181,602	2,131,200	-0-
8% Note E-2001.....	5/15/01.....	12,398,093	9,888,483	2,509,600	-0-
7-7/8% Note C-2001.....	8/15/01.....	10,339,189	10,191,985	2,147,200	-0-
7-1/2% Note D-2001.....	11/15/01.....	24,228,100	20,346,102	1,880,000	226,080
7-1/2% Note A-2002.....	5/15/02.....	11,714,367	10,844,877	869,520	-0-
6-3/8% Note E-2002.....	8/15/02.....	23,659,019	23,951,815	907,200	100,800
6-1/4% Note A-2003.....	2/15/03.....	23,560,691	23,240,851	319,840	111,008
5-3/4% Note E-2003.....	8/15/03.....	28,011,028	27,855,828	155,200	-0-
5-7/8% Note A-2004.....	2/15/04.....	10,969,077	10,959,077	-0-	-0-
7-1/4% Note B-2004.....	5/15/04.....	14,440,372	14,440,372	-0-	-0-
7-1/4% Note C-2004.....	8/15/04.....	13,346,467	13,346,467	-0-	-0-
7-7/8% Note D-2004.....	11/15/04.....	14,373,760	14,373,760	-0-	-0-
11-5/8% Bond 2004.....	1/15/04.....	6,301,806	5,953,006	2,746,800	652,800
12% Bond 2005.....	5/15/05.....	4,260,758	2,593,508	1,667,250	-0-
10-3/4% Bond 2005.....	8/15/05.....	9,269,713	8,461,713	808,000	80,800
9-3/8% Bond 2006.....	2/15/06.....	4,759,916	4,754,764	1,152	-0-
11-3/4% Bond 2009-14.....	11/15/14.....	6,009,584	1,711,184	4,294,400	176,800
11-1/4% Bond 2015.....	2/15/15.....	12,667,799	5,272,119	7,395,680	321,920
10-5/8% Bond 2015.....	8/15/15.....	7,149,916	1,718,876	5,431,040	-0-
9-7/8% Bond 2015.....	11/15/15.....	6,899,859	2,415,059	4,484,800	268,800
9-1/4% Bond 2016.....	2/15/16.....	7,266,854	6,275,654	991,200	378,400
7-1/4% Bond 2016.....	5/15/16.....	18,823,551	18,220,351	603,200	16,800
7-1/2% Bond 2016.....	11/15/16.....	18,864,448	18,027,648	836,800	164,400
6-3/4% Bond 2017.....	5/15/17.....	18,194,169	7,368,729	10,825,440	809,440
6-7/8% Bond 2017.....	8/15/17.....	14,016,858	8,450,458	5,566,400	707,200
9-1/8% Bond 2018.....	5/15/18.....	8,708,639	1,908,639	6,800,000	121,600
9% Bond 2018.....	11/15/18.....	9,032,870	1,680,470	7,352,400	20,800

8-7/8% Bond 2019.....	|2/15/19.....	| 19,250,798 |	4,940,398 |	14,310,400 | |	444,800
6-1/8% Bond 2019.....	|8/15/19.....	| 20,213,832 |	16,819,272 |	3,394,560 | |	250,880
8-1/2% Bond 2020.....	|2/15/20.....	| 10,228,868 |	4,596,468 |	5,632,400 | |	46,800

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JANUARY 31, 1995
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month#1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
8-3/4% Bond 2020.....	|5/15/20.....	| 10,158,883 |	2,396,323 |	7,762,560 | |	192,320
8-3/4% Bond 2020.....	|8/15/20.....	| 21,418,606 |	4,481,806 |	16,936,800 | |	544,480
7-7/8% Bond 2021.....	|2/15/21.....	| 11,113,373 |	9,817,373 |	1,296,000 | |	123,200
8-1/8% Bond 2021.....	|5/15/21.....	| 11,958,888 |	4,108,968 |	7,849,920 | |	188,800
8-1/8% Bond 2021.....	|8/15/21.....	| 12,163,452 |	4,981,082 |	7,182,400 | |	142,080
8% Bond 2021.....	|11/15/21.....	| 32,798,394 |	7,407,494 |	25,390,900 | |	375,600
7-1/4% Bond 2022.....	|8/15/22.....	| 10,352,790 |	7,982,390 |	2,370,400 | |	105,600
7-5/8% Bond 2022.....	|11/15/22.....	| 10,699,626 |	4,258,026 |	6,441,600 | |	-0-
7-1/8% Bond 2023.....	|2/15/23.....	| 16,374,361 |	14,622,361 |	3,752,000 | |	112,000
6-1/4% Bond 2023.....	|8/15/23.....	| 22,909,044 |	22,639,156 |	269,888 | |	46,752
7-1/2% Bond 2024.....	|11/15/24.....	| 11,469,661 |	11,468,462 |	1,200 | |	-0-
Total.....		811,131,534	584,232,344	226,899,190 | |	8,155,705

#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 Table VI will be available after 3:00 pm eastern time on the Commerce Department's Economic Bulletin Board (EBB). The telephone number for more information about EBB is (202) 462-1986. The balances in this table are subject to audit and subsequent adjustments.

General Explanations of the Administration's Revenue Proposals



Department of the Treasury
February 1995

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TAX CREDIT FOR DEPENDENT CHILDREN

Current Law

A tax exemption, in the form of a deduction, is allowed for each taxpayer and for each dependent of a taxpayer. A dependent includes a child of the taxpayer who is supported by the taxpayer and is under age 19 at the close of the calendar year or is a student under age 24. The deduction amount is \$2,500 for tax year 1995. This amount is indexed annually for inflation.

In addition to an exemption for each child, three other tax benefits may accrue to taxpayers with dependent or otherwise qualifying children:

- the credit for child and dependent care expenses,
- the exclusion for employer-provided child and dependent care benefits, and
- the earned income tax credit (EITC).

The EITC is a refundable tax credit based on the earnings of the taxpayer. The EITC is restricted to lower-income taxpayers and is phased out when earnings exceed specified levels. Although the EITC is available for taxpayers without dependents or otherwise qualifying children, the credit rate and income range of the credit are far greater when the taxpayer has one or more qualifying children. In addition, the rate and income range are higher for taxpayers with two or more qualifying children than for taxpayers with only one qualifying child.

Reasons for Change

Tax relief for middle-class families has been and continues to be an important goal of this Administration. In 1993, the Administration faced a projection of ever-increasing deficits. Bringing the deficit under control and providing tax relief for the working poor through an expansion of the EITC were the first priorities. Having achieved more favorable than projected results from the deficit reduction program introduced in 1993, the Administration can now turn to providing tax relief to middle-income families.

Tax relief to taxpayers with children is needed to adjust the relative tax burdens of smaller and larger families to reflect more accurately their relative abilities to pay taxes. Available resources should be targeted to those in greatest need and at greatest risk.

Proposal

A nonrefundable tax credit, which would be applied after the EITC, would be allowed for each dependent child under age 13. It would be phased in, at \$300 per child for tax years 1996, 1997, and 1998, and \$500 per child for 1999 and thereafter. The credit would not reduce any alternative minimum tax liability. The credit would be phased out for

taxpayers with adjusted gross income between \$60,000 and \$75,000. Beginning in the year 2000, both the amount of the credit and the phase-out range would be indexed for the effects of inflation.

Taxpayers claiming the dependent child credit would be required to provide valid social security numbers for themselves, their spouses, and their children who qualify for the credit. The procedures that would apply for determining the validity of social security numbers under the EITC, discussed below, would apply for purposes of the dependent child credit.

Revenue Estimate (in billions of dollars)

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Tax credit for dependent children	0	-3.5	-6.8	-6.6	-8.3	-10.1	-35.4

EDUCATION AND JOB TRAINING TAX DEDUCTION

Current Law

Taxpayers generally may not deduct the expenses of higher education and training. There are, however, special circumstances in which deductions for educational expenses are allowed, or in which the payment of educational expenses by others is excluded from income.

Educational expenses may be deductible, but only if the taxpayer itemizes, and only to the extent that the expenses, along with other miscellaneous itemized deductions, exceed two percent of adjusted gross income (AGI). A deduction for educational purposes is allowed only if the education maintains or improves a skill required in the individual's employment or other trade or business, or is required by the individual's employer, or by law or regulation for the individual to retain his or her current job.

The interest from qualified U.S. savings bonds is excluded from a taxpayer's gross income to the extent the interest is used to pay qualified educational expenses. To be qualified, the savings bonds must be purchased after December 31, 1989, by a person who has attained the age of 24. Qualified educational expenses consist of tuition and fees for enrollment of the taxpayer, the taxpayer's spouse, or the taxpayer's dependent at a public or non-profit institution of higher education, including two-year colleges and vocational schools.

Reasons for Change

Deductions for educational expenses combine needed tax relief with preparation for new economic imperatives. The expenses of higher education place a significant burden on many middle-class families. Grants and subsidized loans are available to students from low- and moderate-income families; high-income families can afford the costs of higher education.

Well-educated workers are essential to an economy experiencing technological change and facing global competition. The Administration believes that reducing the after-tax cost of education for individuals and families encourages investment in education and training while lowering tax burdens for middle-income taxpayers.

Proposal

A taxpayer would be allowed to deduct qualified educational expenses paid during the taxable year for the education or training of the taxpayer, the taxpayer's spouse, or the taxpayer's dependent. The deduction would be allowed in determining AGI. Therefore, taxpayers could claim the deduction even if they do not itemize and even if they do not meet the two-percent AGI floor on itemized deductions.

Qualified educational expenses would be defined as tuition and fees charged by educational institutions that are directly related to an eligible student's course of study (e.g., registration fees, laboratory fees, and extra charges for particular courses). Charges and expenses associated with meals, lodging, student activities, athletics, health care, transportation, books and similar personal, living or family expenses would not be included. The expenses of education involving sports, games, or hobbies would not be qualified educational expenses unless the education is required as part of a degree program or related to the student's current profession.

Qualified educational expenses would be deductible in the year the expenses are paid, subject to the requirement that the education commences or continues during that year or during the first three months of the next year. Qualified educational expenses paid with the proceeds of a loan generally will be deductible (rather than repayment of the loan itself). Normal tax benefit rules would apply to refunds (and reimbursements through insurance) of previously deducted tuition and fees.

In 1996, 1997, and 1998, the maximum deduction would be \$5,000. In 1999 and thereafter, this maximum would increase to \$10,000. The deduction would be phased out ratably for taxpayers with modified AGI between \$70,000 and \$90,000 (\$100,000 and \$120,000 for joint returns). Modified AGI would include taxable Social Security benefits and amounts otherwise excluded with respect to income earned abroad (or income from Puerto Rico or U.S. possessions). Beginning in 2000, the income phase-out range would be indexed for inflation.

Any amount taken into account as a qualified educational expense would be reduced by educational assistance that is not required to be included in the gross income of either the student or the taxpayer claiming the deduction. Thus, qualified educational expenses would be reduced by scholarship or fellowship grants excludable from gross income under section 117 of the Internal Revenue Code (even if the grants are used to pay expenses other than qualified educational expenses) and any educational assistance received as veterans' benefits. However, no reduction would be required for a gift, bequest, devise or inheritance within the meaning of section 102(a).

An eligible student would be one who is enrolled or accepted for enrollment in a degree, certificate, or other program (including a program of study abroad approved for credit by the institution at which such student is enrolled) leading to a recognized educational credential at an eligible institution. The student must pursue a course of study on at least a half-time basis, cannot be enrolled in an elementary or secondary school, and cannot be a nonresident alien. Educational institutions would determine what constitutes a half-time basis for individual programs.

"Eligible institution" is defined by reference to section 481 of the Higher Education Act. Such institutions must have entered into an agreement with the Department of Education to participate in the student loan program. This definition includes certain proprietary institutions.

This proposal would not affect deductions claimed under any other section of the Code, except that any amount deducted under another section of the Code could not also be deducted under this provision. An eligible student would not be eligible to claim a deduction under this provision if that student could be claimed as a dependent of another taxpayer.

Revenue Estimate (in billions of dollars)

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Education and job training tax deduction	0	-0.7	-4.7	-4.9	-5.7	-7.5	-23.5

EXPANDED INDIVIDUAL RETIREMENT ACCOUNTS

Current Law

Under current law, an individual may make deductible contributions to an individual retirement account or individual retirement annuity (IRA) up to the lesser of \$2,000 or compensation (wages and self-employment income). If the individual (or the individual's spouse) is an active participant in an employer-sponsored retirement plan, the \$2,000 limit on deductible contributions is phased out for couples filing a joint return with adjusted gross income (AGI) between \$40,000 and \$50,000, and for single taxpayers with AGI between \$25,000 and \$35,000. To the extent that an individual is not eligible for deductible IRA contributions, he or she may make nondeductible IRA contributions (up to the contribution limit).

The earnings on IRA account balances are not included in income until they are withdrawn. Withdrawals from an IRA (other than withdrawals of nondeductible contributions) are includable in income, and must begin by age 70½. Amounts withdrawn before age 59½ are generally subject to an additional 10 percent penalty tax. The penalty tax does not apply to distributions upon the death or disability of the taxpayer or withdrawals in the form of substantially equal periodic payments over the life (or life expectancy) of the IRA owner or over the joint lives (or life expectancies) of the IRA owner and his or her beneficiary.

Reasons for Change

The nation's savings rate has declined dramatically since the 1970s. The Administration believes that increasing the savings rate is essential if the United States is to sustain a sufficient level of private investment into the next century. Without adequate investment, the continued healthy growth of the economy is at risk. The Administration is also concerned that many households are not saving enough to provide for long-term needs such as retirement and education.

The Administration believes that individuals should be encouraged to save, and that tax policies can provide a significant incentive. Under current law, however, savings incentives in the form of deductible IRAs are not available to all middle-income taxpayers. Furthermore, the present-law income thresholds for deductible IRAs and the maximum contribution amount are not indexed for inflation, so that fewer Americans are eligible to make a deductible IRA contribution each year, and the amount of the maximum contribution is declining in real terms over time. The Administration also believes that providing taxpayers with the option of making IRA contributions that are nondeductible but can be withdrawn tax free will provide an alternative savings vehicle that some middle-income taxpayers may find more suitable for their savings needs.

Individuals save for many purposes besides retirement. Broadening the tax incentives for non-retirement saving can be an important element in any proposal to increase the nation's savings rate. Expanding the flexibility of IRAs to meet a wider variety of savings needs, such as first-time home purchases, higher education expenditures, unemployment and catastrophic medical and nursing home expenses, should prove to be more attractive to many taxpayers than accounts limited to retirement savings.

Proposal

Expand Deductible IRAs. Under the proposal the income thresholds and phase-out ranges for deductible IRAs would be doubled; therefore, eligibility would be phased out for couples filing joint returns with AGI between \$80,000 and \$100,000 and for single individuals with AGI between \$50,000 and \$70,000. The income thresholds and the present-law annual contribution limit of \$2,000 would be indexed for inflation. As under current law, any individual who is not an active participant in an employer-sponsored plan and whose spouse is also not an active participant would be eligible for deductible IRAs regardless of income.

Under the proposal, the IRA contribution limit would be coordinated with the current law limits on elective deferrals under qualified cash or deferred arrangements (sec. 401(k) plans), tax-sheltered annuities (sec. 403(b) annuities), and similar plans. The proposal also would provide that the present-law rule permitting penalty-free IRA withdrawals after an individual reaches age 59½ does not apply in the case of amounts attributable to contributions made during the previous five years. This provision does not apply to amounts rolled over from tax-qualified plans or tax-sheltered annuities.

These provisions would be effective January 1, 1996.

Special IRAs. Each individual eligible for a traditional deductible IRA would have the option of contributing an amount up to the contribution limit to either a deductible IRA or to a new "Special IRA." Contributions to a Special IRA would not be deductible, but if the contributions remained in the account for at least five years, distributions of the contributions and the earnings thereon would be tax-free. Withdrawals of earnings from Special IRAs during the five-year period after contribution would be subject to ordinary income tax. In addition, such withdrawals would be subject to the 10-percent penalty tax on early withdrawals unless used for one of the four purposes described below.

The proposal would permit individuals whose AGI for a taxable year did not exceed the upper end of the new income eligibility limits to convert balances in deductible IRAs into Special IRAs without being subject to the 10-percent tax on early withdrawals. The amount transferred from the deductible IRA to the Special IRA generally would be includable in the individual's income in the year of the transfer. However, if a transfer was made before January 1, 1997, the transferred amount included in the individual's income would be spread evenly over four taxable years.

The Special IRA provisions would be effective January 1, 1996.

Penalty-Free Distributions. Amounts could be withdrawn penalty-free from deductible IRAs and Special IRAs within the five-year period after contribution, if the taxpayer used the amounts to pay post-secondary education costs, to buy or build a first home, to cover living costs if unemployed, or to pay catastrophic medical expenses (including certain nursing home costs).

a. Education expenses

Penalty-free withdrawals would be allowed to the extent the amount withdrawn is used to pay qualified higher education expenses of the taxpayer, the taxpayer's spouse, the taxpayer's dependent, or the taxpayer's child or grandchild (even if not a dependent). In general, a withdrawal for qualified higher education expenses would be subject to the same requirements as the deduction for qualified educational expenses (*e.g.*, the expenses are tuition and fees that are charged by educational institutions and are directly related to an eligible student's course of study).

b. First-time home purchasers

Penalty-free withdrawals would be allowed to the extent the amount withdrawn is used to pay qualified acquisition, construction, or reconstruction costs with respect to a principal residence of a first-time home buyer who is the taxpayer, the taxpayer's spouse, or the taxpayer's child or grandchild. A first-time home buyer would be any individual (and if married, the individual's spouse) who (1) did not own an interest in a principal residence during the three years prior to the purchase of a home and (2) was not in an extended period for rolling over gain from the sale of a principal residence.

c. Unemployment

Penalty-free withdrawals could be made by an individual after the individual is separated from employment if (1) the individual has received unemployment compensation for 12 consecutive weeks and (2) the withdrawal is made in the taxable year in which the unemployment compensation is received or the succeeding taxable year.

d. Medical care expenses and nursing home costs

The proposal would extend to IRAs the present-law exception to the early withdrawal tax for distributions from tax-qualified plans and tax-sheltered annuities for certain medical care expenses (deductible medical expenses that are subject to a floor of 7.5 percent of AGI) and expand the exception for IRAs to allow withdrawal for medical care expenses of the taxpayer's child, grandchild, parent or grandparent, whether or not such person otherwise qualifies as the taxpayer's dependent.

In addition, for purposes of the exemption from the 10 percent tax on early withdrawals for distributions from IRAs, the definition of medical care would include expenses for qualified long-term care services for incapacitated individuals. Qualified long-term care services generally would be services that are required by an incapacitated individual, where the primary purpose of the services is to provide needed assistance with any activity of daily living or protection from threats to health and safety due to severe cognitive impairment. An incapacitated individual generally would be a person who is certified by a licensed professional within the preceding 12-month period as being unable to perform without substantial assistance at least two activities of daily living, or as having severe cognitive impairment.

These provisions would be effective January 1, 1996.

Revenue Estimate (in billions of dollars)

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Expanded individual retirement accounts	0	0.4	-0.3	-0.8	-1.0	-2.0	-3.8

INCREASE IN NUMBER OF EMPOWERMENT ZONES

Current Law

The Omnibus Budget Reconciliation Act of 1993 (OBRA '93) authorized a federal demonstration project in which nine empowerment zones and 95 enterprise communities would be designated in a competitive application process. Of the nine empowerment zones, six were to be located in urban areas and three were to be located in rural areas. State and local governments jointly nominated distressed areas and proposed strategic plans to stimulate economic and social revitalization. By the June 30, 1994 application deadline, over 500 communities had submitted applications.

On December 21, 1994, the Secretaries of the Department of Housing and Urban Development and the Department of Agriculture designated the empowerment zones and enterprise communities authorized by Congress in OBRA '93.

Among other benefits, businesses located in empowerment zones are eligible for three federal tax incentives: an employment and training credit; an additional \$20,000 per year of section 179 expensing; and a new category of tax-exempt private activity bonds. Businesses located in enterprise communities are eligible for the new category of tax-exempt bonds. OBRA '93 also provided that federal grants would be made to designated areas.

Reasons for Change

Because of the vast number of distressed urban areas and the need to revitalize these areas, the Administration believes that the number of authorized empowerment zones should be expanded, subject to budgetary constraints. Extending the tax incentives to economically distressed areas will help stimulate revitalization of these areas.

Proposal

The proposal would authorize the designation of two additional urban empowerment zones and would be effective on the date of enactment. No additional federal grants would be authorized. The sole effect of the proposal would be to extend the empowerment zone tax incentives to two additional areas.

Revenue Estimate (in billions of dollars)

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Increase in number of Empowerment Zones	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7

REDUCE VACCINE EXCISE TAXES

Current Law

The Vaccine Injury Compensation Program provides compensation for individuals who suffer certain injuries following the administration of the following vaccines: diphtheria, pertussis, and tetanus (DPT); diphtheria and tetanus (DT); measles, mumps, and rubella (MMR); and polio. Compensation is paid from the Vaccine Injury Compensation Trust Fund (Vaccine Trust Fund), which is funded by net revenues from a manufacturer's excise tax on DPT, DT, MMR, and polio vaccines. The excise tax per dose is \$4.56 for DPT, \$0.06 for DT, \$4.44 for MMR, and \$0.29 for polio vaccines. A vaccine for measles only, mumps only, or rubella only is taxed at the full MMR rate.

The Vaccine Injury Compensation Program provides compensation for adverse reactions to a vaccine only if the vaccine is included in the Vaccine Injury Table prescribed by the Department of Health and Human Services and is subject to the vaccine excise tax.

Reasons for Change

The Vaccine Trust Fund is overfunded. At the end of FY 1994 the trust fund balance was \$809 million and, at current tax rates, transfers to the trust fund will continue to exceed outlays by over \$50 million per year. While the current trust fund balance is an appropriate reserve against any unexpected increase in awards, future transfers to the trust fund should be brought in line with expected outlays by a reduction in the tax.

It is expected that *haemophilis influenzae* type b (Hib) and hepatitis type B (Hep B) vaccines, which are now routinely recommended for administration to children, will be added to the Vaccine Injury Table before the end of 1995. Those vaccines should also be added to the list of taxed vaccines.

Proposal

The Administration will submit a proposal to restructure the vaccine excise taxes. Revenues from these taxes will be reduced to approximately half the amounts expected under current law.

Revenue Estimate (in billions of dollars)¹

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Reduce vaccine excise taxes	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3

Net of income tax offset.

EARNED INCOME TAX CREDIT COMPLIANCE PROPOSALS

Current Law

To be eligible for the Earned Income Tax Credit (EITC), a taxpayer must reside in the United States for over six months. Nonresident aliens are not entitled to the EITC beginning in 1995. Other non-U.S. citizens are eligible for the EITC if, among other things, they meet a six-month residency requirement and do not file an income tax return as a non-resident alien.

To claim the higher EITC amounts available to taxpayers with qualifying children, those taxpayers are required to provide taxpayer identification numbers (TINs) for each qualifying child. Unless otherwise proscribed by regulation, social security numbers serve as TINs. Some taxpayers are unable to obtain social security numbers. Under section 205(c) of the Social Security Act, social security numbers are generally issued only to individuals who are citizens or who are authorized to work in the U.S. Undocumented workers may not be able to obtain social security numbers.

The IRS must follow deficiency procedures when investigating questionable EITC claims. First, contact letters are sent to the taxpayer. If the necessary information is not provided by the taxpayer, a statutory notice of deficiency is sent by certified mail, notifying the taxpayer that the adjustment will be assessed unless the taxpayer files a petition in Tax Court within 90 days. If a petition is not filed within that time and there is no other response to the statutory notice, the assessment is made and the EITC is denied.

Reasons for Change

The Administration believes that the EITC should not be available to individuals who are not authorized to work in the United States. During the past year, the Administration and Congress have taken steps to improve the administration of the EITC. Further steps are desirable to ensure that only the intended beneficiaries receive the EITC.

Proposal

Only individuals who are authorized to work in the United States would be eligible for the EITC. Taxpayers claiming the EITC would be required to provide a valid social security number for themselves, their spouses, and qualifying children. Social security numbers would have to be valid for employment purposes in the United States. Thus, eligible individuals would include U.S. citizens and lawful permanent residents. Taxpayers residing in the United States illegally would not be eligible for the credit.

In addition, the IRS would be authorized to use the math-error procedures, which are simpler than deficiency procedures, to resolve questions about the validity of a social security number. Under this approach, the failure to provide a correct social security number would

be treated as a math error. Taxpayers would have 60 days in which they could either provide a correct social security number or request that the IRS follow the current-law deficiency procedures. If a taxpayer failed to respond within this period, he or she would be required to refile with correct social security numbers in order to obtain the EITC.

These provisions would be effective for tax years beginning after December 31, 1995.

Revenue Estimate (in billions of dollars)²

	Fiscal Years						<u>Total</u>
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	
EITC compliance proposals	0	0	0.4	0.5	0.5	0.5	1.9

² Includes reduction in outlays.

**INTEREST AND DIVIDEND TEST
FOR EARNED INCOME TAX CREDIT**

Current Law

To be eligible to receive the Earned Income Tax Credit (EITC), an individual must have earned income. To target the EITC to low-income workers, the amount of the credit to which a taxpayer is entitled decreases when the taxpayer's earned income (or, if greater, adjusted gross income (AGI)) exceeds certain thresholds. The earned income and AGI thresholds are indexed for inflation and are also adjusted to take into account qualifying children. In 1995, a taxpayer with two or more qualifying children will not be eligible for the EITC if his or her income exceeds \$26,673. The income cut-offs decline to \$24,396 for a taxpayer with one qualifying child and \$9,230 for a taxpayer with no qualifying children.

Reason for Change

Under current law a taxpayer may have relatively low earned income, and therefore may be eligible for the EITC, even though he or she has significant interest and dividend income. The EITC should be targeted to families with the greatest need. Most EITC recipients do not have significant resources and must rely on earnings to meet their day-to-day living expenses, but taxpayers with high levels of interest and dividend income can draw upon the resources that produce this income to meet family needs.

Proposal

Beginning in 1996, a taxpayer would not be entitled to the EITC if his or her aggregate interest and dividend income during a taxable year exceeds \$2,500. This threshold would be indexed for inflation thereafter.

Revenue Estimate (in billions of dollars)³

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Interest and dividend test for Earned Income Tax Credit	0	*	0.3	0.3	0.4	0.4	1.4

* Revenue gain of less than \$50 million

³ Includes reduction in outlays.

TAX RESPONSIBILITIES OF AMERICANS WHO RENOUNCE CITIZENSHIP

Current Law

Under current law, worldwide gains realized by U.S. citizens and resident aliens are subject to U.S. tax. Existing rules recognize that the United States has a tax interest in preventing tax avoidance through renunciation of citizenship. These rules continue to tax former U.S. citizens on U.S. source income for ten years following renunciation of citizenship if one of the principal purposes of the renunciation was to avoid U.S. income tax. A similar rule applies to aliens who cease to be residents.

Reasons for Change

Wealthy U.S. citizens and long-term residents sometimes abandon their U.S. citizenship or status as residents. Existing rules to prevent tax avoidance through expatriation have proven largely ineffective because departing taxpayers have found ways to restructure their activities to avoid those rules, and compliance with the rules is difficult to monitor. Consequently, existing measures need to be enhanced to ensure that gains generally accruing during the time a taxpayer was a citizen or long-term permanent resident will be subject to U.S. tax at the time the taxpayer abandons citizenship or residency.

Proposal

Existing rules would be expanded to provide that if a U.S. person expatriates on or after February 6, 1995, the person would be treated as having sold his or her assets at fair market value immediately prior to expatriation and gain or loss from such sale would be recognized and would be subject to U.S. income tax. A U.S. citizen would be considered to expatriate if the citizen renounces or abandons U.S. citizenship. A resident alien individual would be taxed under this proposal if the alien has been subject to U.S. tax as a lawful permanent resident of the United States in at least ten of the prior fifteen taxable years and then ceases to be subject to U.S. tax as a resident.

For this purpose, a taxpayer would be treated as owning those assets that would be included in the taxpayer's gross estate (determined as if the taxpayer's estate had been created on the date of expatriation) as well as, in certain cases, the taxpayer's interest in assets held in certain trusts (defined below in Section II of the foreign trust discussion). Exceptions to the tax on expatriation would be made for most U.S. real property interests (because they remain subject to U.S. taxing jurisdiction) and interests in qualified retirement plans. An expatriating individual also would be entitled to exclude \$600,000 of gain as determined under the proposal.

The IRS may allow a taxpayer to defer payment of the tax on expatriation with respect to interests in closely-held businesses. In those cases, the taxpayer would be required

to provide collateral satisfactory to the IRS. Payment of tax could not be deferred for more than five years, and an interest charge would be imposed on the deferred tax.

Solely for purposes of determining gain or loss subject to the tax on expatriation, a resident alien individual would be permitted to elect to determine basis using the fair market value (instead of historical cost) of assets owned on the date when U.S. residence first began. If made, this election would apply to all of a taxpayer's property.

This proposal would replace existing income tax rules with respect to expatriations on or after February 6, 1995. Existing rules that apply to taxes other than income taxes would continue to apply.

Revenue Estimate (in billions of dollars)

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Tax responsibilities of Americans who renounce citizenship	0.1	0.2	0.3	0.4	0.5	0.7	2.2

REVISE TAXATION OF INCOME FROM FOREIGN TRUSTS

U.S. tax rules applicable to foreign trusts have not been revised for nearly two decades. New rules are needed to accommodate changes in the use and incidence of foreign trusts and to limit the avoidance and evasion of U.S. taxes. The Administration proposals would reform the taxation of foreign trusts in five respects.

I. INFORMATION REPORTING AND FOREIGN TRUSTS

Current Law

Under current law, most foreign trusts established by U.S. persons are grantor trusts, the income of which is taxed to the grantor. U.S. persons who create or transfer property to foreign trusts are required to report transactions with the foreign trust to the IRS.

Reasons for Change

The existing information reporting statute predates the significant expansion of the foreign grantor trust rules in 1976. In general, penalties for noncompliance with reporting requirements are minimal. U.S. grantors of foreign trusts often do not report the income earned by foreign trusts and often do not comply with required information reporting. These foreign trusts are frequently established in tax haven jurisdictions with stringent secrecy rules. Consequently, the IRS's attempts to verify income earned by foreign trusts are often unsuccessful. Existing penalties have not proven adequate to encourage some U.S. taxpayers to comply with existing rules.

Proposal

Notice of Transfer. Section 6048 would require U.S. persons transferring property to foreign trusts to notify the IRS. This notice would identify the trustee of the foreign trust, indicate the property transferred to the trust, and identify the trust beneficiaries.

If a transferor did not file the required notice, a penalty would be imposed equal to 35 percent of the gross value of the property transferred, valued as of the date of transfer. This penalty would not be less than \$10,000, and could be further increased for continuing noncompliance.

Trustee Statements. Section 6048 would require trustees of any foreign trust with a U.S. grantor or a U.S. beneficiary to file two types of statements: a "Section 6048 Statement" and an annual information return. In the Section 6048 Statement, the trustee would be required to:

- 1) appoint a U.S. agent (whether or not a trustee) who has the ability to provide any information that reasonably should be available to the trust in response to requests by the IRS; and
- 2) agree to file an annual information return for the foreign trust.

The annual information return would be required to include a full accounting of trust activities, including separate schedules (K-1s) for income attributable to U.S. grantors or U.S. beneficiaries, as appropriate. The foreign trust would not be considered to have an office or permanent establishment in the United States merely because of the section 6048 activities of its U.S. agent.

There would be two consequences if the trustee of the foreign trust did not file a Section 6048 Statement or the required annual information return. First, the U.S. settlor of a foreign trust would be subject to a \$10,000 penalty for each failure to file a Section 6048 Statement or annual information return. This penalty would be increased for continuing noncompliance. Second, the IRS would be authorized to determine, in its discretion, the tax consequences of any trust transactions or operations to a U.S. grantor or U.S. beneficiary. Thus, for example, the IRS could impose a gift tax on property transferred to the foreign trust. In appropriate circumstances, the IRS could also impute taxable income to the U.S. settlor based on the value of assets transferred to or held in the foreign trust. A distribution to a U.S. beneficiary could be deemed to come from income accumulated in the year the trust was organized (or an alien beneficiary's first year of U.S. residence, if later). Although the trustee would have an incentive to file the trustee statements to avoid adverse U.S. tax consequences to U.S. grantors and U.S. beneficiaries, there would be no penalties directly imposed on a trustee for the failure to file those statements.

The Secretary would be authorized to waive any information reporting requirements when there was no significant U.S. tax interest in obtaining the information. Penalties would not be imposed if the taxpayer acted with reasonable cause and not willful neglect.

These proposals generally would be effective for trust taxable years beginning after the date of enactment.

II. OUTBOUND FOREIGN GRANTOR TRUSTS

Current Law

Under section 679, a foreign trust established by a U.S. person for the benefit of U.S. persons generally is a "grantor trust", and the grantor is treated as owner of property transferred to the trust. There are, however, some transfers that are not covered by this general rule. First, transfers by reason of death are not subject to section 679. Second, sales of property to a foreign trust at fair market value are not subject to section 679. Third, if a foreign person transfers property to a foreign trust for the benefit of a U.S. person and

then becomes a resident of the United States, section 679 does not apply to the transfer. Finally, current rules do not clearly address the tax consequences for a domestic trust that becomes a foreign trust.

Reasons for Change

Tax planning to avoid or defer recognition of income from foreign trusts often utilizes the exceptions to section 679. For example, a foreign trust may be established by will upon the death of a U.S. person for the benefit of U.S. persons. Because the trust is not a grantor trust, the income of the trust is not subject to U.S. tax until distributed to a U.S. person, even though the trust was created by a U.S. person for the benefit of a U.S. person.

U.S. persons also sometimes attempt to avoid section 679 by selling property to a foreign trust in exchange for a note from the trust. Often, the U.S. transferor does not intend to collect on the note. In such a case, the purported seller of the assets should be treated as owning the assets transferred to the trust. (If there is no *bona fide* debt, these transactions are subject to challenge under current law, because the exchange would not be at fair market value.)

Prior to becoming residents of the United States, foreign persons often put their assets into irrevocable trusts in tax haven jurisdictions for the benefit of U.S. persons. As a result, the trust income escapes U.S. tax until distribution.

Further, as tax haven jurisdictions enact legislation to enable U.S. trusts to move to those jurisdictions, trust migrations are becoming more common. Taxpayers should not be able to achieve tax results through migration of a domestic trust that they could not achieve directly by creating a foreign trust.

Finally, the inadequacy of the existing attribution rules as they apply to discretionary beneficiaries encourages taxpayers to avoid the appropriate tax consequences of their transactions by disguising true economic ownership of assets through the use of foreign discretionary trusts.

Proposal

The Administration proposes several changes to section 679, described below.

Transfers at Death. Property transferred to a foreign trust at the death of a trust grantor (including property in a foreign grantor trust at the grantor's death) would be treated as having been transferred to the trust by the beneficiaries in accordance with their respective interests in the trust (described below) in a transaction in which no gain or loss would be recognized. U.S. beneficiaries therefore would become grantors for purposes of section 679. These proposals would be effective for assets transferred to foreign trusts after the date of enactment.

Sales to Foreign Trusts. The sale of property to a foreign trust by a U.S. person would be considered a transfer to a grantor trust under section 679 unless the trust pays the grantor full fair market value for the property without regard to any debt obligation received by the transferor issued by the trust, the grantor, a beneficiary, or a person related to the grantor or beneficiary or guaranteed by any such person. Exceptions would be provided for legitimate commercial transactions, such as credit extended by unrelated persons. A transferor would not be treated as receiving fair market value for property transferred in a deemed sale (pursuant to an election under section 1057 or otherwise). These proposals would be effective for assets transferred to foreign trusts on or after February 6, 1995.

Pre-immigration Trusts. If a foreign person transfers property to a foreign trust and becomes a U.S. person within five years of the transfer, the trust would be considered a grantor trust under section 679 with respect to such transferred assets if the trust has U.S. beneficiaries after the grantor becomes a U.S. person. This proposal would be effective for assets transferred to foreign trusts on or after February 6, 1995.

Outbound Trust Migrations. For purposes of section 679, if a domestic trust becomes a foreign trust, the trust assets would be deemed to have been transferred to the trust by the beneficiaries in accordance with their respective interests in the trust (defined below) in a transaction in which no gain or loss is recognized. Thus, any U.S. beneficiaries would be considered to be grantors of their respective interests in the foreign trust for purposes of section 679. However, if the IRS determines that the domestic trust was established pursuant to a plan to retransfer assets to a foreign trust, the IRS would be permitted to treat the U.S. settlor of the domestic trust as grantor of the foreign trust for purposes of section 679. The proposal would be effective for assets transferred to foreign trusts on or after February 6, 1995.

Determination of Respective Interests. For purposes of preventing abusive transactions designed to avoid section 679 and the tax on expatriation, a beneficiary's respective interest in a trust would be based on all relevant facts and circumstances, including the terms of the trust instrument. Other relevant factors may include letters of wishes or similar documents, patterns of historical trust distributions, and the existence of and functions performed by a trust protector or any similar advisor. If the respective interests of beneficiaries in a discretionary trust cannot otherwise be determined, those beneficiaries with the closest degree of family affiliation to the settlor could be presumed to have equal proportionate interests in the trust.

The proposal would apply the attribution rules for discretionary beneficiaries only to the abusive situations under section 679 described above and to the tax on expatriation of U.S. citizens and residents, but would not directly apply the attribution rules for other purposes (*e.g.*, to determine if a discretionary beneficiary is a U.S. shareholder of a controlled foreign corporation that is owned by the trust). The determination of respective interests for purposes of the tax on expatriation by U.S. citizens and residents would be effective for expatriations occurring on or after February 6, 1995.

III. INBOUND FOREIGN GRANTOR TRUSTS

Current Law

The United States disregards certain "grantor" trusts for income tax purposes. This treatment is designed to prevent abuses arising from attempts to shift income to beneficiaries who are likely to be paying taxes at lower rates than the grantor of the trust. Consequently, under existing anti-abuse rules, the grantor of such a trust is taxed as if he owned the trust assets directly. Trusts generally are considered grantor trusts if (1) the grantor has a reversionary interest in trust income or corpus, (2) the grantor or a nonadverse party holds certain powers over the beneficial enjoyment of trust income or corpus, (3) certain administrative powers are exercisable for the grantor's benefit (*e.g.*, the grantor can reacquire trust assets by substituting assets of equivalent value), (4) the grantor or a nonadverse party has the power to revest trust assets in the grantor, or (5) trust income may be paid or accumulated for the benefit of the grantor or the grantor's spouse in the discretion of the grantor or a nonadverse party. A person other than the grantor is treated as owning trust assets if that person has the power to withdraw trust income or corpus.

The IRS has issued a revenue ruling in which a foreign person funded a foreign grantor trust for U.S. beneficiaries. The ruling holds that since the foreign person is treated as the owner of the grantor trust, a U.S. beneficiary is not taxable on trust distributions.

Reasons for Change

Existing law inappropriately permits foreign taxpayers to affirmatively use the domestic anti-abuse rules concerning grantor trusts. Although current law treats a foreign grantor as the owner of the trust assets, the foreign grantor generally is not subject to U.S. tax on income of the trust. These rules therefore permit U.S. beneficiaries, who enjoy the benefits of residing in the United States, to avoid U.S. tax on trust income. U.S. beneficiaries should be appropriately taxed in the United States.

Proposal

Under the proposal, a person would be treated as owning trust assets under the grantor trust rules only if that person is a U.S. citizen, U.S. resident, or domestic corporation. The IRS may prescribe rules for applying the grantor trust rules to settlors that are partnerships, trusts, and estates to the extent that the beneficial interests in such entities are owned by U.S. citizens, U.S. residents, or domestic corporations. A U.S. person receiving distributions of trust income as result of this provision would be allowed to claim a foreign tax credit for foreign taxes paid on trust income by the trust or the foreign grantor.

Several related provisions are proposed to enforce these rules. First, enhanced authority would be granted to the IRS to prevent the use of nominees to evade these rules. For this purpose, a *bona fide* settlor of a trust with power to withdraw income or corpus from the trust would normally not be considered a nominee. Second, new rules would

harmonize the treatment of purported gifts by corporations and partnerships with the new foreign grantor trust rules. Third, U.S. persons would be required to report the receipt of what they claim to be large gifts from foreign persons in order to allow the IRS to verify that such purported gifts are not, in fact, disguised income to the U.S. recipients.

If a trust that is a grantor trust under current law becomes a nongrantor trust pursuant to this rule, the trust would be treated as if it were resettled on the date the trust becomes a nongrantor trust. Neither the grantor nor the trust would recognize gain or loss. If a resettled domestic trust that has a foreign grantor became a foreign trust before December 31, 1995, the section 1491 excise tax on outbound transfers of assets would not be applied to the transfer by the domestic trust to the new foreign trust. Otherwise, this proposal would be effective on the date of enactment of this provision. These rules would not apply to normal security arrangements involving a trustee (including the use of indenture trustees and similar arrangements).

IV. FOREIGN NONGRANTOR TRUSTS

Current Law

Accumulation distributions. U.S. beneficiaries of foreign trusts are subject to a nondeductible interest charge on distributions of accumulated income earned by the trust in earlier taxable years. The charge is based on the length of time the tax was deferred by deferring distributions of accumulated income. Under existing law, the interest charge is equal to six percent simple interest per year multiplied by the tax imposed on the distribution. If adequate records are not available to determine the portion of a distribution that is accumulated income, the distribution is deemed to be an accumulation distribution from the year the trust was organized.

Constructive Distributions. The tax consequences of the use of trust assets by beneficiaries is ambiguous under current law. Taxpayers may assert that a beneficiary's use of assets owned by a trust does not constitute a distribution to the beneficiary.

Reasons for Change

Accumulation distributions. Interest paid by U.S. beneficiaries of foreign trusts should reflect market rates of interest.

Constructive distributions. If a corporation makes corporate assets available for a shareholder's personal use (e.g., a corporate apartment made available rent-free to a shareholder), the fair market value of the use of that property is treated as a constructive distribution. Further, if a controlled foreign corporation makes a loan to a U.S. person, the loan is treated as a deemed distribution by the foreign corporation to its U.S. shareholders. The use of foreign trust assets by trust beneficiaries should give rise to tax consequences that are similar to those associated with the use of corporate assets by corporate shareholders.

Proposal

Accumulation distributions. For periods of accumulation after December 31, 1995, the rate of interest charged on accumulation distributions would correspond to the interest rate taxpayers pay on underpayments of tax. If a trust does not provide information required under section 6048, the distribution would be deemed to be from income accumulated in the year the trust was organized (or an alien beneficiary's first year of U.S. residence, if later). If a taxpayer is not able to demonstrate when the trust was created, the IRS may use any approximation based on available evidence.

Taxpayers have used a variety of methods (*e.g.*, tiered trusts, divisions of trusts, mergers of trusts, and similar transactions with corporations) to convert a distribution of accumulated income into a distribution of current income or corpus. The proposal would authorize the IRS to recharacterize such transactions, effective for transactions or arrangements entered into after the date of enactment. Transactions that may be entered into to avoid the interest charge on accumulation distributions (*e.g.*, excessive "compensation" paid to trust beneficiaries who are directors of corporations owned by the foreign trust) may be subject to recharacterization.

The proposal also clarifies existing law by providing that if an alien beneficiary of a foreign trust becomes a U.S. resident and thereafter receives an accumulation distribution, no interest would be charged for periods of accumulation that predate U.S. residency.

Constructive distributions. If a beneficiary uses assets of a foreign trust, the value of that use would be a constructive distribution to the beneficiary. Thus, if a foreign trust made a residence available for use by a beneficiary (or a related person), the difference between the fair rental value of the residence and any rent actually paid would be treated as a constructive distribution to that beneficiary. If a foreign trust purported to loan cash (or cash equivalents) to a U.S. beneficiary, the loan would be treated as a constructive distribution by the foreign trust to the U.S. beneficiary. These provisions would not apply if constructive distributions did not exceed \$2,500 during a taxable year. The provisions would be effective for taxable years of a trust that begin after the date of enactment.

V. RESIDENCE OF TRUSTS

Current Law

Under current law, a "foreign estate or trust" is an estate or trust the "income of which, from sources without the United States which is not effectively connected with the conduct of a trade or business within the United States, is not includable in gross income under subtitle A" of the Internal Revenue Code. This definition does not provide criteria for determining when an estate or trust is foreign.

Court cases and rulings indicate that the residence of an estate or trust depends on various factors, such as the location of the assets, the country under whose laws the estate or

trust is created, the residence of the fiduciary, the nationality of the decedent or settlor, the nationality of the beneficiaries, and the location of the administration of the trust or estate. See e.g., *B.W. Jones Trust v. Comm'r*, 46 B.T.A. 531 (1942), *aff'd*, 132 F.2d 914 (4th Cir. 1943).

Reasons for Change

Present rules provide insufficient guidance for determining the residence of estates and trusts. Because the tax treatment of an estate, trust, settlor, or beneficiary may depend on whether the estate or trust is foreign or domestic, it is important to have an objective definition of the residence of an estate or trust. Reducing the number of factors used in determining the residence of estates or trusts for tax purposes would increase the flexibility of settlors and trust administrators to decide where to locate and in what assets to invest. For example, if the location of the administration of the trust were no longer a relevant criterion, settlors of foreign trusts would be able to choose whether to administer the trusts in the United States or abroad based on non-tax considerations.

Proposal

An estate or trust would be considered a domestic estate or trust if two factors were present: (1) a court within the United States is able to exercise primary supervision over the administration of the estate or trust; and (2) a U.S. fiduciary (alone or in concert with other U.S. fiduciaries) has the authority to control all major decisions of the estate or trust. A foreign estate or trust would be any estate or trust that is not domestic.

The first factor would be fulfilled only if a U.S. court had authority over the entire estate or trust, and not if it merely had jurisdiction over certain assets or a particular beneficiary. Normally, the first factor would be satisfied if the trust instrument is governed by the laws of a U.S. state. One way to satisfy this factor is to register the estate or trust in a state pursuant to a state law which is substantially similar to Article VII of the Uniform Probate Code as published by the American Law Institute. The second factor would normally be satisfied if a majority of the fiduciaries are U.S. persons and a foreign fiduciary (including a "protector" or similar trust advisor) may not veto important decisions of the U.S. fiduciaries. In applying this factor, the IRS would allow an estate or trust a reasonable period of time to adjust for inadvertent changes in fiduciaries (e.g., a U.S. trustee dies or abruptly resigns where a trust has two U.S. fiduciaries and one foreign fiduciary).

The new rules defining domestic estates and trusts would be effective for taxable years of an estate or trust that begin after December 31, 1996. The delayed effective date is intended to allow estates and trusts a period of time to modify their governing instruments or to change fiduciaries. Moreover, taxpayers would be allowed to elect to apply these rules to taxable years of an estate or trust beginning after the date of enactment.

Revenue Estimate (in billions of dollars)

	Fiscal Years						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Revise taxation of income from foreign trusts (sections I - V)	0.1	0.3	0.5	0.5	0.5	0.6	2.4

PROPOSALS TO IMPROVE TAX ADMINISTRATION AND COMPLIANCE

The Administration continues to support revenue-neutral initiatives to promote sensible and equitable administration of the internal revenue laws. These include simplification, technical corrections, and taxpayer compliance measures, including the reinstatement of authority to share information on cash transaction reports within the law enforcement community and to fund undercover operations. In addition, we support and want to work with Congress on the following proposals:

- intermediate sanctions and disclosure requirements to improve public charities' compliance with the requirements for tax-exempt status;
- a package of compliance and administrative initiatives that would assist the IRS's efforts to modernize and streamline its operations, to alleviate taxpayer burdens by facilitating the payment of taxes and filing of tax returns, and to rationalize existing rules to treat taxpayers more fairly; and
- modifications to improve compliance with diesel dyeing requirements and to facilitate refunds of the excise tax on the sale of certain fuels.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 6, 1995

Contact: Scott Dykema
(202) 622-2960

MEDIA ADVISORY

Copies of the Treasury Department's "green book" explaining the tax proposals in President Clinton's fiscal 1996 budget are now available.

Copies of the report, "General Explanations of the Administration's Revenue Proposals," may be picked up at the Courier Entrance, Main Treasury, 1500 Pennsylvania Ave., N.W.

A copy of the 27-page report can also be faxed by calling the Office of Public Affairs 24-hour fax service at (202) 622-2040. Key in the number "58" when asked for a document number.

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RR-59



TREASURY



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For Release Upon Delivery
Expected at 9:00 a.m.
February 7, 1995

**STATEMENT OF ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE SENATE BUDGET COMMITTEE**

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the President's proposed Budget for the 1996 Fiscal Year. I've been in office less than a month, but I am doing something not many Treasury Secretaries get to do: presenting a budget that cuts the deficit and cuts taxes. I am also doing something that you would have to go back 16 Treasury Secretaries to sometime in the Truman Administration to find: announcing that our budget deficit will decline for three years in a row.

As Treasury Secretary, my testimony will focus on broad policy issues and on the revenue proposals set forth in our budget. OMB Director Alice Rivlin will testify before you tomorrow. She will provide greater detail on the program side.

Every Administration's agenda is contained in its proposed budgets. President Clinton, from the beginning of this Administration, has had a broad-based economic strategy to stimulate and then protect the recovery, to position the country for the long-term, and to increase the incomes of working Americans.

Prior to joining Treasury, I assisted the President in setting our overall policies. I know how deeply he feels about continuing to move forward on his full economic strategy, which includes fiscal discipline, boosting both private and public investment to increase long-run productivity, opening markets, reforming government and regulation, and achieving health care and welfare reform.

This morning, I would like to summarize briefly what we have achieved, where we are now, and where we are headed, with special attention to the President's proposed



Middle-Class Bill of Rights.

What Have We Achieved to Date?

When the President came into office, the economy may have been in recovery, but the recovery was weak and uncertain. Employment growth, in particular, had lagged far behind normal expectations. Large federal budget deficits, which were increasing rapidly as a percent of GDP even as the economy was recovering, created an unstable economic environment. Escalating structural deficits were a clear signal that the chances of an eventual severe financial crisis were on the rise. Prudent business people were reluctant to hire or to invest in this unstable environment. As a result, Americans were experiencing a jobless recovery.

Thus, the first necessary economic move was to bring the deficit under control. Working with Congress, we enacted a powerful deficit reduction program. The \$505 billion deficit reduction package was achieved largely through spending cuts of \$255 billion over five years, including freezing discretionary spending at 1993 levels, and raising income tax rates on only the 1.2 percent of Americans with highest incomes.

We also introduced plans to reduce the size of government. The President's Reinventing Government initiative called for reducing the federal work force by 272,900 over five years, bringing government employment back to levels not seen since John Kennedy was President.

At the same time that we were cutting spending and government employment, we were able to reduce taxes for millions of lower- and moderate-income working individuals and families, and to offer tax relief for small businesses.

The net effect of our plan was to bring the deficit down: from \$290 billion in 1992 to what we now project as \$193 billion this year. The deficit as a share of GDP went from 4.9 percent in 1992 to a projected 2.7 percent for 1995.

I worked in financial markets for 26 years, and I have no doubt that our aggressive deficit reduction program was, in large measure, responsible for the decline in interest rates which in turn was key to jump-starting the economy in 1993. Deficit reduction also reduced uncertainty about our fiscal future and restored confidence conducive to investment.

In addition to addressing the deficit problem, we also made sure that American businesses had access to the credit they needed. When President Clinton took office, small- and medium-sized businesses were facing a "credit crunch." In response, President Clinton announced a program of regulatory and administrative changes to reduce impediments and increase the availability of credit.

The combination of these policies, a sound fiscal environment and increased availability of credit, has paid off. We now have a strong investment-led recovery that is creating jobs. The first chart at the end of this statement shows that business investment in equipment has increased dramatically under the Clinton Administration. As a percent of real GDP, business equipment investment is at an all-time high.

Most important, as we have cut the deficit and reduced federal employment, the economy has created 5.7 million jobs, putting an end to the jobless recovery. Note that 5.3 million, or 93 percent, of these jobs were created in the private-sector (see attached chart). At the same time, the unemployment rate has declined from 7.1 percent to 5.7 percent. Some say that all these new jobs are in low-paying industries, but that view is incorrect. Over the past year, the number of jobs in construction, which pays 30 percent more than the average wage, has surged by some 325,000. The decline in manufacturing jobs has turned around: factory employment is up 290,000. The high-paying wholesale trade and transportation and public utilities industries provided an additional 295,000 jobs.

All this investment and employment growth has occurred in an environment of low inflation--an absolutely critical objective of this Administration. Even with the strength of the current recovery, inflation has remained under control. The increase in the consumer price index has come in under 3.0 percent for each of the last three years. We see virtually no evidence of cost-push inflation pressure from wages. Growth of the employment cost index--the most reliable measure of labor costs--was lower in 1994 than it had been in 1993.

We have also established the basis for growth of future wages and living standards through our trade liberalization policies. We worked hard to enact NAFTA and GATT because we believe American workers will benefit. In an increasingly integrated world, we are going to have to look outward rather than inward if we are going to stay on top. Moreover, jobs in export industries are more productive than average and pay about 10 to 20 percent more than average. That means shifting the composition of GDP toward more exports automatically shifts the economy toward better paying jobs.

Where Are We Now?

As successful as economic performance has been in the last two years, getting the economy moving and creating jobs in the short term was only part of the challenge. In the longer run, the key test of this Administration will be whether it has succeeded in raising productivity growth--because that is the only way to create higher wages and higher standards of living.

I want to emphasize that productivity growth is not an academic abstraction. In the final analysis, increases in workers' incomes cannot be sustained without increases in productivity--in the amount produced per hour worked. Productivity growth has been

extremely slow over the past twenty years. And slow productivity growth has meant slow growth in workers' incomes.

This slow growth in average wages has been accompanied by an unequal distribution of income gains. As you can see from the attached chart, in the past fifteen years, those with incomes in the lowest fifth of American households have seen their real incomes fall below the levels attained by their counterparts in 1980; those in the top fifth have seen their incomes rise by 21 percent; and the middle has stood still.

The unequal distribution of income gains over the past fifteen years has put very real pressures on middle-class families. Their standards of living have failed to match their legitimate expectations. Dealing with this problem is at the heart of the President's budget and his Middle-Class Bill of Rights.

Where Do We Go from Here?

This budget emphasizes a three part strategy to promote growth and improve middle-class incomes: 1) maintaining long-term fiscal discipline, 2) providing tax relief for the middle class, and 3) increasing investment in workers through education and training, as well as in machines and buildings. This is the approach that the President has outlined in his budget.

Maintaining Fiscal Discipline

This Administration fought hard to break the back of the cycle of ever-increasing deficits. But it is not enough to reduce the deficit for three years in a row. We are concerned both about the pattern of projected deficits over the next five years and also about the pattern after the turn of the century.

For the next five years, this budget maintains the progress on deficit reduction made in OBRA '93. As I said earlier, our projections show the budget deficit dropping in 1995 for the third straight year, this time to \$193 billion. After 1995, the deficit, measured in dollar terms, fluctuates in a narrow range before falling back to \$194 billion in 2000.

More important than stabilizing the deficit in dollar terms is reducing the deficit as a share of GDP. Between 1995 and 2000, the deficit-to-GDP ratio falls from 2.7 percent to 2.1 percent. We haven't seen numbers in that range since 1979.

Further, the attached chart shows that the deficit as a share of GDP has been cut in half from what was projected before passage of the 1993 deficit reduction package, fulfilling the President's promise.

This year, we continue our deficit reduction efforts and lower taxes by making

substantial cuts in spending. Budget cuts come from three areas. Restructuring government saves about \$26 billion. Most of that \$26 billion is the result of fundamental changes in five agencies--the Departments of Transportation (DOT), Energy (DOE), and Housing and Urban Development (HUD), the General Services Administration (GSA), and the Office of Personnel Management (OPM). Additional efforts are aimed at terminating certain agencies and programs and restructuring others. In addition, we propose to turn over to the private sector or to state governments activities that they are well positioned to carry out themselves.

We have already had real success in this area. The President's reinventing government initiative has already reduced the federal work force by 102,500 positions. Currently, the federal work force as a share of total employment is at its lowest point since the 1930's. In addition, Congress has enacted \$63 billion of the \$108 billion in reinventing government savings proposed by the Administration. The goal is to make government even smaller and to make it work better for all Americans.

In addition, further lowering of discretionary spending caps from 1996 through 1998 and extending them for two years beyond their scheduled expiration in 1998 produces an additional \$80 billion in savings. The budget contains specific proposals to achieve these savings. The net result of extending the caps and making the cuts will be to keep discretionary spending virtually constant in nominal dollars from 1996 through 2000.

Finally, \$32 billion in savings comes primarily from the mandatory side of the budget through continuing some existing health care savings, imposing user fees for the lucrative electro-magnetic spectrum, accelerating student loan savings, and reducing certain agricultural programs. The remaining \$5 billion of deficit reduction comes primarily from lower debt service, as a result of our success in lowering the deficit.

Together, our program cuts and projected debt service reductions save \$144 billion between 1996 and 2000. The President has proposed using \$63 billion of these savings to provide tax relief to middle-income families as part of his Middle-Class Bill of Rights. The remaining \$81 billion is for deficit reduction.

If our proposed policies are continued beyond the year 2000, we now project that the fiscal year 2005 deficit will be only 1.6 percent of GDP. This good news comes from two developments. First, for the ten-year period from fiscal year 1995 to fiscal year 2005, the President's budget proposals produce substantial deficit reduction. Second, our new budget baseline projects lower spending for Medicare and Medicaid, based on the latest growth rate estimates from the actuaries at the Health Care Financing Administration.

Administration estimates of deficits in the out-years are noticeably lower than estimates that have been recently produced by the Congressional Budget Office. There

are several reasons for this.

First, CBO's baseline, by convention, does not include any deficit reduction proposals. The President's budget proposes substantial deficit reduction over the next ten years.

Second, the Administration's baseline estimates include recent revisions to projected costs of Federal health care programs made by the actuaries at the Health Care Financing Administration. I do not believe that the latest CBO estimates incorporate the full revisions from the actuaries.

Third, over the long term, the Administration has a slightly more optimistic rate of growth for productivity--by one or two tenths of one-percent--than does CBO. By 2005, even very small differences in projected growth rates materially affect deficit projections.

In other words, there are straightforward explanations of the differences between our numbers and CBO's, and we are very comfortable with all our projections.

While we are confident that the deficit outlook for the next ten years is good, all observers agree that the deficit will eventually turn upward. The problems are an increasingly aging population and rapidly rising health care costs. We cannot do anything about the projected demographic shifts, but we need to do something about health care as soon as possible. If we want to maintain fiscal discipline over the long run, we must reform health care.

Before we leave our deficit discussion, let me make two additional points. First, let me refer you to an enlightening chart. This chart shows the difference between program expenditures and revenues for the Clinton Administration and for each of the last eight Administrations. Under President Clinton--for the first time since the 1960s--expenditures on government programs are less than the taxes paid by the American people. We have a deficit solely because of the burden of paying interest on the debt run up largely as a result of the deficits of the 1980s--not because we're overspending today.

The second general point I'd like to make is that I believe the way to achieve deficit reduction is through deliberate and thoughtful policy choices, not through a balanced budget amendment that greatly increases macroeconomic risk in our economy and involves spending cuts that have not been specified at the time the decision on a balanced budget amendment is made.

Providing Tax Relief for Middle-Income Americans

Let me now turn to the centerpiece of the President's budget. On December 15, 1994, President Clinton announced in an Oval Office address his "Middle-Class Bill of Rights." A major piece of his initiative is providing tax relief for middle-income families.

A middle-class tax cut has always been a goal of this Administration. In 1993, however, the Administration faced a deficit crisis larger than had been predicted at the start of 1992. Bringing the deficit under control, and directing tax relief to lower and moderate income Americans were our first priorities.

Due to strong, effective leadership and tough choices, the deficit reduction program has been even more of a success than expected. However, incomes of many working American families have lagged behind--even in the last two years, when growth in the economy has been brisk.

The President's tax cuts will not only provide immediate relief to financially-strapped middle-income families but also will help these families save and invest so that they will become more productive and enjoy higher future standards of living. Individual tax relief coupled with savings and investment will boost American productivity, providing the foundation for sustained increases in real incomes.

The Administration's tax cut is targeted squarely at middle-income families. The attached chart illustrates that a full 86 percent of the benefits of this tax cut will go to families with incomes between \$20,000 and \$100,000.

The tax cuts in the President's Middle-Class Bill of Rights have three elements, aimed at strengthening families, promoting education, and encouraging savings.

\$500 Child Tax Credit: This credit is designed to help younger families, where economic pressure often tends to be greatest, to better provide child care, after-school activity, and the other requisites for good child rearing. This is an investment in children--the future of our country. A \$500 (when fully phased in) non-refundable credit will be allowed for each dependent child under 13. Between 1996 and 1998, the maximum credit would be \$300. This credit would reduce the federal income tax burden of a typical two-child family with an income of \$50,000 by 21 percent. The credit will be phased out for taxpayers with initial Adjusted Gross Incomes (AGI) between \$60,000 and \$75,000. No credit will be available to taxpayers with AGI in excess of \$75,000.

Deduction for Post-Secondary Education Expenses: This deduction can be used for education and training expenses for all members of the family, including spouses and children, and should better enable middle-income families to obtain the education and skills that will equip them to function effectively in a modern economy. This deduction is used in determining a taxpayers AGI (that is, taken above the line) and is, therefore,

available to those who do not itemize their deductions as well as to those who do itemize. The maximum allowable deduction would be phased out ratably for taxpayers filing a joint filers with AGI (before the deduction) between \$100,000 and \$120,000 (\$70,000-\$90,000 for individuals). The maximum deduction would be \$5,000 in 1996-1998 and \$10,000 thereafter.

This proposed tax deduction of up to \$10,000 in tuition and fees can be taken for study at any college, university, or vocational program eligible for federal assistance.

Expansion of Individual Retirement Accounts: This program will substantially increase the availability of individual retirement accounts by raising the income ceiling to \$100,000 for joint filers and to \$70,000 for individuals. Today, only couples with AGI up to \$40,000 and individuals with AGI up to \$25,000 can make fully deductible contributions. Moreover, the flexibility of the individual retirement account has been greatly enhanced: an individual can either deduct the amount deposited up front, or forego this deduction in favor of tax-free withdrawal of all accumulated earnings after five years. The President's proposal would allow penalty-free withdrawals immediately for specified purposes such as education, first homes, long-term unemployment, or certain medical expenses.

Other Revenue Proposals

In addition to the President's proposed middle-class tax cuts, the budget contains certain other provisions that affect revenues. An Appendix to my testimony provides further details. But let me note that we are proposing two additional empowerment zones, thus enlarging empowerment zone tax incentives; reducing a tax on vaccine manufacturers; denying the Earned Income Tax Credit (EITC) to undocumented workers, and to those with significant unearned income; changing the tax treatment of those who renounce their citizenship or use foreign trusts to shelter income; and supporting the extension of the taxes that finance the "Superfund" that cleans up hazardous waste sites.

Also, on the subject of taxes, one of the Administration's priorities is to fully implement the Internal Revenue Service's Tax Systems Modernization (TSM) plan to reduce the administrative burden on businesses and individuals and to raise compliance.

Investing for the Future

Fiscal discipline and middle class tax relief are necessary elements of any coherent economic strategy. Yet, by themselves, they are not enough to ensure higher standards of living for all Americans.

Additional investment in the skills and capabilities of America's workers and in physical capital have always been an integral part of the President's agenda. Today's

investments will translate into stronger productivity growth and higher living standards for years to come. Boosting public investment is an important step towards a rising standard of living for all Americans.

Let me focus on three areas: investment in human capital; investment in science and technology; and investment in infrastructure.

Human Capital: The President has consistently emphasized the importance of "lifelong learning" in an economy which favors the highest skilled workers. The budget proposes \$47.3 billion in 1996 for investment in education and training. This represents a \$5.4 billion increase, or 13 percent, over 1993 levels. Working with Congress, the Administration has already launched legislation from expansion of the Head Start program to cutting the cost of higher-education loans for students.

This year, the President will focus on better opportunities for adults already in the work force. The President's proposal--the "G.I. Bill for America's Workers"--will consolidate and streamline a patchwork of some 70 job training programs. The "G.I. Bill" will offer dislocated and low-income workers "skill grants" through which they can make their own choices about the training they need to find new and better jobs.

Two other Presidential initiatives also deserve mention here.

Welfare reform fits into the over-arching strategy of raising economic growth. The current welfare system costs taxpayers a great deal of money and actually discourages work by participants. This Administration wants to work with Congress to make welfare a temporary safety net only, through time limits and through making work pay. If we succeed, we will both raise the standard of living of participants and lower the tax burden on average Americans.

Similarly, health care reform is not only essential to maintaining long-term fiscal stability, but also important for the take-home wages of the average American. If employees' health insurance costs keep rising, workers' wages won't. Health care cost containment will pay off in higher wages as well as in a more stable fiscal environment.

Science and Technology: We know that the rates of return for R&D are high in the private sector. Industry R&D may have accounted for as much as a quarter of overall productivity growth in recent decades. Commercial firms cannot reap the entire rewards of basic research, however, because other firms easily learn and use the knowledge generated. Despite high rates of return, the private sector does too little basic research to meet all of society's needs.

Thus, the federal government plays an important role in promoting and investing in R&D. Federal spending accounts for nearly 40 percent of the nation's R&D spending. This budget proposes \$69.4 billion in 1996 for research and development--an

increase of \$3.74 billion in nondefense R&D over 1993.

Through the President's National Science and Technology Council, the Administration seeks to support the best possible science on a tight budget. The science and technology program pursues advances in health, business, the environment, information technology, national security, and basic science itself.

In addition, because of the importance of R&E to the nation's economy, we support the extension of the R&E tax credit on a revenue neutral basis, and we will work with Congress to pay for it.

Infrastructure: Infrastructure is one area where the government must play an important role--the private sector could not profitably run many of our nation's roads and bridges or the treatment plants needed to provide clean water. The budget proposes \$58.8 billion for 1996 for infrastructure investment--up \$8.6 billion from 1993.

While infrastructure spending can be among the most effective ways to boost productivity, projects must be chosen carefully. The Administration proposes to restructure the Transportation Department, consolidating its infrastructure activities into a single transportation block grant. Local governments will have more flexibility to direct resources to areas which best address community needs. Our goal is more and better infrastructure, at less cost and with less red tape.

Conclusion

In conclusion, let me make three points:

First, you can read the priorities of this Administration in its budget. This President is committed to raising standards of living for all Americans, and the policy objectives pursued through the budget--deficit reduction; the middle-class tax cuts; public investments in workers, in knowledge, and in infrastructure; Reinventing Government--are all aimed at attaining that goal.

Second, this budget maintains the ground won in the struggle to reduce the deficit in 1993. We project that, with the deficit-reduction policies in the budget, the federal deficit will remain below \$200 billion in nine of the next ten years, and will shrink to 1.6 percent of GDP in fiscal 2005. We as a country simply cannot afford to return to the days of rising, uncontrolled deficits of the 1980s or early 1990s. This budget will keep us on a sound trajectory that reduces the deficit.

We do this by taking step-by-step reductions in spending programs and in cutting the size of government itself. Reinventing government not only saves money, but also makes government efficient. As a result of the Administration's actions to date, we are reducing the deficit and do not need a balanced budget amendment to enforce fiscal

discipline. This is the right way to cut the deficit.

Third, we take a crucial step toward addressing the economic concerns of working families by cutting their taxes. Our proposals are targeted to the people who need them the most when they need them the most. These cuts will help families with young children, people who are paying for education, and those who want to save for the future.

This budget builds upon what has been achieved. It is the next step in the logical sequence of policies designed to raise the living standard for all Americans. It reinforces fiscal restraint. It provides tax relief to millions of Americans who have seen their incomes stagnate for a generation. And it invests in education, infrastructure, and technology.

Much has been accomplished in the past two years, but much remains to be done. I look forward to working with you on a bi-partisan basis to continue moving forward.

APPENDIX: OTHER REVENUE PROVISIONS

Additional Empowerment Zones. The Secretary of Housing and Urban Development would be authorized to designate two urban empowerment zones in addition to the six urban and three rural zones designated on December 21, 1994. This would have the effect of extending the empowerment zone tax incentives to these additional areas. Other current-law limitations, such as those regarding population, size, poverty, and application requirements, would be applicable to these areas.

Reduce Vaccine Excise Tax. Under current law, a manufacturer's tax is levied on vaccines used to prevent diphtheria, pertussis, tetanus, measles, mumps, rubella or polio. These taxes are deposited in the Vaccine Injury Compensation Trust Fund and provide a source of revenue to compensate individuals who sustain certain injuries or to families of individuals who die following administration of these vaccines. Because of large balances in the trust fund, the Administration proposes a reduction in revenues from these taxes. The decrease will allow continued program compensation while lowering the costs of vaccines to both public and private purchasers.

Earned Income Tax Credit

EITC denied to undocumented workers. Under this compliance proposal, only individuals who are authorized to work in the United States would be eligible for the earned income tax credit (EITC). When claiming the EITC, taxpayers would be required to provide a valid social security number for themselves, their spouses, and their qualifying children. Only social security numbers that are valid for employment purposes in the U.S. would enable the individual to claim the EITC. In addition, the proposal would modify the IRS procedure for processing returns with erroneous or missing taxpayer identification numbers so as to reduce improperly claimed credits. These proposals would be effective in 1996.

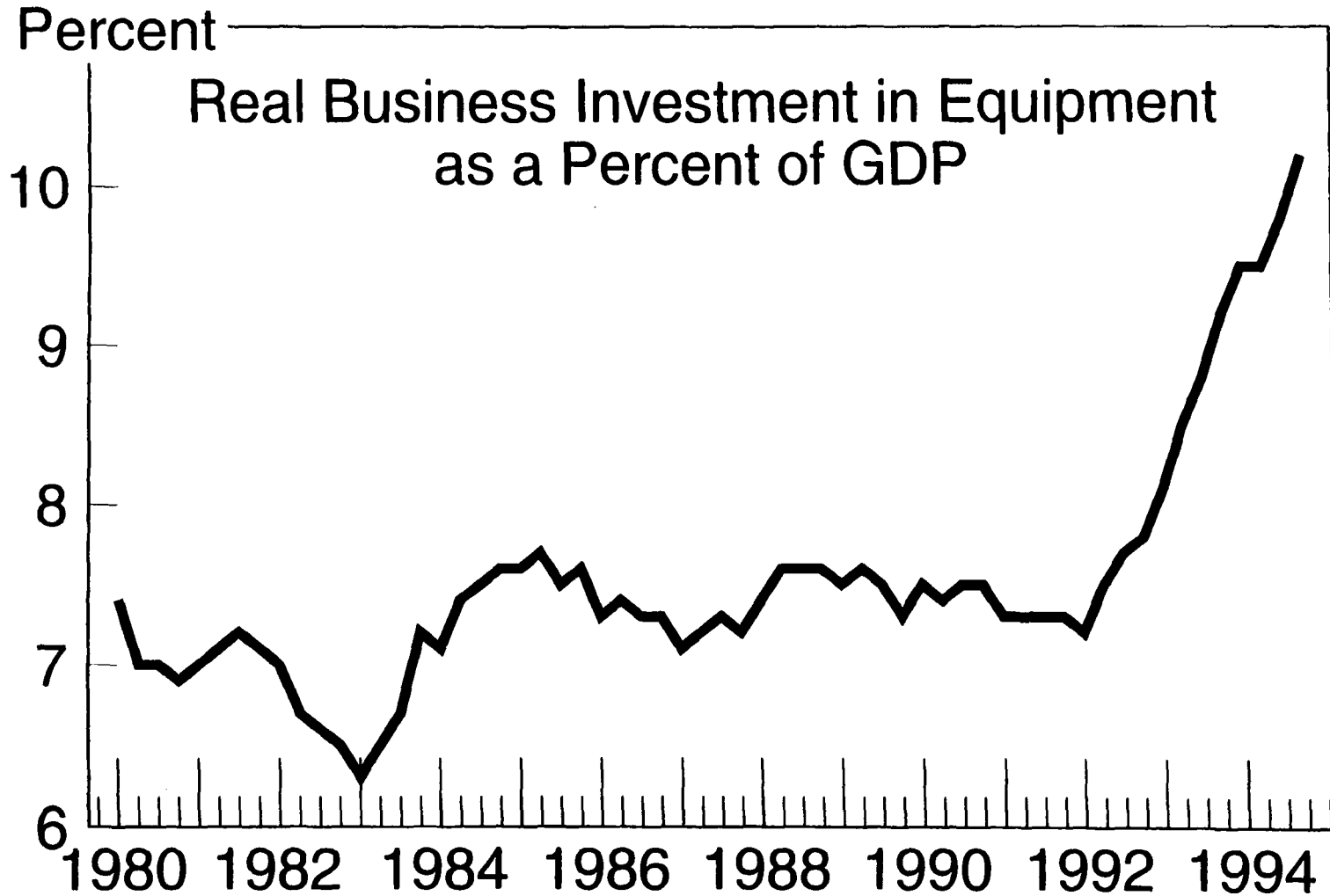
EITC denied if interest and dividends exceed \$2,500. Under current law, an individual must have earned income in order to be eligible for the EITC. Because the EITC is designed to benefit low-income workers, the amount of the credit should decrease as the taxpayer's income increases. A taxpayer with relatively low earned income, however, may be eligible for the EITC even though he or she has significant interest and dividend income from investment assets. Under this proposal, taxpayers would not be eligible to receive the EITC if their combined interest and dividend income for the year exceeds \$2,500. This proposal would be effective in 1996.

Tax responsibilities of Americans who renounce citizenship. The proposal would tax the untaxed gains of U.S. taxpayers who renounce citizenship. The tax would also apply to aliens who have been lawful permanent residents for at least ten years and then cease to be subject to U.S. tax. This tax is intended to apply only where very substantial gains are involved and, thus, an exemption is provided for up to \$600,000 of gain. U.S. real estate and pension assets would also be exempt.

Foreign Trusts. The foreign trust proposal is designed to increase compliance for taxing two categories of people. First, U.S. persons sometimes transfer their assets to foreign trusts and rarely pay tax on the trust income. The proposal would impose enhanced information reporting requirements (with penalties for failure to comply) on U.S. persons who transfer assets to foreign trusts. The second category of taxpayers are U.S. persons who are members of wealthy foreign families. Foreign families often establish foreign trusts for the benefit of U.S. family members. Under current law, the United States treats such trust assets as owned by the foreign family, and any distribution of income earned by the trust to the U.S. beneficiary is treated as a nontaxable gift to the U.S. person. The proposal would tax this trust income.

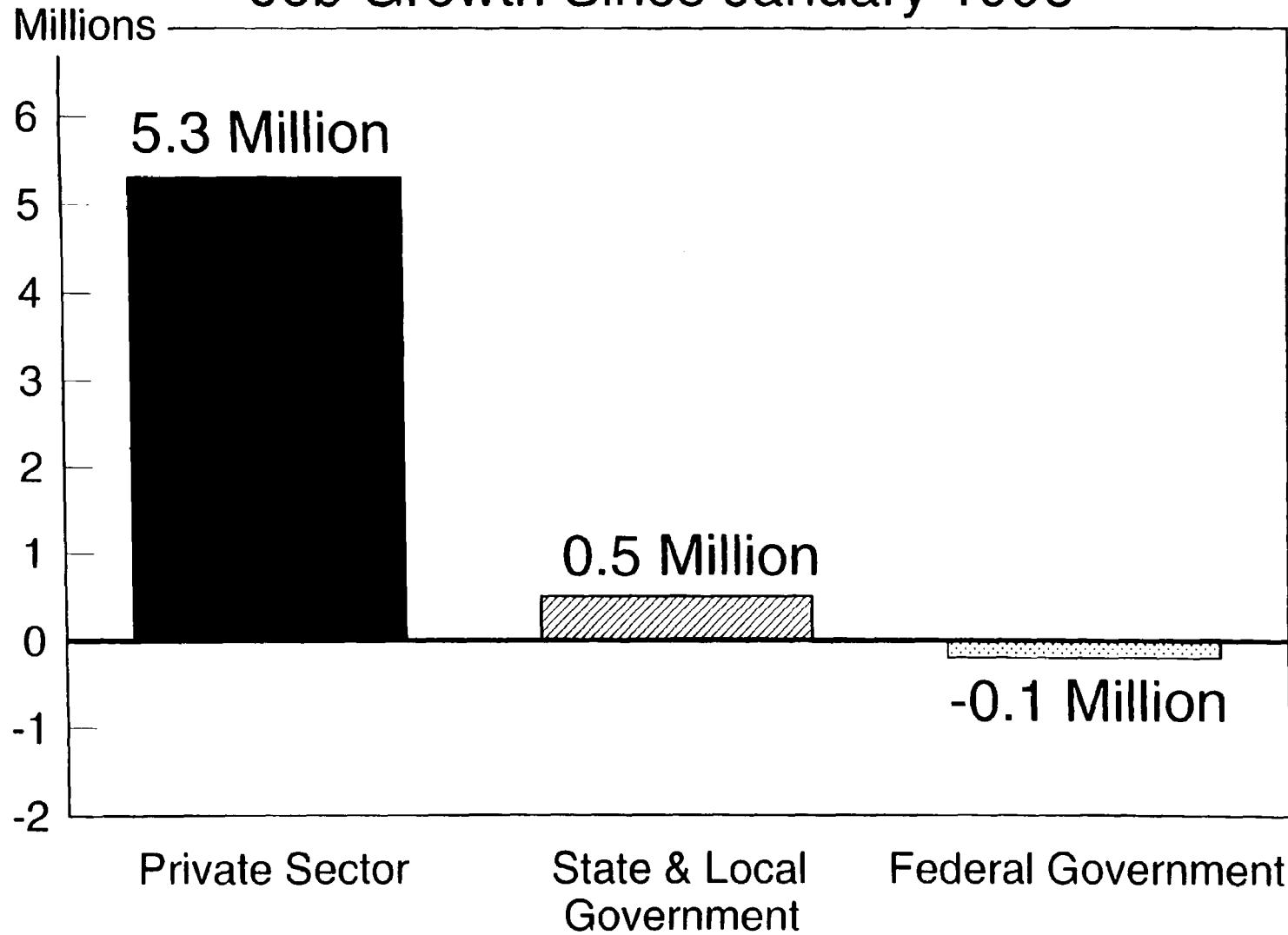
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Business Investment Has Surged



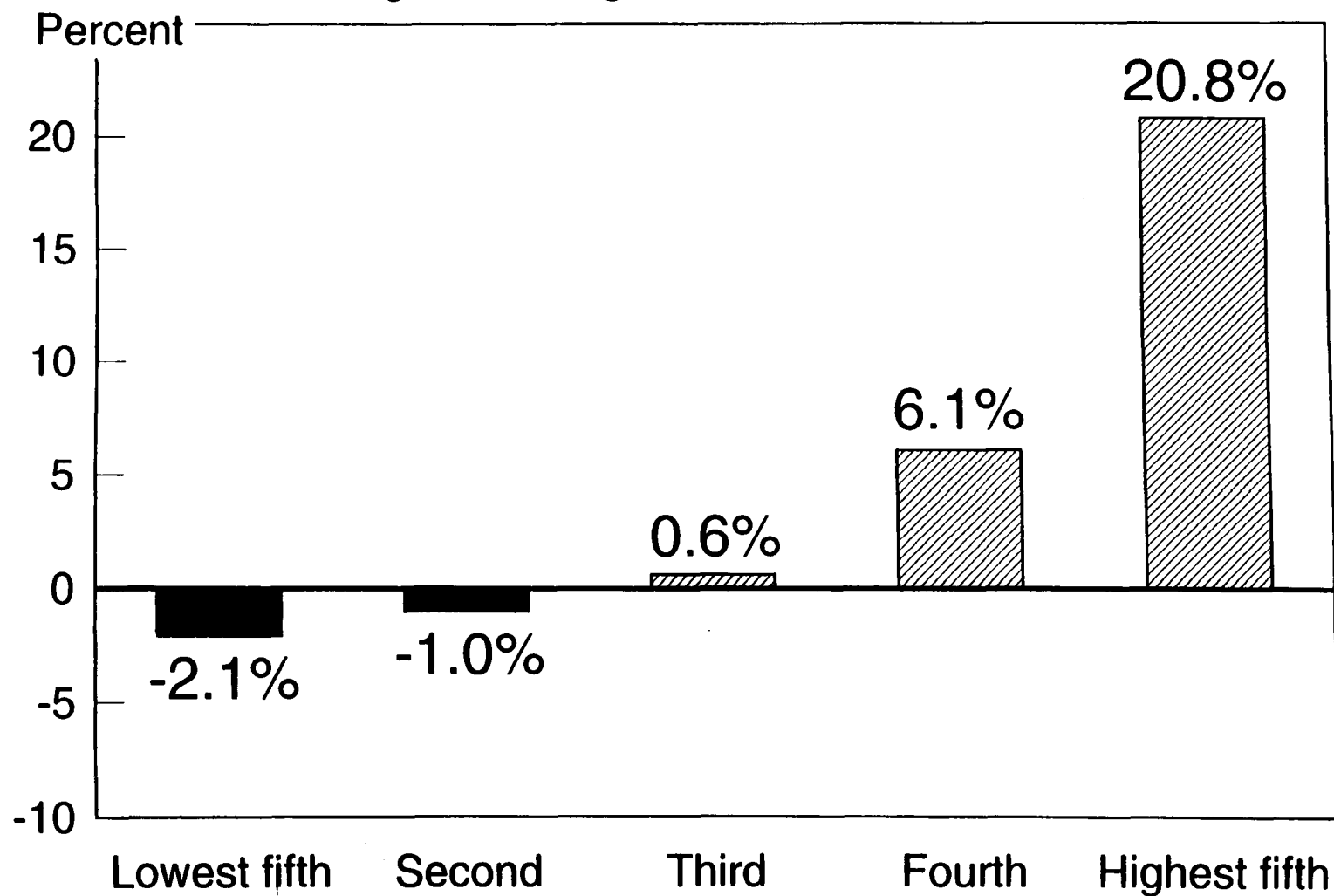
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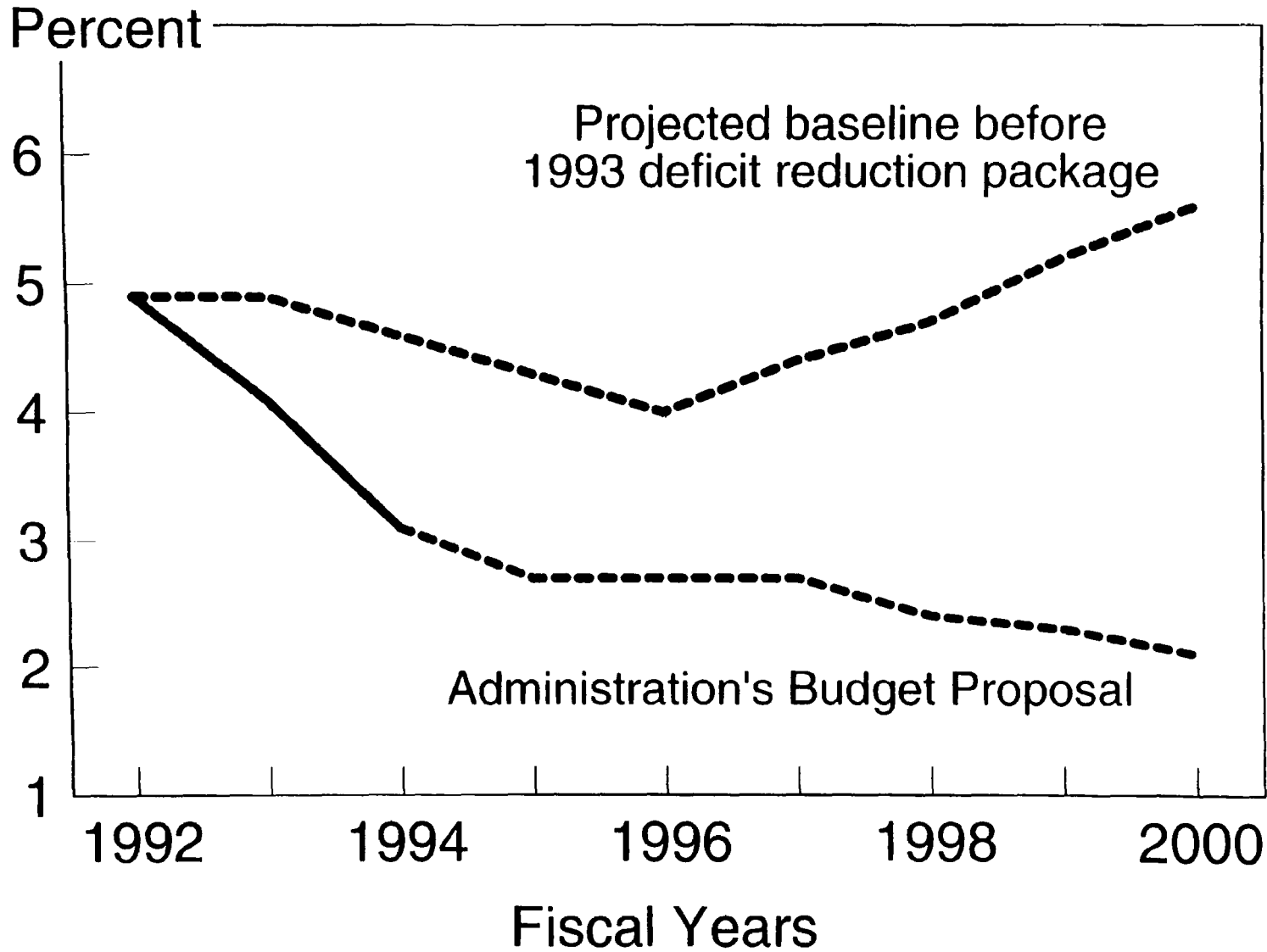


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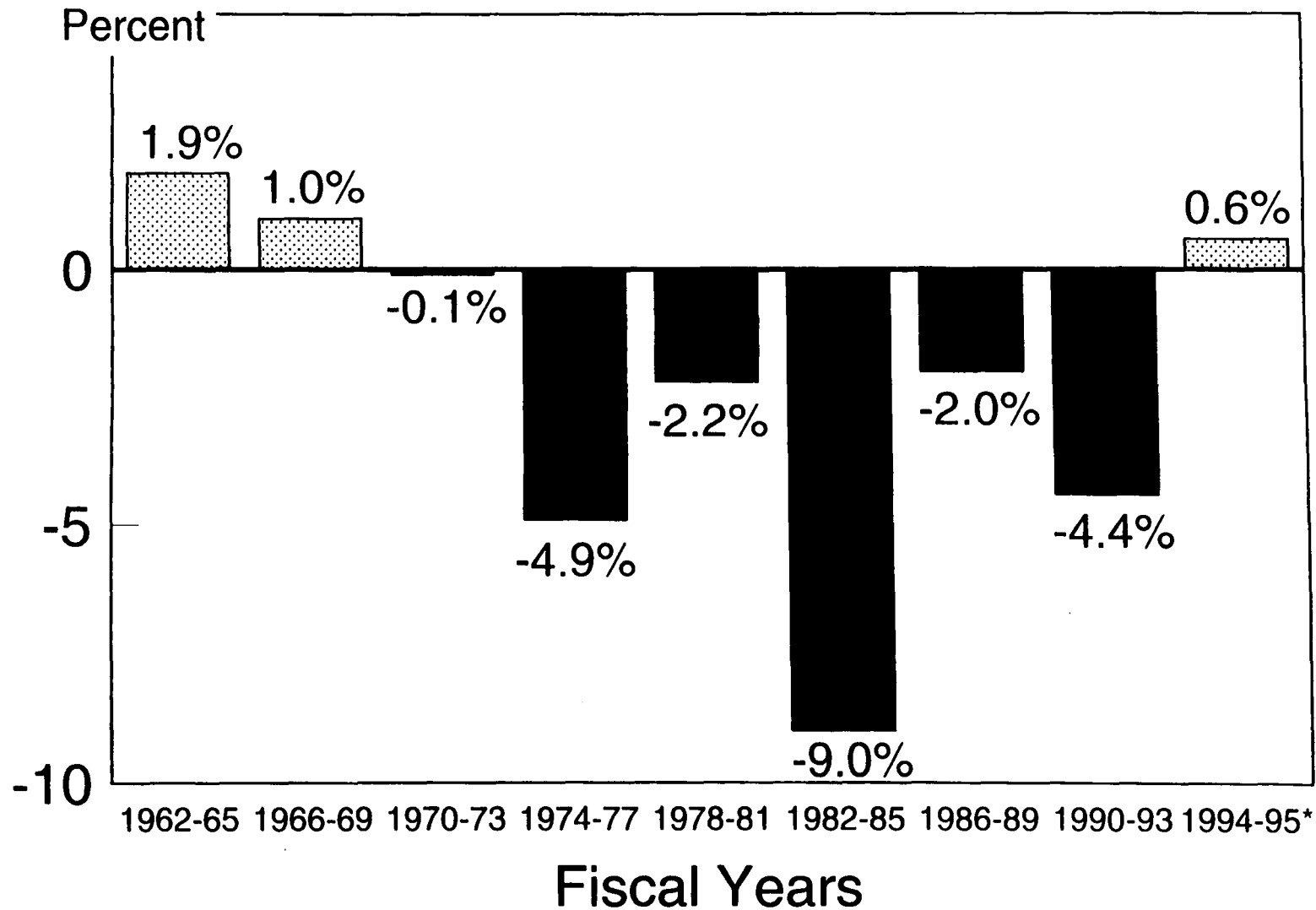


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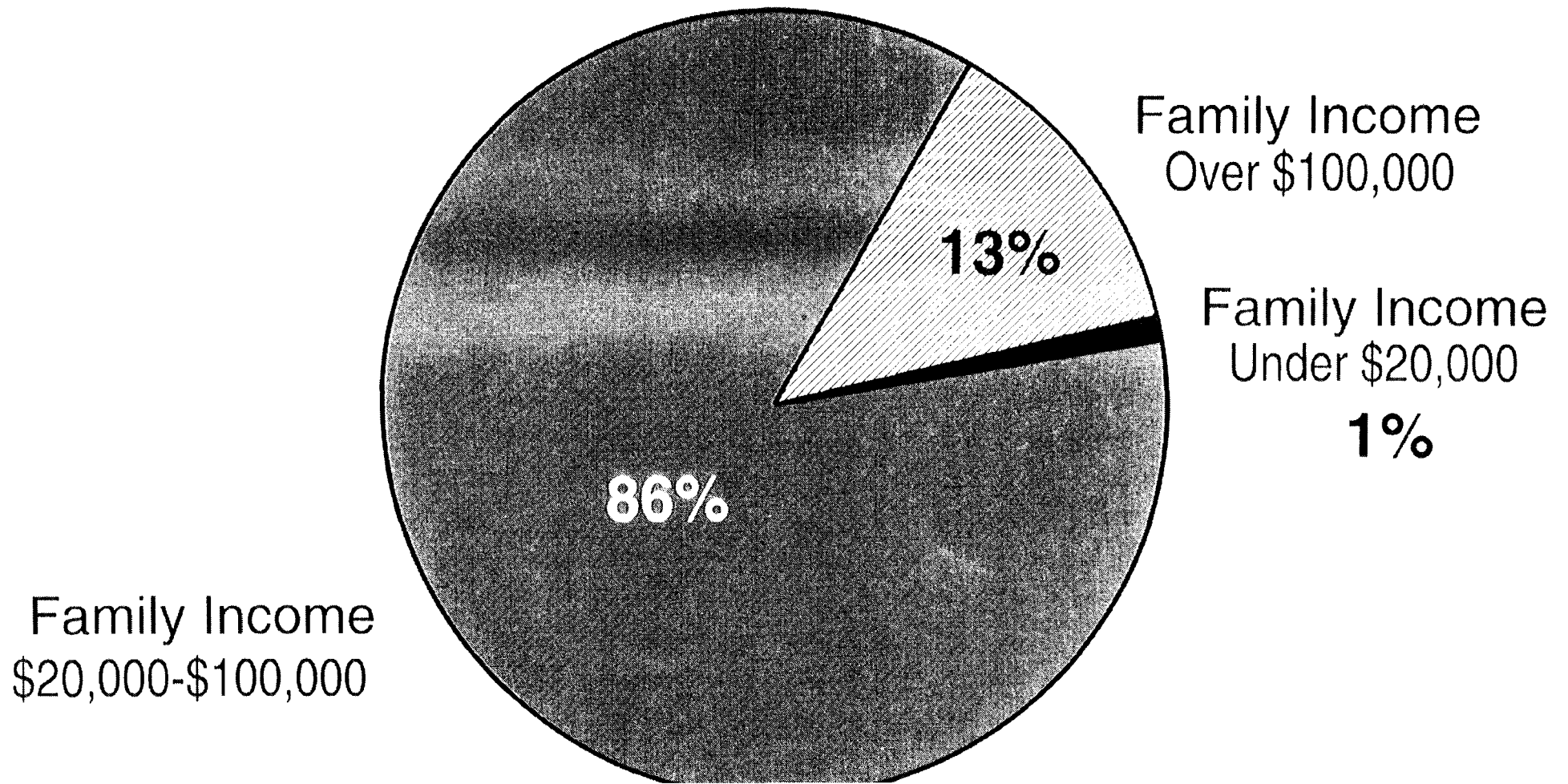


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For Release Upon Delivery
Expected at 10:30 a.m.
February 7, 1995

**STATEMENT OF ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE**

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the President's proposed Budget for the 1996 Fiscal Year. I've been in office less than a month, but I am doing something not many Treasury Secretaries get to do: presenting a budget that cuts the deficit and cuts taxes. I am also doing something that you would have to go back 16 Treasury Secretaries to sometime in the Truman Administration to find: announcing that our budget deficit will decline for three years in a row.

As Treasury Secretary, my testimony will focus on broad policy issues and on the revenue proposals set forth in our budget. OMB Director Alice Rivlin will testify before you Thursday. She will provide greater detail on the program side.

Every Administration's agenda is contained in its proposed budgets. President Clinton, from the beginning of this Administration, has had a broad-based economic strategy to stimulate and then protect the recovery, to position the country for the long-term, and to increase the incomes of working Americans.

Prior to joining Treasury, I assisted the President in setting our overall policies. I know how deeply he feels about continuing to move forward on his full economic strategy, which includes fiscal discipline, boosting both private and public investment to increase long-run productivity, opening markets, reforming government and regulation, and achieving health care and welfare reform.

This morning, I would like to summarize briefly what we have achieved, where we are now, and where we are headed, with special attention to the President's proposed



Middle-Class Bill of Rights.

What Have We Achieved to Date?

When the President came into office, the economy may have been in recovery, but the recovery was weak and uncertain. Employment growth, in particular, had lagged far behind normal expectations. Large federal budget deficits, which were increasing rapidly as a percent of GDP even as the economy was recovering, created an unstable economic environment. Escalating structural deficits were a clear signal that the chances of an eventual severe financial crisis were on the rise. Prudent business people were reluctant to hire or to invest in this unstable environment. As a result, Americans were experiencing a jobless recovery.

Thus, the first necessary economic move was to bring the deficit under control. Working with Congress, we enacted a powerful deficit reduction program. The \$505 billion deficit reduction package was achieved largely through spending cuts of \$255 billion over five years, including freezing discretionary spending at 1993 levels, and raising income tax rates on only the 1.2 percent of Americans with highest incomes.

We also introduced plans to reduce the size of government. The President's Reinventing Government initiative called for reducing the federal work force by 272,900 over five years, bringing government employment back to levels not seen since John Kennedy was President.

At the same time that we were cutting spending and government employment, we were able to reduce taxes for millions of lower- and moderate-income working individuals and families, and to offer tax relief for small businesses.

The net effect of our plan was to bring the deficit down: from \$290 billion in 1992 to what we now project as \$193 billion this year. The deficit as a share of GDP went from 4.9 percent in 1992 to a projected 2.7 percent for 1995.

I worked in financial markets for 26 years, and I have no doubt that our aggressive deficit reduction program was, in large measure, responsible for the decline in interest rates which in turn was key to jump-starting the economy in 1993. Deficit reduction also reduced uncertainty about our fiscal future and restored confidence conducive to investment.

In addition to addressing the deficit problem, we also made sure that American businesses had access to the credit they needed. When President Clinton took office, small- and medium-sized businesses were facing a "credit crunch." In response, President Clinton announced a program of regulatory and administrative changes to reduce impediments and increase the availability of credit.

The combination of these policies, a sound fiscal environment and increased availability of credit, has paid off. We now have a strong investment-led recovery that is creating jobs. The first chart at the end of this statement shows that business investment in equipment has increased dramatically under the Clinton Administration. As a percent of real GDP, business equipment investment is at an all-time high.

Most important, as we have cut the deficit and reduced federal employment, the economy has created 5.7 million jobs, putting an end to the jobless recovery. Note that 5.3 million, or 93 percent, of these jobs were created in the private-sector (see attached chart). At the same time, the unemployment rate has declined from 7.1 percent to 5.7 percent. Some say that all these new jobs are in low-paying industries, but that view is incorrect. Over the past year, the number of jobs in construction, which pays 30 percent more than the average wage, has surged by some 325,000. The decline in manufacturing jobs has turned around: factory employment is up 290,000. The high-paying wholesale trade and transportation and public utilities industries provided an additional 295,000 jobs.

All this investment and employment growth has occurred in an environment of low inflation--an absolutely critical objective of this Administration. Even with the strength of the current recovery, inflation has remained under control. The increase in the consumer price index has come in under 3.0 percent for each of the last three years. We see virtually no evidence of cost-push inflation pressure from wages. Growth of the employment cost index--the most reliable measure of labor costs--was lower in 1994 than it had been in 1993.

We have also established the basis for growth of future wages and living standards through our trade liberalization policies. We worked hard to enact NAFTA and GATT because we believe American workers will benefit. In an increasingly integrated world, we are going to have to look outward rather than inward if we are going to stay on top. Moreover, jobs in export industries are more productive than average and pay about 10 to 20 percent more than average. That means shifting the composition of GDP toward more exports automatically shifts the economy toward better paying jobs.

Where Are We Now?

As successful as economic performance has been in the last two years, getting the economy moving and creating jobs in the short term was only part of the challenge. In the longer run, the key test of this Administration will be whether it has succeeded in raising productivity growth--because that is the only way to create higher wages and higher standards of living.

I want to emphasize that productivity growth is not an academic abstraction. In the final analysis, increases in workers' incomes cannot be sustained without increases in productivity--in the amount produced per hour worked. Productivity growth has been

extremely slow over the past twenty years. And slow productivity growth has meant slow growth in workers' incomes.

This slow growth in average wages has been accompanied by an unequal distribution of income gains. As you can see from the attached chart, in the past fifteen years, those with incomes in the lowest fifth of American households have seen their real incomes fall below the levels attained by their counterparts in 1980; those in the top fifth have seen their incomes rise by 21 percent; and the middle has stood still.

The unequal distribution of income gains over the past fifteen years has put very real pressures on middle-class families. Their standards of living have failed to match their legitimate expectations. Dealing with this problem is at the heart of the President's budget and his Middle-Class Bill of Rights.

Where Do We Go from Here?

This budget emphasizes a three part strategy to promote growth and improve middle-class incomes: 1) maintaining long-term fiscal discipline, 2) providing tax relief for the middle class, and 3) increasing investment in workers through education and training, as well as in machines and buildings. This is the approach that the President has outlined in his budget.

Maintaining Fiscal Discipline

This Administration fought hard to break the back of the cycle of ever-increasing deficits. But it is not enough to reduce the deficit for three years in a row. We are concerned both about the pattern of projected deficits over the next five years and also about the pattern after the turn of the century.

For the next five years, this budget maintains the progress on deficit reduction made in OBRA '93. As I said earlier, our projections show the budget deficit dropping in 1995 for the third straight year, this time to \$193 billion. After 1995, the deficit, measured in dollar terms, fluctuates in a narrow range before falling back to \$194 billion in 2000.

More important than stabilizing the deficit in dollar terms is reducing the deficit as a share of GDP. Between 1995 and 2000, the deficit-to-GDP ratio falls from 2.7 percent to 2.1 percent. We haven't seen numbers in that range since 1979.

Further, the attached chart shows that the deficit as a share of GDP has been cut in half from what was projected before passage of the 1993 deficit reduction package, fulfilling the President's promise.

This year, we continue our deficit reduction efforts and lower taxes by making

substantial cuts in spending. Budget cuts come from three areas. Restructuring government saves about \$26 billion. Most of that \$26 billion is the result of fundamental changes in five agencies--the Departments of Transportation (DOT), Energy (DOE), and Housing and Urban Development (HUD), the General Services Administration (GSA), and the Office of Personnel Management (OPM). Additional efforts are aimed at terminating certain agencies and programs and restructuring others. In addition, we propose to turn over to the private sector or to state governments activities that they are well positioned to carry out themselves.

We have already had real success in this area. The President's reinventing government initiative has already reduced the federal work force by 102,500 positions. Currently, the federal work force as a share of total employment is at its lowest point since the 1930's. In addition, Congress has enacted \$63 billion of the \$108 billion in reinventing government savings proposed by the Administration. The goal is to make government even smaller and to make it work better for all Americans.

In addition, further lowering of discretionary spending caps from 1996 through 1998 and extending them for two years beyond their scheduled expiration in 1998 produces an additional \$80 billion in savings. The budget contains specific proposals to achieve these savings. The net result of extending the caps and making the cuts will be to keep discretionary spending virtually constant in nominal dollars from 1996 through 2000.

Finally, \$32 billion in savings comes primarily from the mandatory side of the budget through continuing some existing health care savings, imposing user fees for the lucrative electro-magnetic spectrum, accelerating student loan savings, and reducing certain agricultural programs. The remaining \$5 billion of deficit reduction comes primarily from lower debt service, as a result of our success in lowering the deficit.

Together, our program cuts and projected debt service reductions save \$144 billion between 1996 and 2000. The President has proposed using \$63 billion of these savings to provide tax relief to middle-income families as part of his Middle-Class Bill of Rights. The remaining \$81 billion is for deficit reduction.

If our proposed policies are continued beyond the year 2000, we now project that the fiscal year 2005 deficit will be only 1.6 percent of GDP. This good news comes from two developments. First, for the ten-year period from fiscal year 1995 to fiscal year 2005, the President's budget proposals produce substantial deficit reduction. Second, our new budget baseline projects lower spending for Medicare and Medicaid, based on the latest growth rate estimates from the actuaries at the Health Care Financing Administration.

Administration estimates of deficits in the out-years are noticeably lower than estimates that have been recently produced by the Congressional Budget Office. There

are several reasons for this.

First, CBO's baseline, by convention, does not include any deficit reduction proposals. The President's budget proposes substantial deficit reduction over the next ten years.

Second, the Administration's baseline estimates include recent revisions to projected costs of Federal health care programs made by the actuaries at the Health Care Financing Administration. I do not believe that the latest CBO estimates incorporate the full revisions from the actuaries.

Third, over the long term, the Administration has a slightly more optimistic rate of growth for productivity--by one or two tenths of one-percent--than does CBO. By 2005, even very small differences in projected growth rates materially affect deficit projections.

In other words, there are straightforward explanations of the differences between our numbers and CBO's, and we are very comfortable with all our projections.

While we are confident that the deficit outlook for the next ten years is good, all observers agree that the deficit will eventually turn upward. The problems are an increasingly aging population and rapidly rising health care costs. We cannot do anything about the projected demographic shifts, but we need to do something about health care as soon as possible. If we want to maintain fiscal discipline over the long run, we must reform health care.

Before we leave our deficit discussion, let me make two additional points. First, let me refer you to an enlightening chart. This chart shows the difference between program expenditures and revenues for the Clinton Administration and for each of the last eight Administrations. Under President Clinton--for the first time since the 1960s--expenditures on government programs are less than the taxes paid by the American people. We have a deficit solely because of the burden of paying interest on the debt run up largely as a result of the deficits of the 1980s--not because we're overspending today.

The second general point I'd like to make is that I believe the way to achieve deficit reduction is through deliberate and thoughtful policy choices, not through a balanced budget amendment that greatly increases macroeconomic risk in our economy and involves spending cuts that have not been specified at the time the decision on a balanced budget amendment is made.

Providing Tax Relief for Middle-Income Americans

Let me now turn to the centerpiece of the President's budget. On December 15,

1994, President Clinton announced in an Oval Office address his "Middle-Class Bill of Rights." A major piece of his initiative is providing tax relief for middle-income families.

A middle-class tax cut has always been a goal of this Administration. In 1993, however, the Administration faced a deficit crisis larger than had been predicted at the start of 1992. Bringing the deficit under control, and directing tax relief to lower and moderate income Americans were our first priorities.

Due to strong, effective leadership and tough choices, the deficit reduction program has been even more of a success than expected. However, incomes of many working American families have lagged behind--even in the last two years, when growth in the economy has been brisk.

The President's tax cuts will not only provide immediate relief to financially-strapped middle-income families but also will help these families save and invest so that they will become more productive and enjoy higher future standards of living. Individual tax relief coupled with savings and investment will boost American productivity, providing the foundation for sustained increases in real incomes.

The Administration's tax cut is targeted squarely at middle-income families. The attached chart illustrates that a full 86 percent of the benefits of this tax cut will go to families with incomes between \$20,000 and \$100,000.

The tax cuts in the President's Middle-Class Bill of Rights have three elements, aimed at strengthening families, promoting education, and encouraging savings.

\$500 Child Tax Credit: This credit is designed to help younger families, where economic pressure often tends to be greatest, to better provide child care, after-school activity, and the other requisites for good child rearing. This is an investment in children--the future of our country. A \$500 (when fully phased in) non-refundable credit will be allowed for each dependent child under 13. Between 1996 and 1998, the maximum credit would be \$300. This credit would reduce the federal income tax burden of a typical two-child family with an income of \$50,000 by 21 percent. The credit will be phased out for taxpayers with initial Adjusted Gross Incomes (AGI) between \$60,000 and \$75,000. No credit will be available to taxpayers with AGI in excess of \$75,000.

Deduction for Post-Secondary Education Expenses: This deduction can be used for education and training expenses for all members of the family, including spouses and children, and should better enable middle-income families to obtain the education and skills that will equip them to function effectively in a modern economy. This deduction is used in determining a taxpayers AGI (that is, taken above the line) and is, therefore, available to those who do not itemize their deductions as well as to those who do itemize. The maximum allowable deduction would be phased out ratably for taxpayers filing a joint filers with AGI (before the deduction) between \$100,000 and \$120,000

(\$70,000-\$90,000 for individuals). The maximum deduction would be \$5,000 in 1996-1998 and \$10,000 thereafter.

This proposed tax deduction of up to \$10,000 in tuition and fees can be taken for study at any college, university, or vocational program eligible for federal assistance.

Expansion of Individual Retirement Accounts: This program will substantially increase the availability of individual retirement accounts by raising the income ceiling to \$100,000 for joint filers and to \$70,000 for individuals. Today, only couples with AGI up to \$40,000 and individuals with AGI up to \$25,000 can make fully deductible contributions. Moreover, the flexibility of the individual retirement account has been greatly enhanced: an individual can either deduct the amount deposited up front, or forego this deduction in favor of tax-free withdrawal of all accumulated earnings after five years. The President's proposal would allow penalty-free withdrawals immediately for specified purposes such as education, first homes, long-term unemployment, or certain medical expenses.

Other Revenue Proposals

In addition to the President's proposed middle-class tax cuts, the budget contains certain other provisions that affect revenues. An Appendix to my testimony provides further details. But let me note that we are proposing two additional empowerment zones, thus enlarging empowerment zone tax incentives; reducing a tax on vaccine manufacturers; denying the Earned Income Tax Credit (EITC) to undocumented workers, and to those with significant unearned income; changing the tax treatment of those who renounce their citizenship or use foreign trusts to shelter income; and supporting the extension of the taxes that finance the "Superfund" that cleans up hazardous waste sites.

Also, on the subject of taxes, one of the Administration's priorities is to fully implement the Internal Revenue Service's Tax Systems Modernization (TSM) plan to reduce the administrative burden on businesses and individuals and to raise compliance.

Investing for the Future

Fiscal discipline and middle class tax relief are necessary elements of any coherent economic strategy. Yet, by themselves, they are not enough to ensure higher standards of living for all Americans.

Additional investment in the skills and capabilities of America's workers and in physical capital have always been an integral part of the President's agenda. Today's investments will translate into stronger productivity growth and higher living standards for years to come. Boosting public investment is an important step towards a rising standard of living for all Americans.

Let me focus on three areas: investment in human capital; investment in science and technology; and investment in infrastructure.

Human Capital: The President has consistently emphasized the importance of "lifelong learning" in an economy which favors the highest skilled workers. The budget proposes \$47.3 billion in 1996 for investment in education and training. This represents a \$5.4 billion increase, or 13 percent, over 1993 levels. Working with Congress, the Administration has already launched legislation from expansion of the Head Start program to cutting the cost of higher-education loans for students.

This year, the President will focus on better opportunities for adults already in the work force. The President's proposal--the "G.I. Bill for America's Workers"--will consolidate and streamline a patchwork of some 70 job training programs. The "G.I. Bill" will offer dislocated and low-income workers "skill grants" through which they can make their own choices about the training they need to find new and better jobs.

Two other Presidential initiatives also deserve mention here.

Welfare reform fits into the over-arching strategy of raising economic growth. The current welfare system costs taxpayers a great deal of money and actually discourages work by participants. This Administration wants to work with Congress to make welfare a temporary safety net only, through time limits and through making work pay. If we succeed, we will both raise the standard of living of participants and lower the tax burden on average Americans.

Similarly, health care reform is not only essential to maintaining long-term fiscal stability, but also important for the take-home wages of the average American. If employees' health insurance costs keep rising, workers' wages won't. Health care cost containment will pay off in higher wages as well as in a more stable fiscal environment.

Science and Technology: We know that the rates of return for R&D are high in the private sector. Industry R&D may have accounted for as much as a quarter of overall productivity growth in recent decades. Commercial firms cannot reap the entire rewards of basic research, however, because other firms easily learn and use the knowledge generated. Despite high rates of return, the private sector does too little basic research to meet all of society's needs.

Thus, the federal government plays an important role in promoting and investing in R&D. Federal spending accounts for nearly 40 percent of the nation's R&D spending. This budget proposes \$69.4 billion in 1996 for research and development--an increase of \$3.74 billion in nondefense R&D over 1993.

Through the President's National Science and Technology Council, the Administration seeks to support the best possible science on a tight budget. The science

and technology program pursues advances in health, business, the environment, information technology, national security, and basic science itself.

In addition, because of the importance of R&E to the nation's economy, we support the extension of the R&E tax credit on a revenue neutral basis, and we will work with Congress to pay for it.

Infrastructure: Infrastructure is one area where the government must play an important role--the private sector could not profitably run many of our nation's roads and bridges or the treatment plants needed to provide clean water. The budget proposes \$58.8 billion for 1996 for infrastructure investment--up \$8.6 billion from 1993.

While infrastructure spending can be among the most effective ways to boost productivity, projects must be chosen carefully. The Administration proposes to restructure the Transportation Department, consolidating its infrastructure activities into a single transportation block grant. Local governments will have more flexibility to direct resources to areas which best address community needs. Our goal is more and better infrastructure, at less cost and with less red tape.

Conclusion

In conclusion, let me make three points:

First, you can read the priorities of this Administration in its budget. This President is committed to raising standards of living for all Americans, and the policy objectives pursued through the budget--deficit reduction; the middle-class tax cuts; public investments in workers, in knowledge, and in infrastructure; Reinventing Government--are all aimed at attaining that goal.

Second, this budget maintains the ground won in the struggle to reduce the deficit in 1993. We project that, with the deficit-reduction policies in the budget, the federal deficit will remain below \$200 billion in nine of the next ten years, and will shrink to 1.6 percent of GDP in fiscal 2005. We as a country simply cannot afford to return to the days of rising, uncontrolled deficits of the 1980s or early 1990s. This budget will keep us on a sound trajectory that reduces the deficit.

We do this by taking step-by-step reductions in spending programs and in cutting the size of government itself. Reinventing government not only saves money, but also makes government efficient. As a result of the Administration's actions to date, we are reducing the deficit and do not need a balanced budget amendment to enforce fiscal discipline. This is the right way to cut the deficit.

Third, we take a crucial step toward addressing the economic concerns of working families by cutting their taxes. Our proposals are targeted to the people who need them

the most when they need them the most. These cuts will help families with young children, people who are paying for education, and those who want to save for the future.

This budget builds upon what has been achieved. It is the next step in the logical sequence of policies designed to raise the living standard for all Americans. It reinforces fiscal restraint. It provides tax relief to millions of Americans who have seen their incomes stagnate for a generation. And it invests in education, infrastructure, and technology.

Much has been accomplished in the past two years, but much remains to be done. I look forward to working with you on a bi-partisan basis to continue moving forward.

APPENDIX: OTHER REVENUE PROVISIONS

Additional Empowerment Zones. The Secretary of Housing and Urban Development would be authorized to designate two urban empowerment zones in addition to the six urban and three rural zones designated on December 21, 1994. This would have the effect of extending the empowerment zone tax incentives to these additional areas. Other current-law limitations, such as those regarding population, size, poverty, and application requirements, would be applicable to these areas.

Reduce Vaccine Excise Tax. Under current law, a manufacturer's tax is levied on vaccines used to prevent diphtheria, pertussis, tetanus, measles, mumps, rubella or polio. These taxes are deposited in the Vaccine Injury Compensation Trust Fund and provide a source of revenue to compensate individuals who sustain certain injuries or to families of individuals who die following administration of these vaccines. Because of large balances in the trust fund, the Administration proposes a reduction in revenues from these taxes. The decrease will allow continued program compensation while lowering the costs of vaccines to both public and private purchasers.

Earned Income Tax Credit

EITC denied to undocumented workers. Under this compliance proposal, only individuals who are authorized to work in the United States would be eligible for the earned income tax credit (EITC). When claiming the EITC, taxpayers would be required to provide a valid social security number for themselves, their spouses, and their qualifying children. Only social security numbers that are valid for employment purposes in the U.S. would enable the individual to claim the EITC. In addition, the proposal would modify the IRS procedure for processing returns with erroneous or missing taxpayer identification numbers so as to reduce improperly claimed credits. These proposals would be effective in 1996.

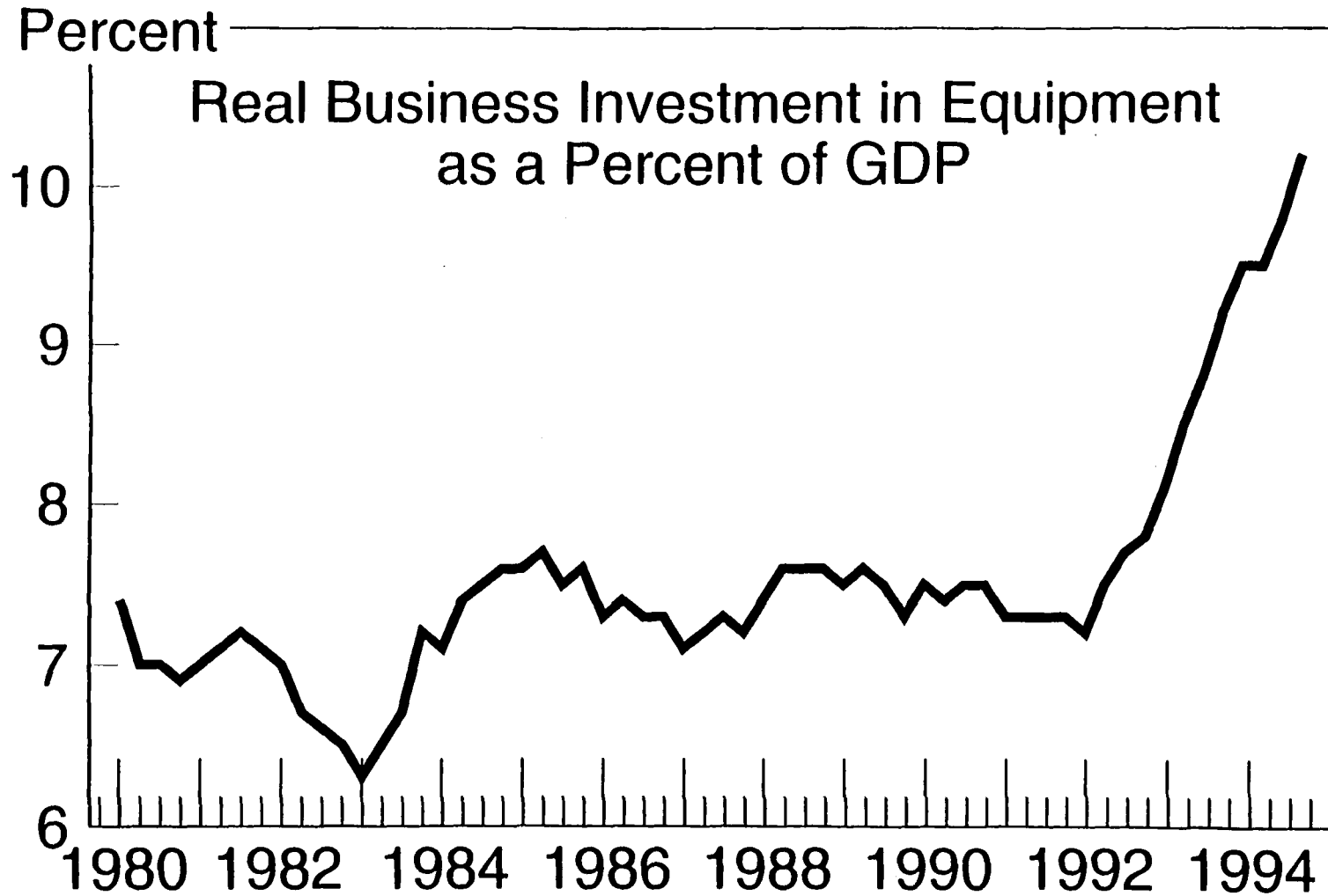
EITC denied if interest and dividends exceed \$2,500. Under current law, an individual must have earned income in order to be eligible for the EITC. Because the EITC is designed to benefit low-income workers, the amount of the credit should decrease as the taxpayer's income increases. A taxpayer with relatively low earned income, however, may be eligible for the EITC even though he or she has significant interest and dividend income from investment assets. Under this proposal, taxpayers would not be eligible to receive the EITC if their combined interest and dividend income for the year exceeds \$2,500. This proposal would be effective in 1996.

Tax responsibilities of Americans who renounce citizenship. The proposal would tax the untaxed gains of U.S. taxpayers who renounce citizenship. The tax would also apply to aliens who have been lawful permanent residents for at least ten years and then cease to be subject to U.S. tax. This tax is intended to apply only where very substantial gains are involved and, thus, an exemption is provided for up to \$600,000 of gain. U.S. real estate and pension assets would also be exempt.

Foreign Trusts. The foreign trust proposal is designed to increase compliance for taxing two categories of people. First, U.S. persons sometimes transfer their assets to foreign trusts and rarely pay tax on the trust income. The proposal would impose enhanced information reporting requirements (with penalties for failure to comply) on U.S. persons who transfer assets to foreign trusts. The second category of taxpayers are U.S. persons who are members of wealthy foreign families. Foreign families often establish foreign trusts for the benefit of U.S. family members. Under current law, the United States treats such trust assets as owned by the foreign family, and any distribution of income earned by the trust to the U.S. beneficiary is treated as a nontaxable gift to the U.S. person. The proposal would tax this trust income.

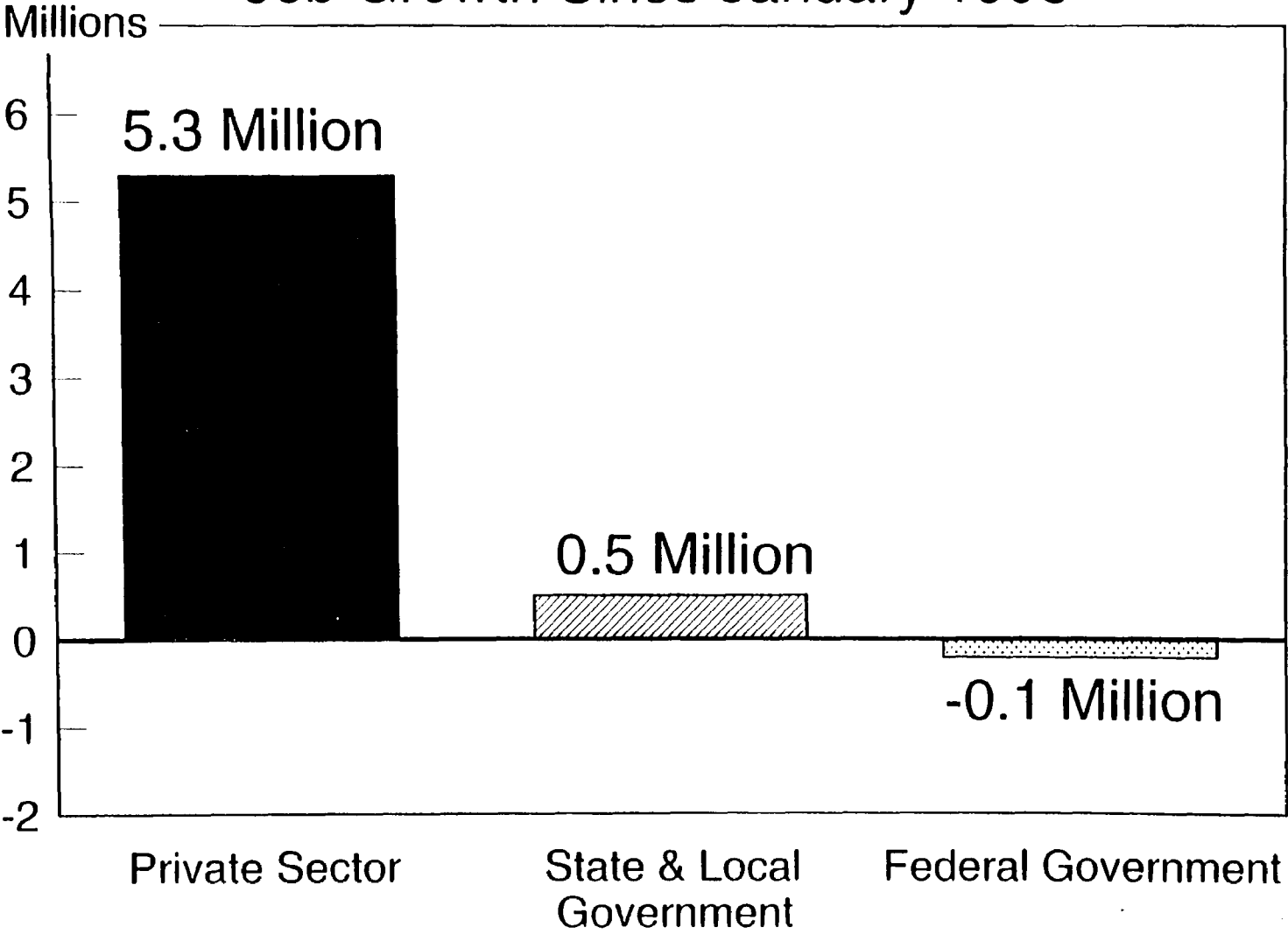
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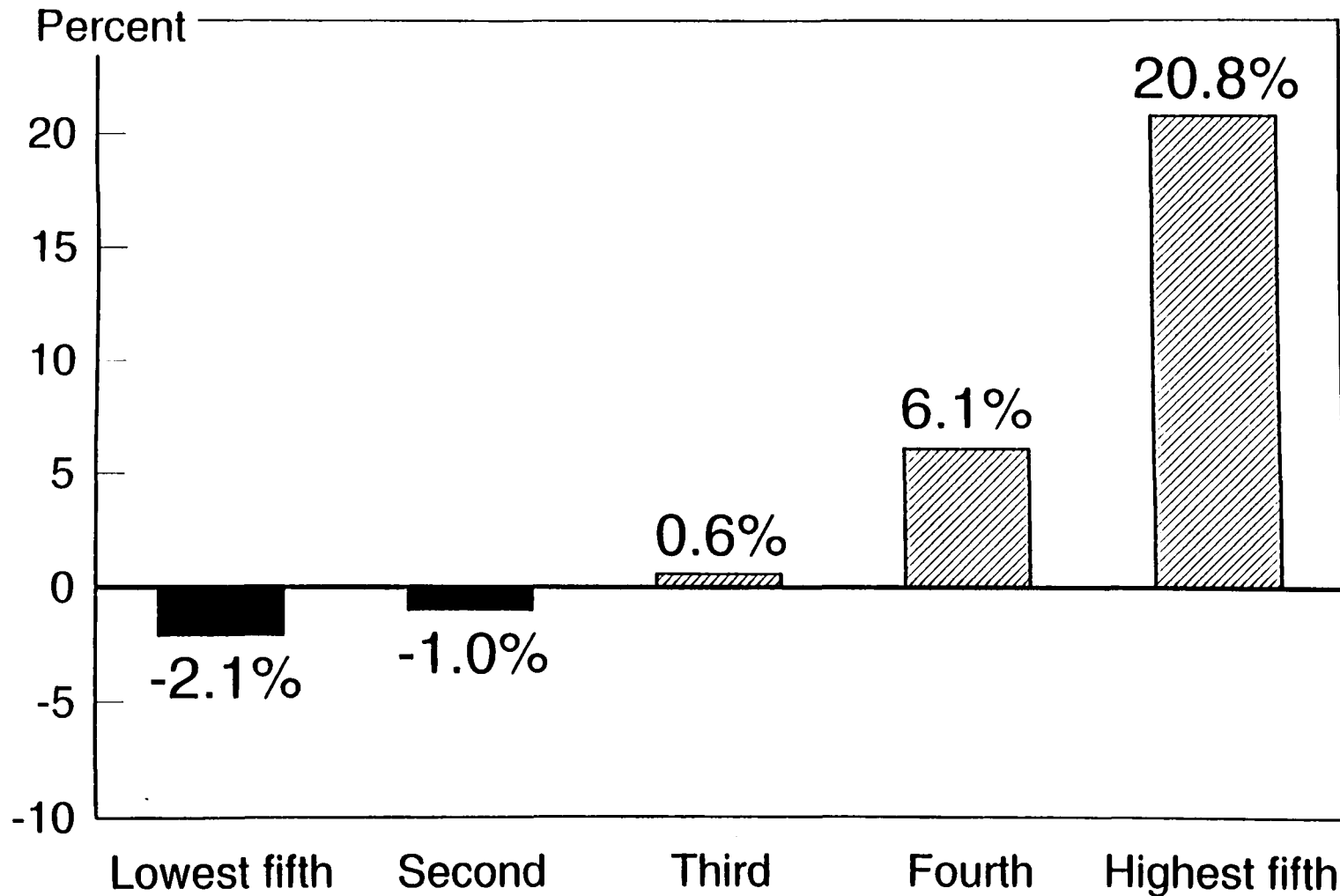
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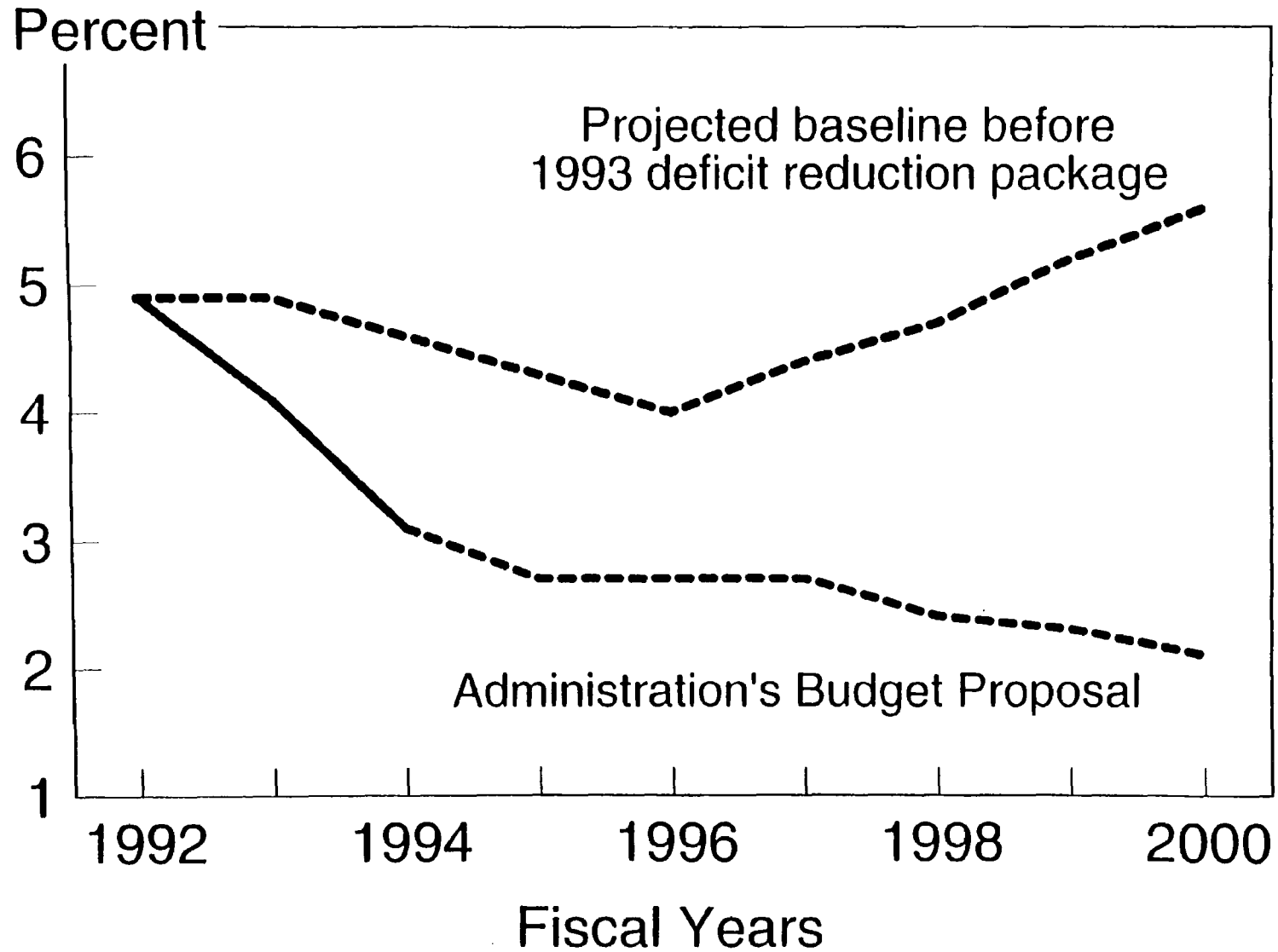


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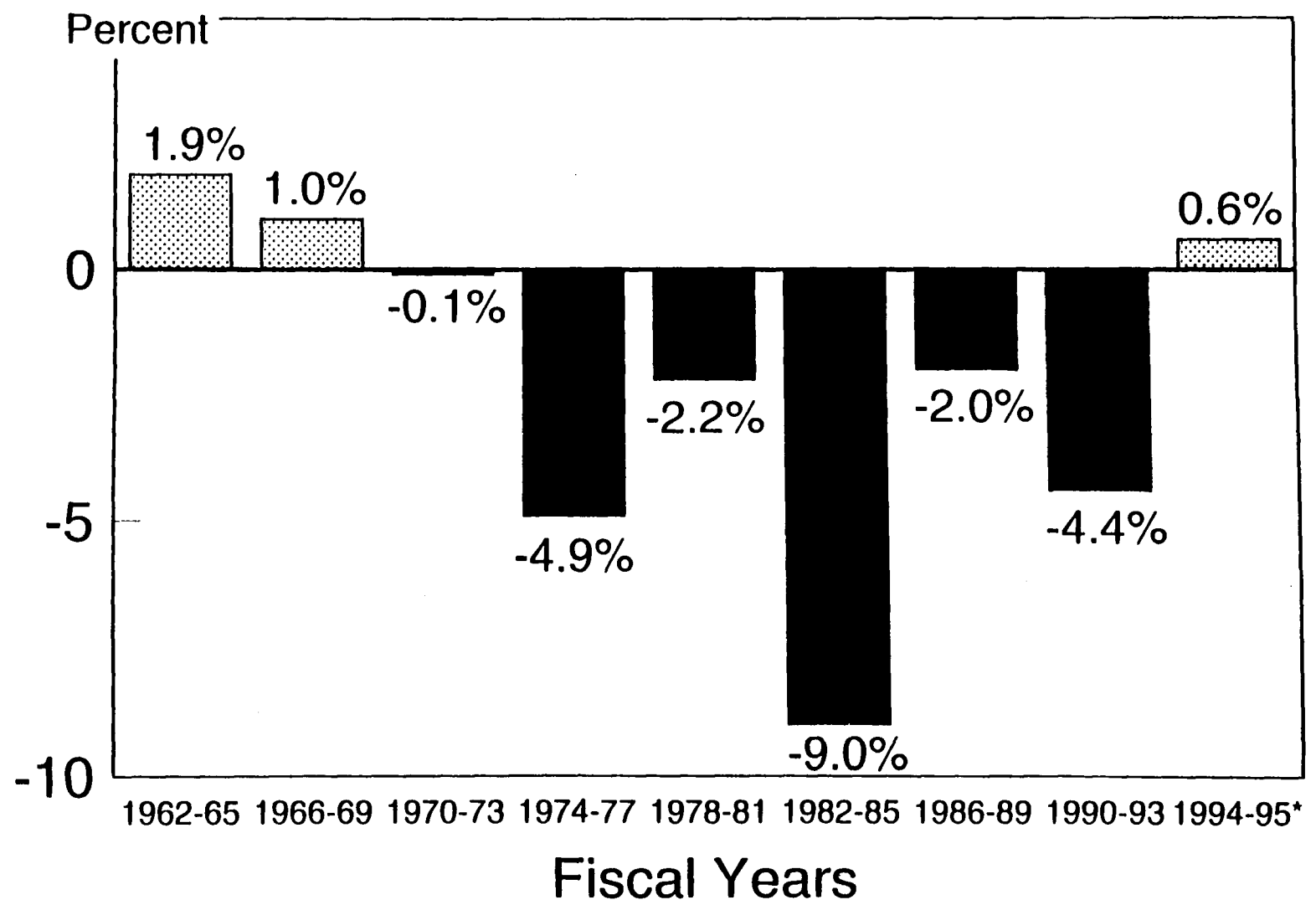


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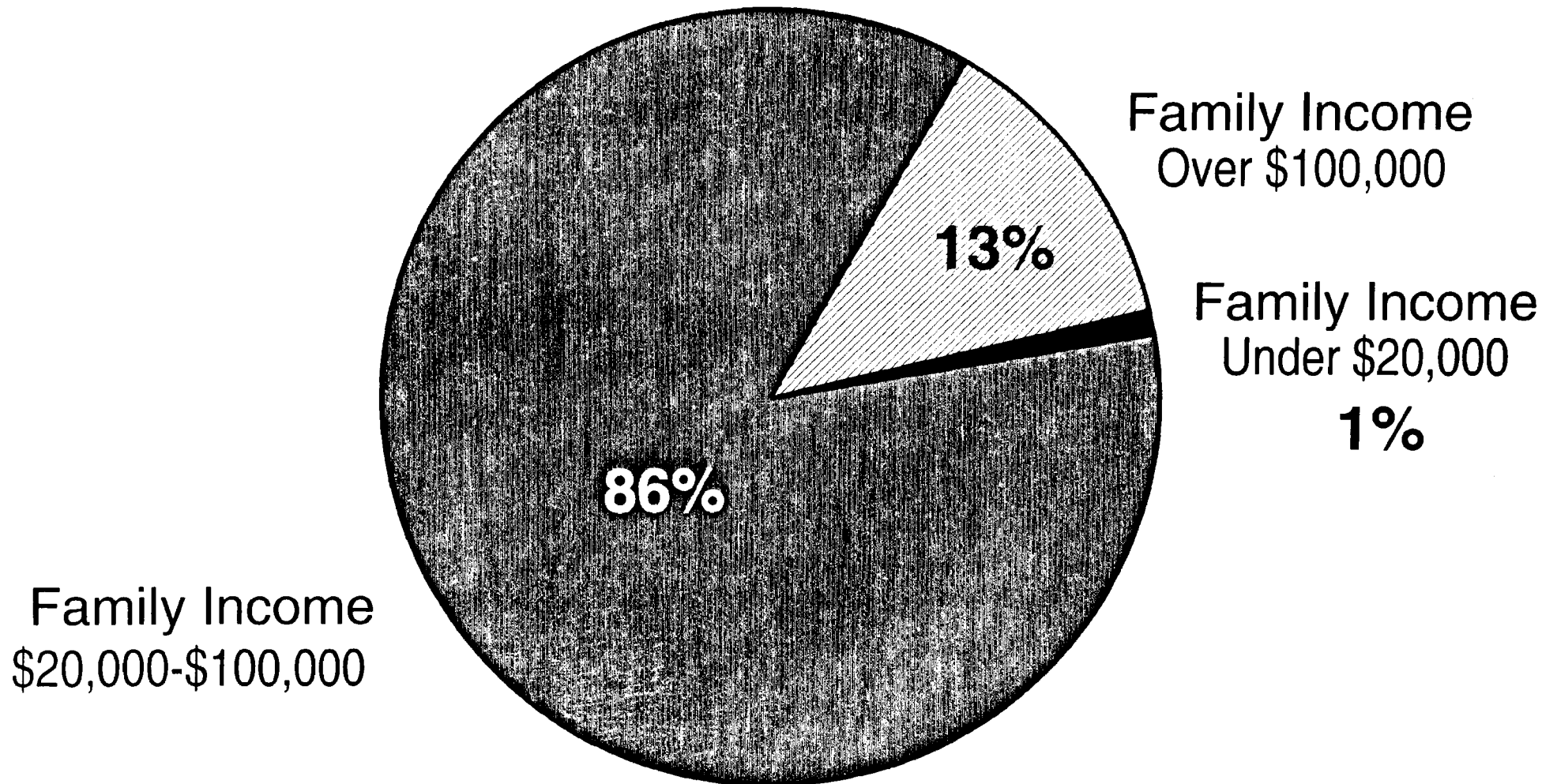


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For Release Upon Delivery
Expected at 9:00 a.m.
February 7, 1995

**ORAL TESTIMONY OF ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE
SENATE BUDGET COMMITTEE**

Chairman Domenici, Senator Exon, members of the committee, I'm pleased to appear before you to present the President's budget in fiscal year 1996. I've been in office less than a month, but I am doing something not many Treasury Secretaries get to do: presenting a budget that cuts the deficit cuts taxes, and continues positioning us for the long term.

I am also doing something that you'd have to go back 16 Treasury Secretaries to sometime in the Truman Administration to find: announcing that for three years in a row -- 1993 through 1995 -- our budget deficit will decline.

OMB Director Rivlin will testify tomorrow and provide details on the program side. I'd like to summarize the longer statement I've submitted for the record.

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I worked in financial markets for 26 years, and I have no doubt that our aggressive deficit reduction program was, in large measure, responsible for the decline in interest rates in 1993, which in turn was key to jump-starting the economy in 1993. Deficit reduction also reduced uncertainty about our fiscal future and created confidence conducive to investment.

We now have a strong investment-led recovery that's creating jobs. Business investment in equipment has increased dramatically (Chart 2), and as a percent of GDP, is at an all-time high.

As we've cut the deficit and reduced federal employment, (Chart 3) the economy has created 5.7 million jobs, 5.3 million in the private sector. At the same time, the unemployment rate has declined from 7.1 percent to 5.7 percent.

All this investment and employment growth has occurred in an environment of low inflation -- an absolutely critical objective of this Administration. Even with the strength of the current recovery, inflation has remained under control. The increase in the consumer price index has come in under 3.0 percent for each of the last three years.

In the long term, however, the success of our strategy will depend on raising productivity growth. Productivity growth has been extremely slow for a generation, and this has contributed to slow growth in workers' incomes.

To make matters worse, slow growth in average wages has been accompanied by an unequal distribution of income gains (Chart 4). In the past fifteen years, those with incomes in the lowest fifth of American households have seen their real incomes fall; those in the top fifth have seen their incomes rise; and the middle has stood still.

The unequal distribution of income gains over the past fifteen years has put very real pressures on middle-class families. Their standards of living have failed to match their legitimate expectations. Dealing with this problem is at the heart of the President's budget and his Middle-Class Bill of Rights.

This budget emphasizes a three part strategy to promote growth and improve middle-class incomes: 1) maintaining long-term fiscal discipline, 2) providing tax relief for the middle class, and 3) increasing investment in workers through education and training.

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We accomplish these deficit reduction efforts while lowering taxes at the same time by making substantial cuts in spending.

Our budget cuts come from three areas. Restructuring government saves \$26 billion, savings that come largely from five agencies -- in the Departments of Transportation, Energy, and Housing and Urban Development; the General Services Administration; and the Office of Personnel Management.

We save another \$80 billion by further lowering the discretionary spending caps in 1996 through 1998 and extending them for two years beyond their scheduled expiration in 1998. The specifics behind these savings are presented in the budget itself.

Thirty-two billion dollars in additional savings come primarily from the mandatory side of the budget through continuing some existing health care savings, imposing user fees for the lucrative electro-magnetic spectrum, accelerating student loan savings, and reducing certain agricultural programs.

Finally, a remaining \$5 billion of deficit reduction comes primarily from lower debt service, as a result of our success in lowering the deficit.

Together our program cuts, projected debt service reductions and other changes save \$144 billion between 1996 and 2000. The President has proposed using \$63 billion of these savings to provide tax relief to middle-income families as part of his Middle-Class Bill of Rights.

While the deficit outlook for the next ten years is projected to be good, eventually the deficit will turn up. The problems are an increasingly aging population and rapidly rising health care costs. If we want to maintain fiscal discipline over the long run, we must reform health care as soon as possible.

Before I leave our deficit discussion, let me make two additional points.

Under President Clinton (Chart 5) -- for the first time since the 1960s -- expenditures on government programs are less than the taxes paid by the American

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We've targeted this squarely at middle-income families (Chart 6). A full 86 percent of the benefits of this tax cut will go to families with incomes between \$20,000 and \$100,000. The tax cuts involve three proposals:

First, the \$500 child credit for children under 13 -- this credit is designed to help younger families, where economic pressure often tends to be greatest, to better provide child care, after-school activity, and the other requisites for good child rearing. That is an investment in children -- the future of our country. This credit, which is non-refundable, would reduce the federal income tax burden of a typical two-child family with an income of \$50,000 by almost 21 percent, once the credit is fully phased in.

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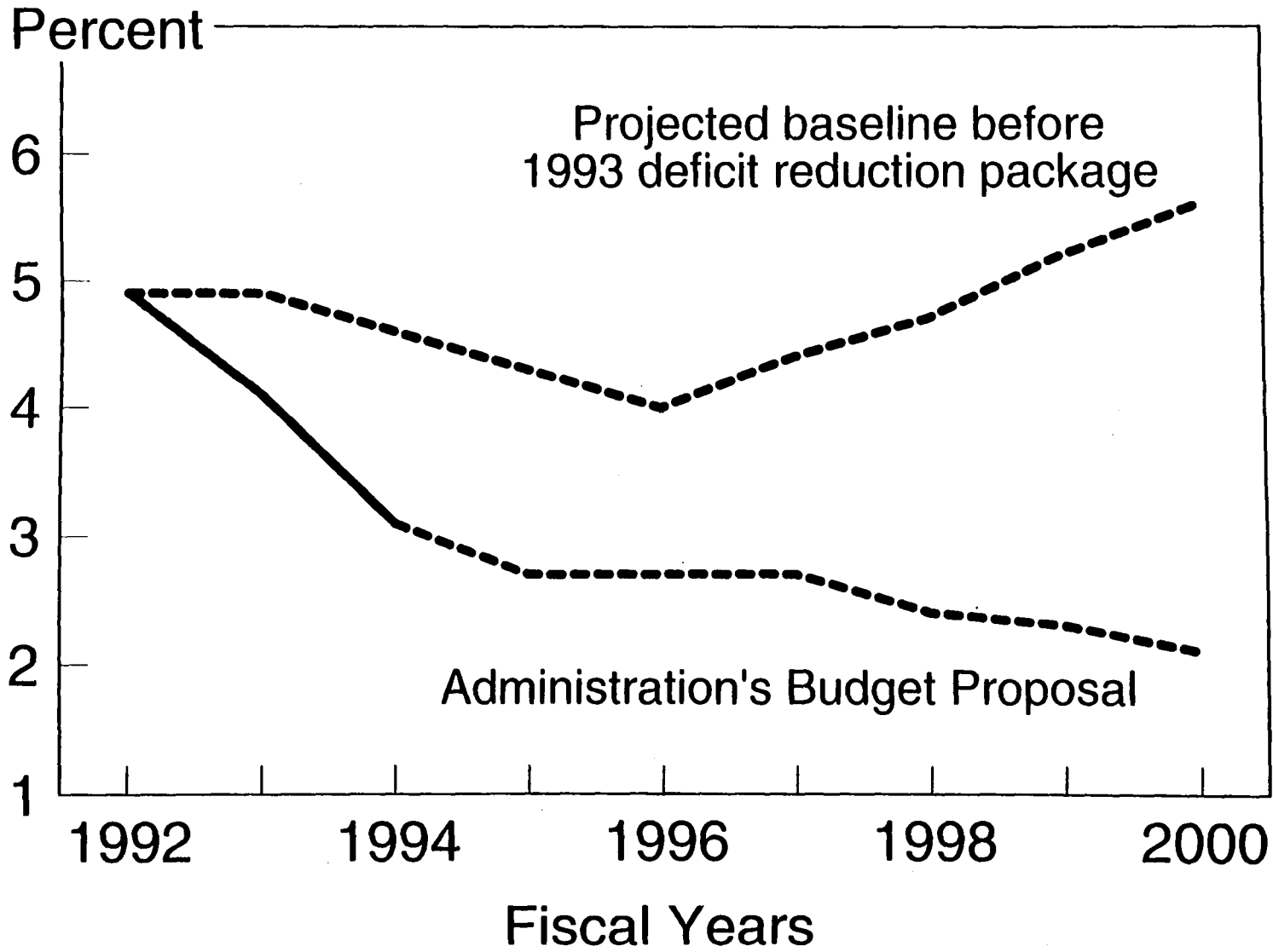
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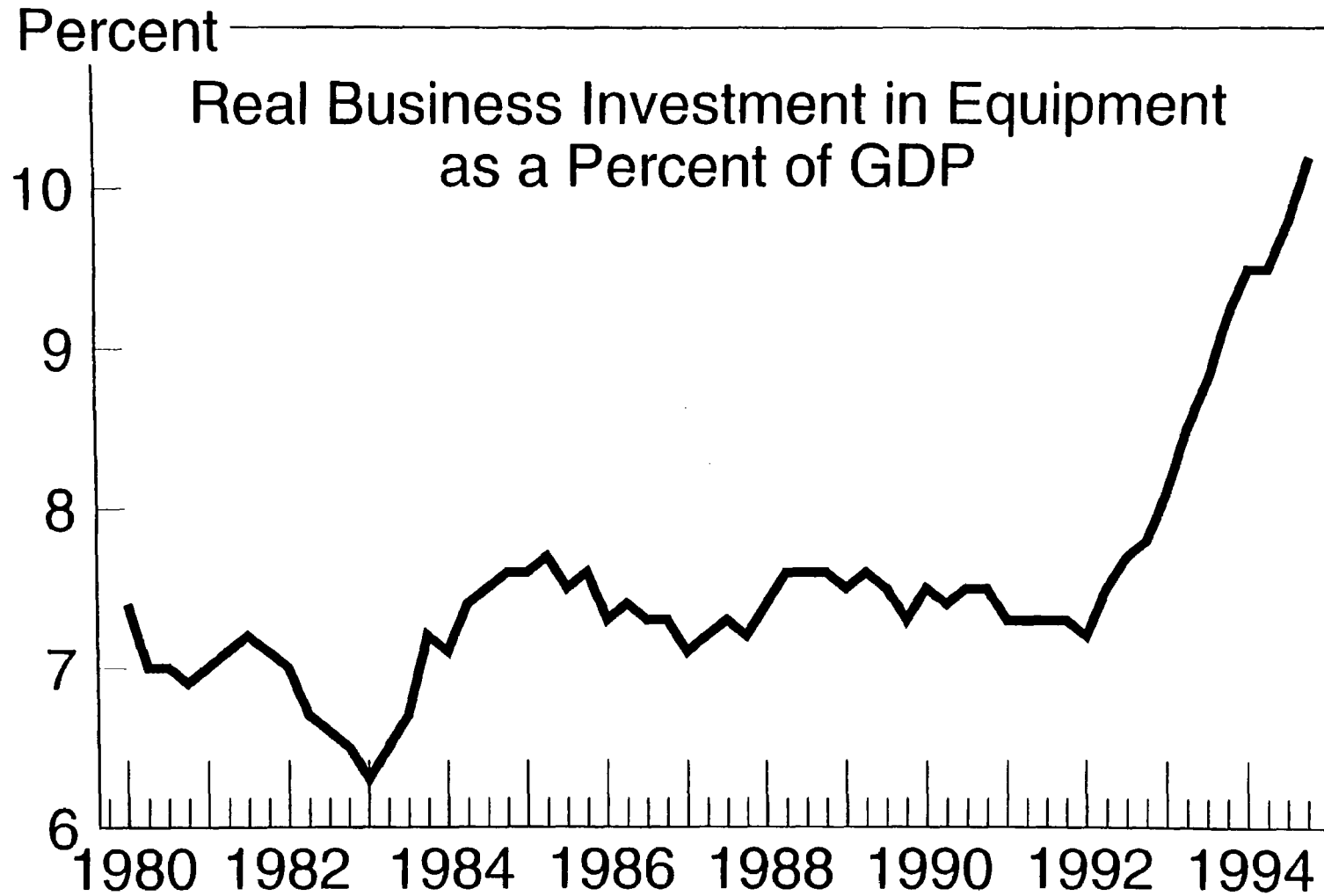
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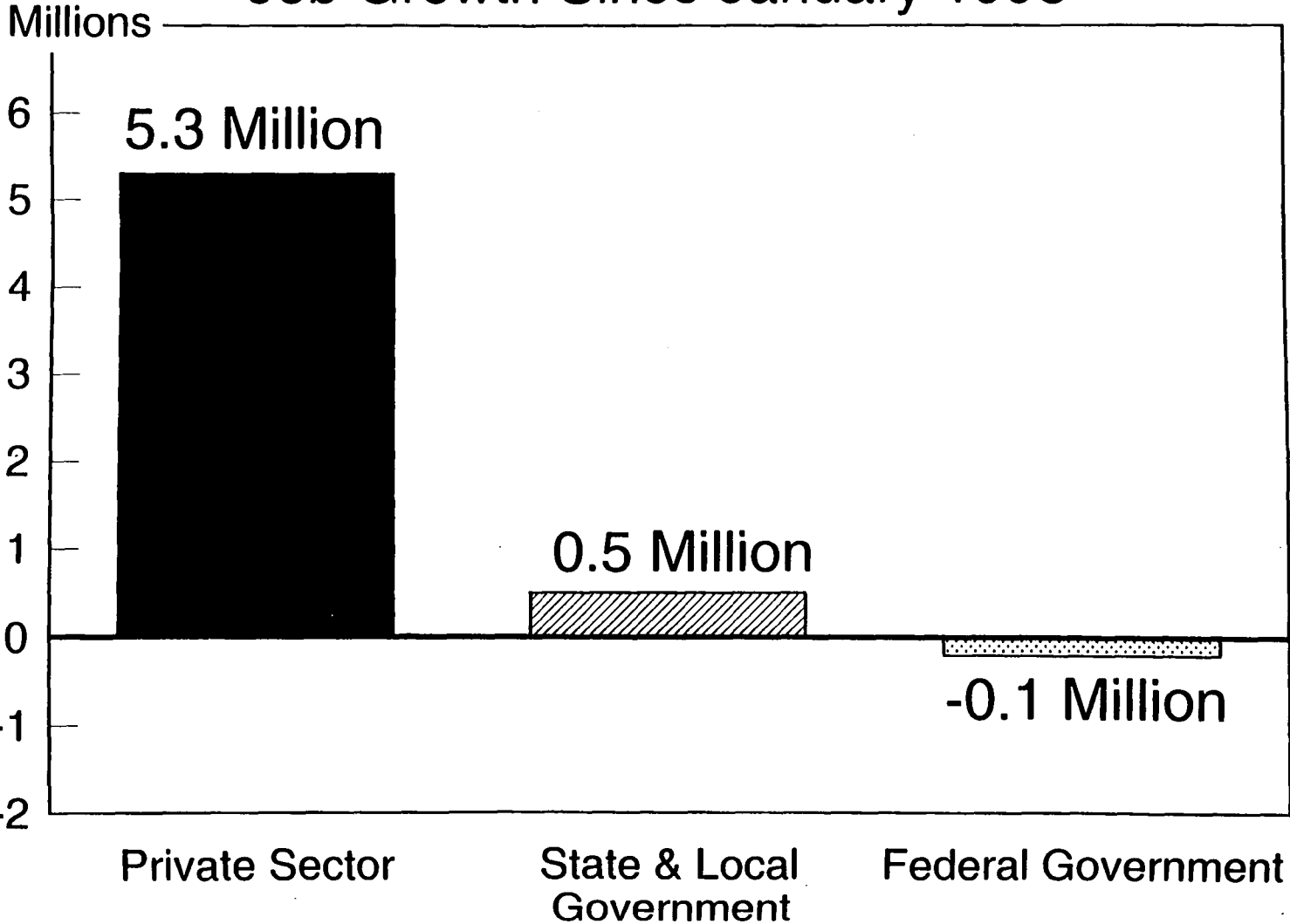


Business Investment Has Surged



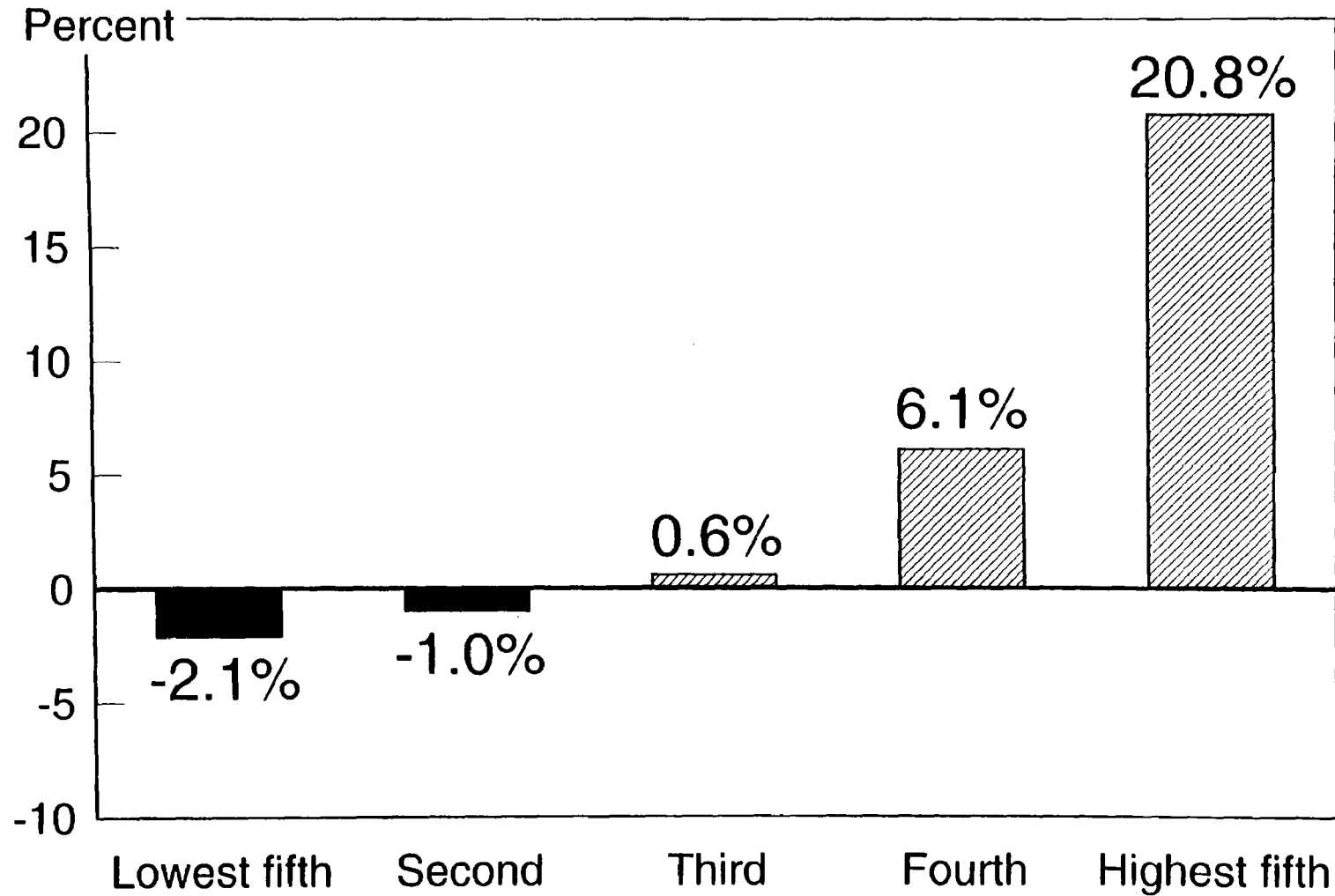
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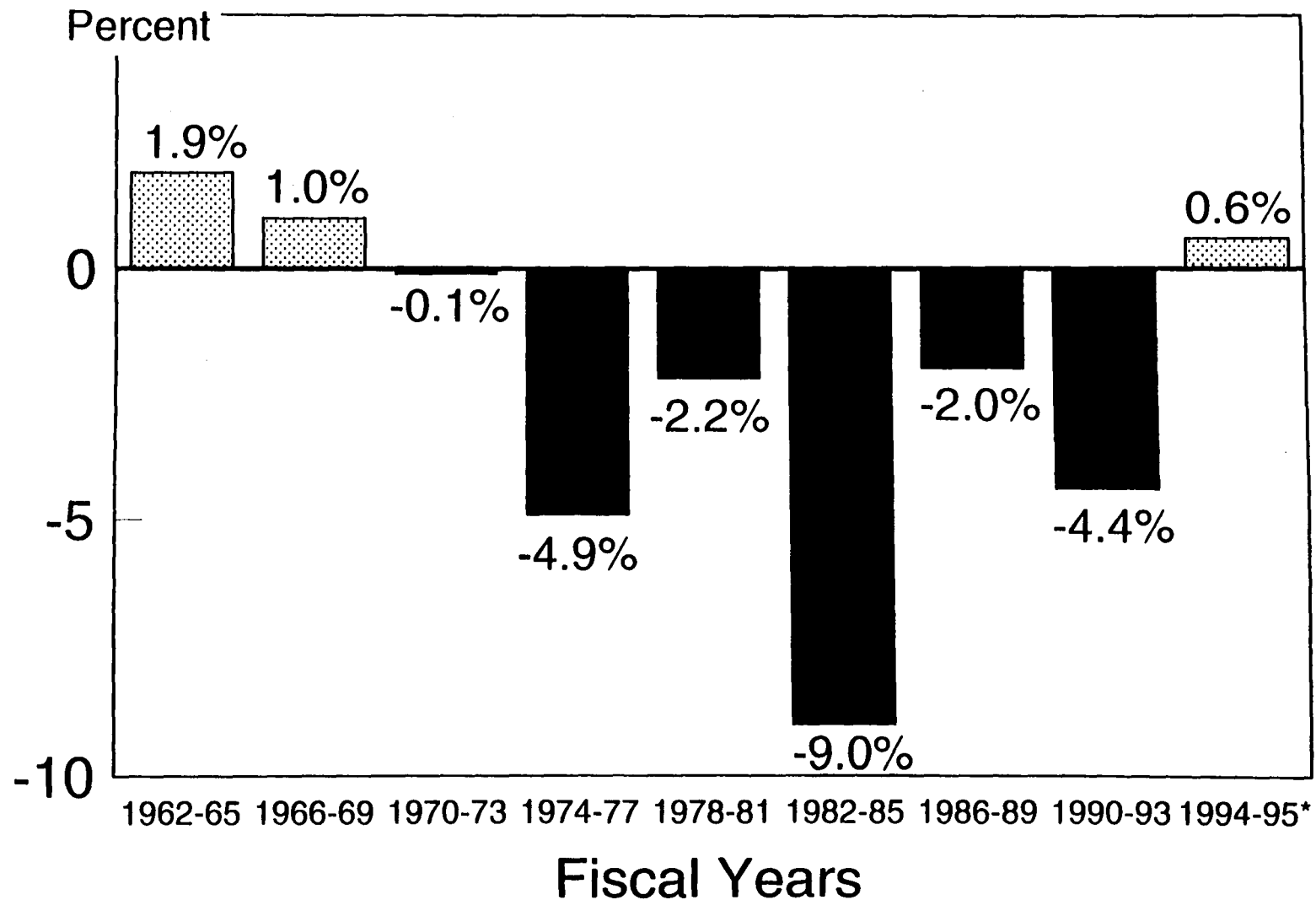
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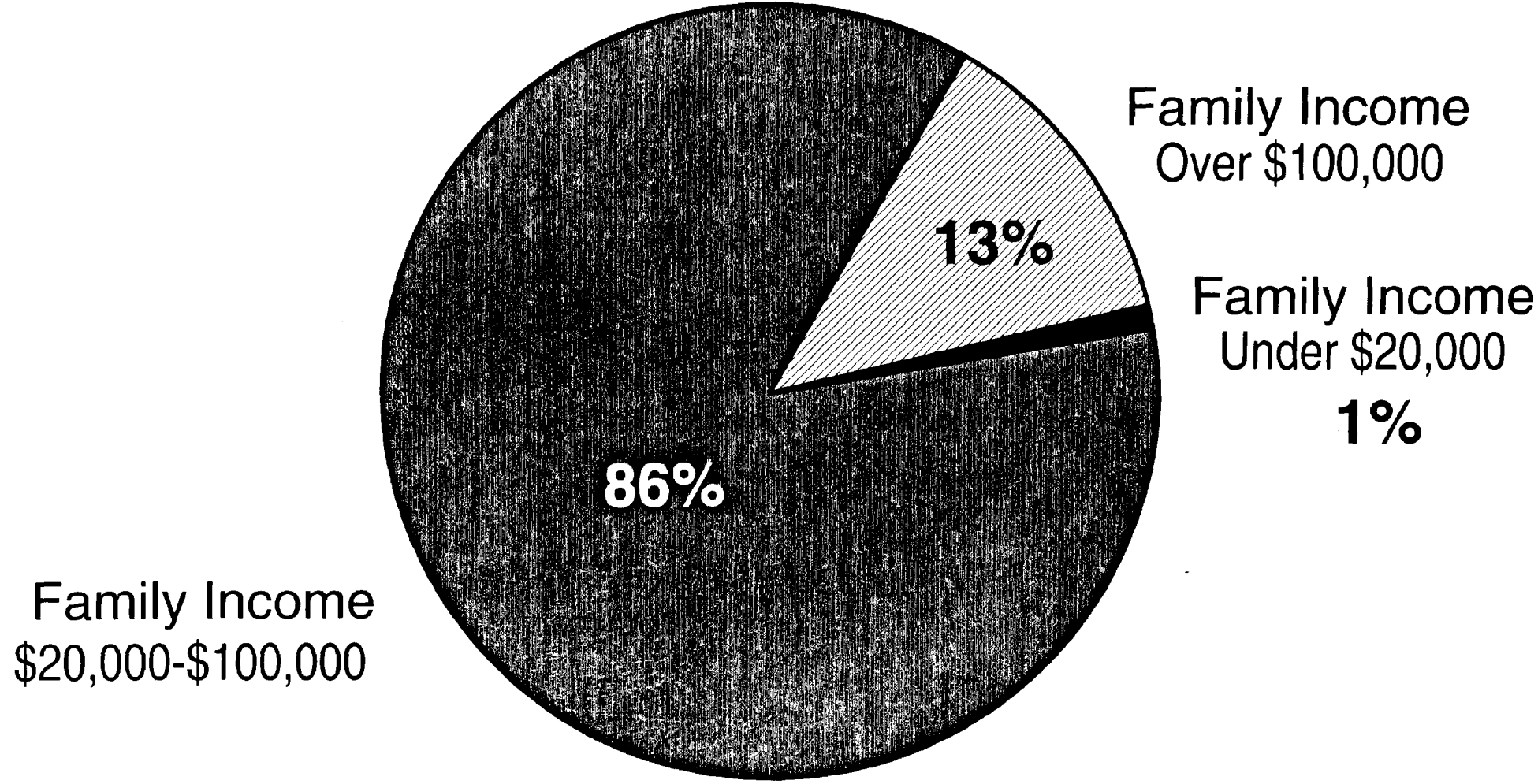
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*Fiscal year 1994 and projection for fiscal year 1995.

Tax Cut Targeted to Middle-Income Families



TREASURY  NEWS

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For Release Upon Delivery
Expected at 10:30 a.m.
February 7, 1995

**ORAL TESTIMONY OF ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES**

Chairman Archer, Representative Gibbons, members of the committee, I'm pleased to appear before you to present the President's budget in fiscal year 1996. I've been in office less than a month, but I am doing something not many Treasury Secretaries get to do: presenting a budget that cuts the deficit cuts taxes, and continues positioning us for the long term.

I am also doing something that you'd have to go back 16 Treasury Secretaries to sometime in the Truman Administration to find: announcing that for three years in a row -- 1993 through 1995 -- our budget deficit will decline.

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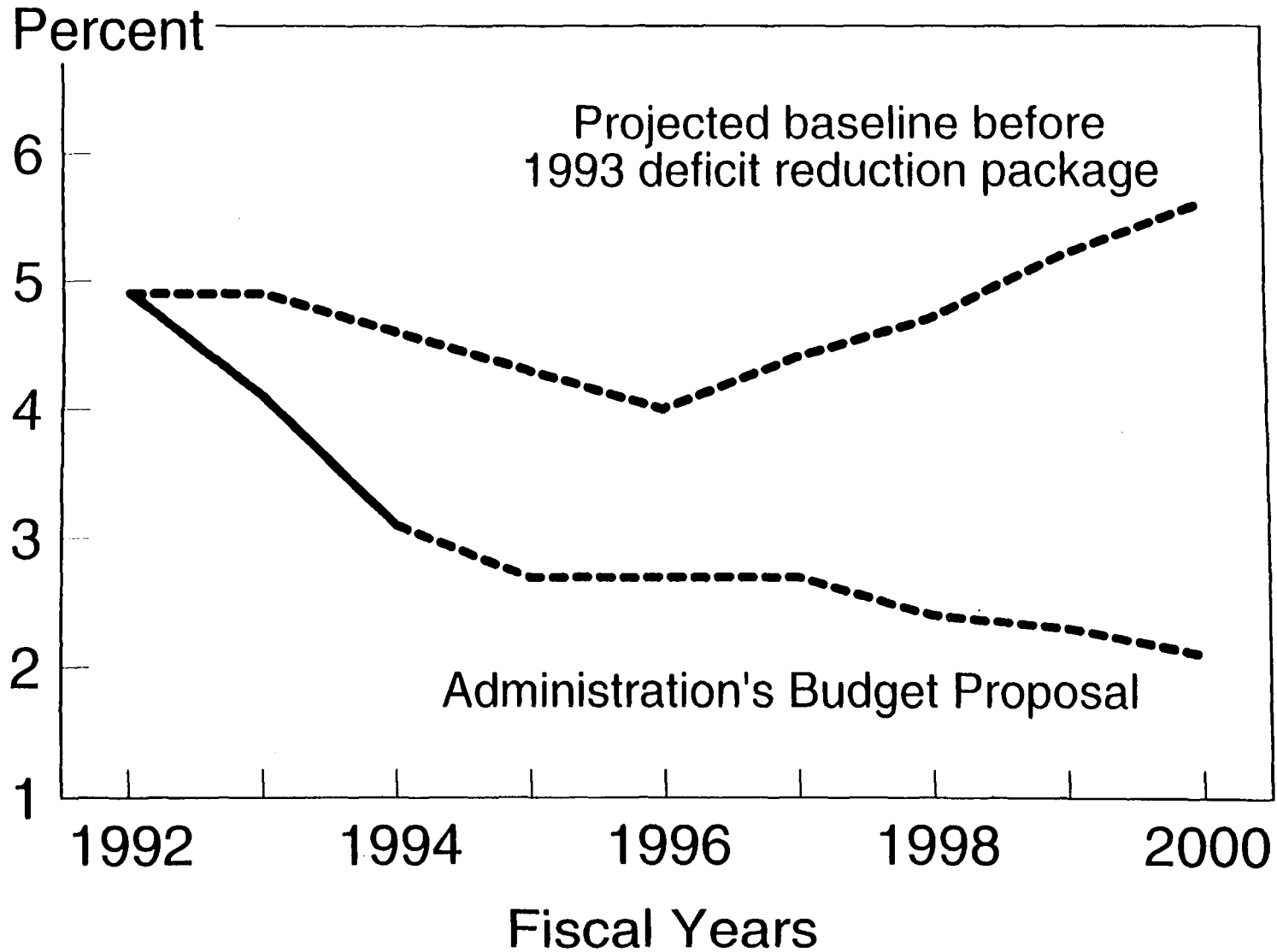
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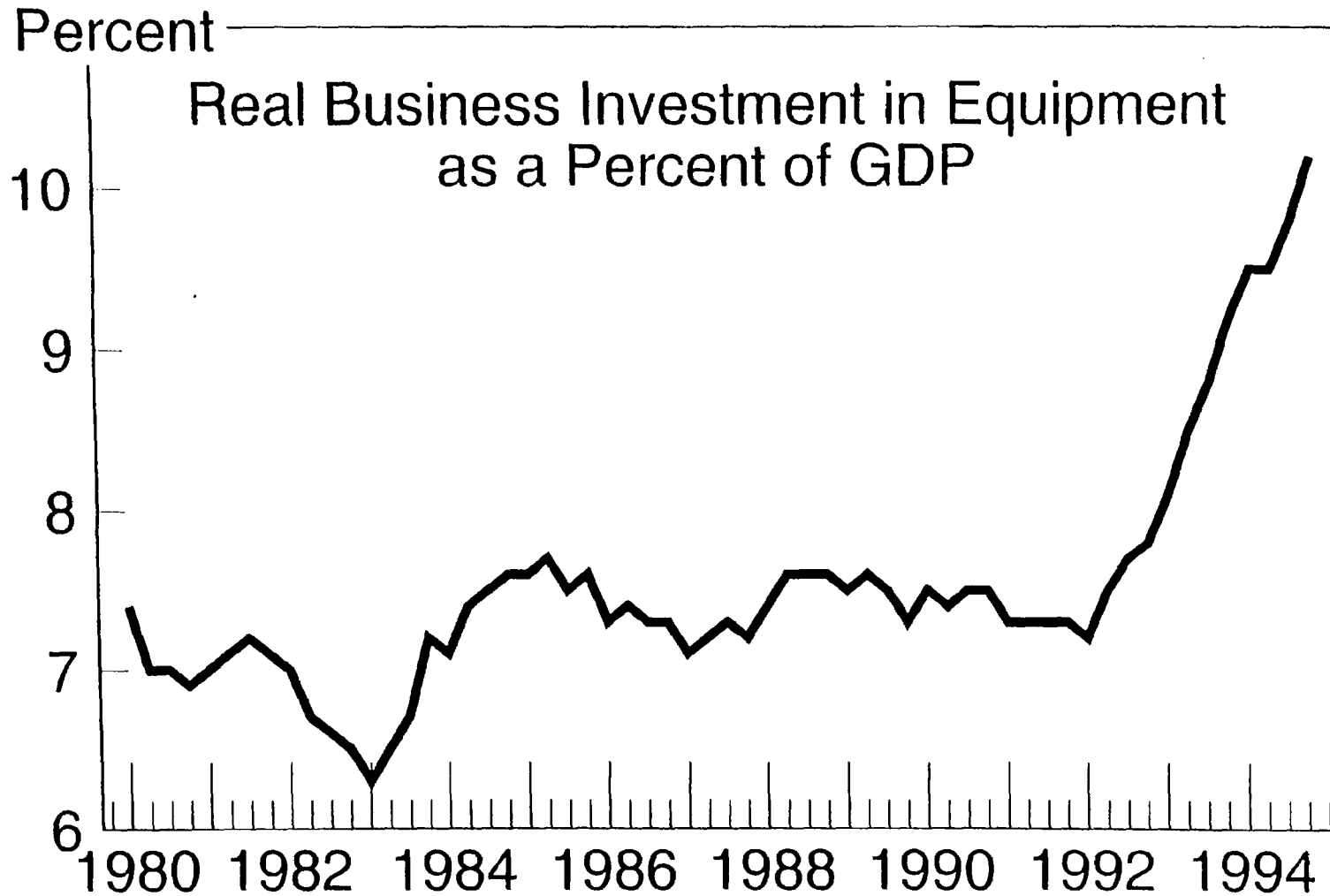
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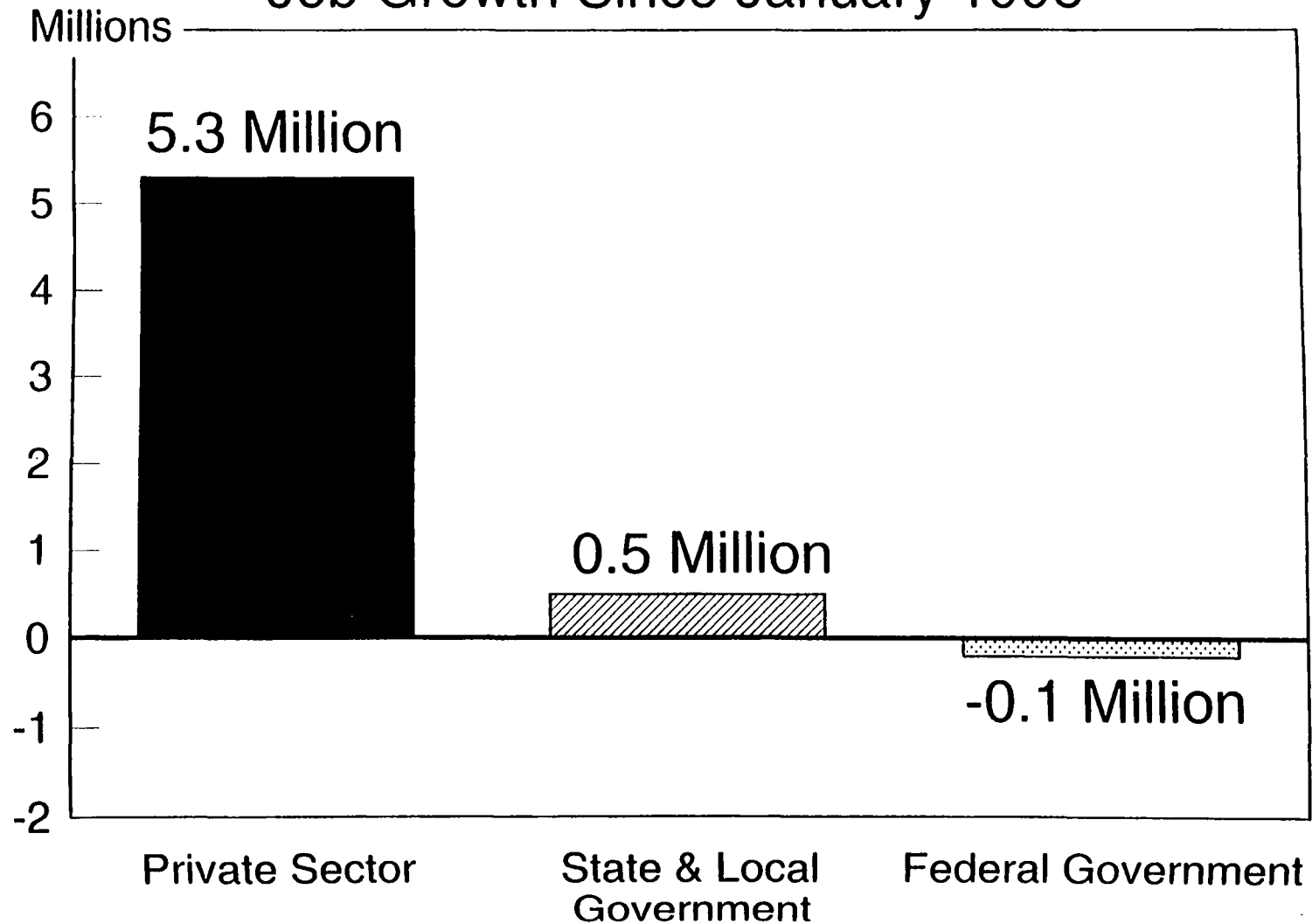


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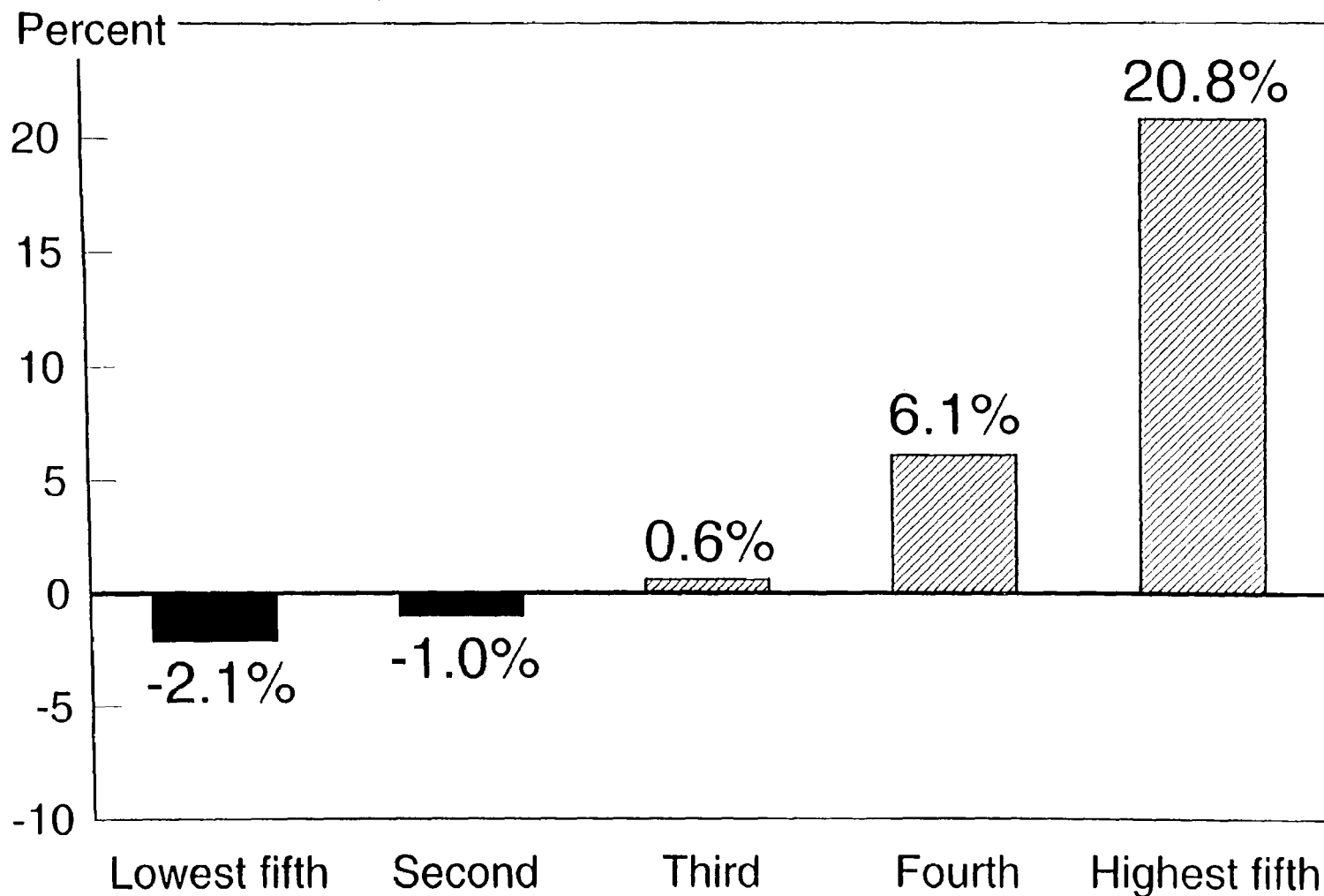
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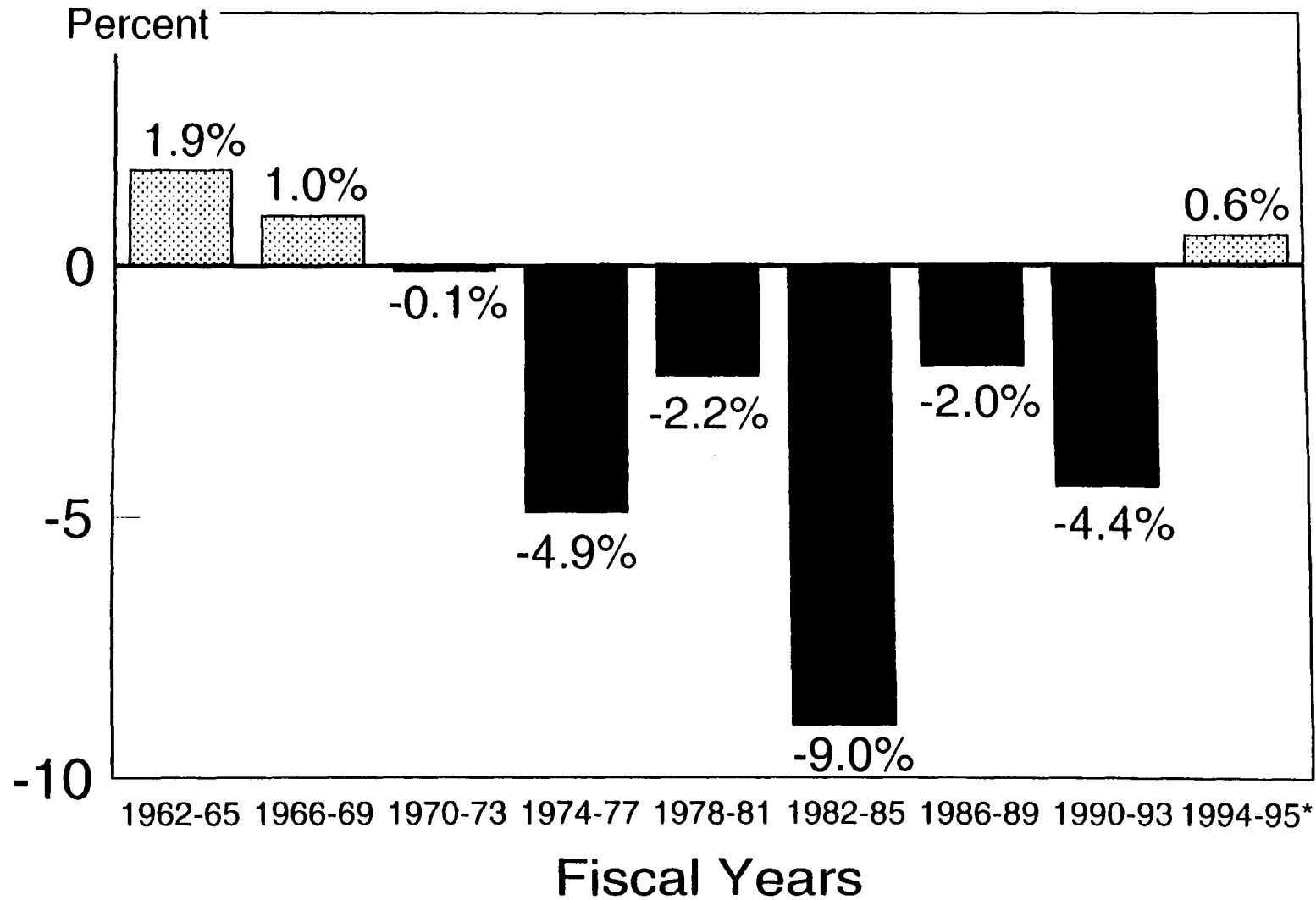
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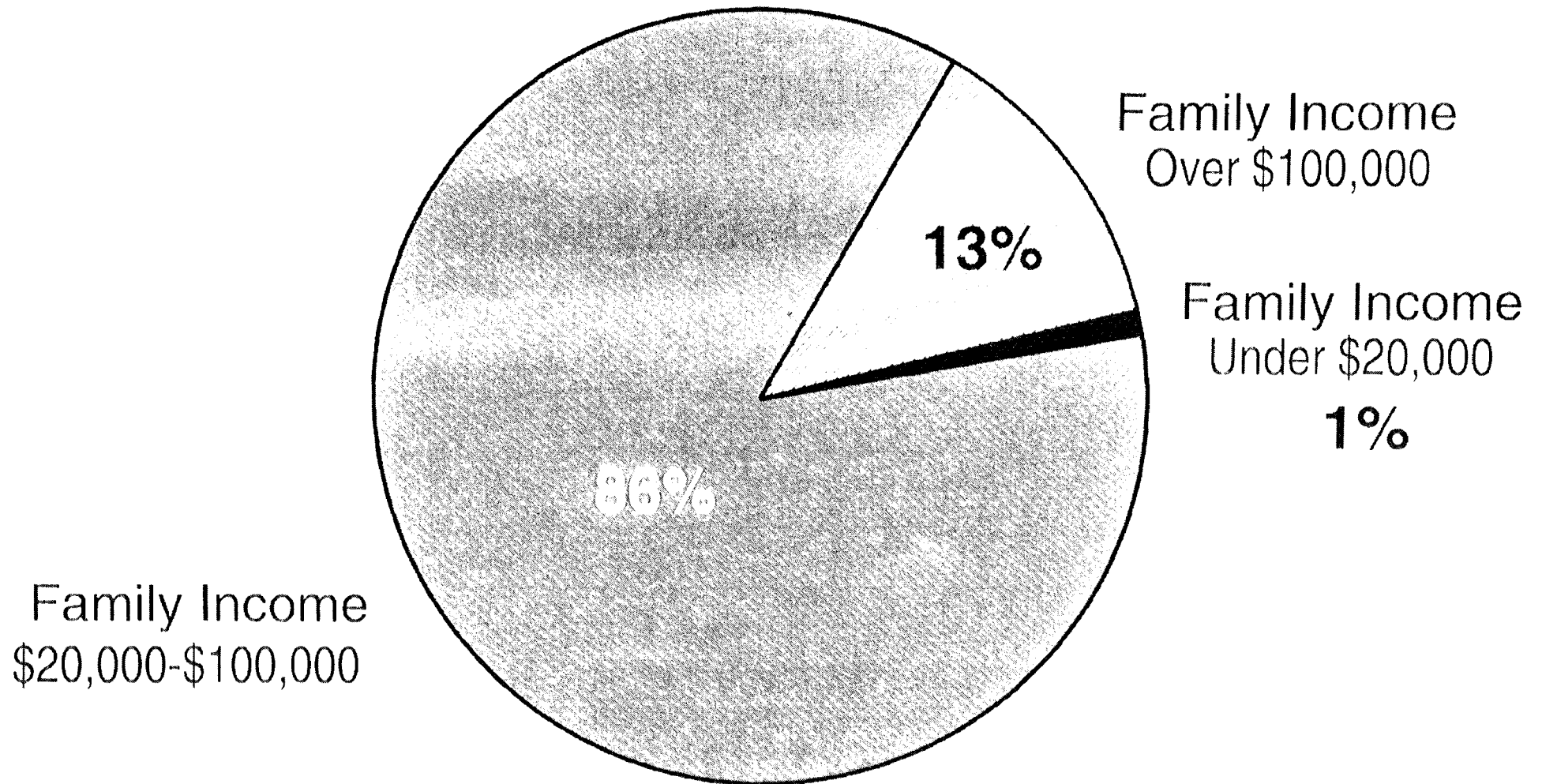


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DEPARTMENT OF THE TREASURY

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FOR RELEASE AT 2:30 P.M.
February 7, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$27,600 million, to be issued February 16, 1995. This offering will provide about \$475 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$27,137 million.

Federal Reserve Banks hold \$6,729 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$1,794 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-64



DEPARTMENT OF THE TREASURY

TREASURY



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OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 10:00 A.M.
February 7, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury will auction approximately \$9,000 million of 64-day Treasury cash management bills to be issued February 15, 1995.

Competitive and noncompetitive tenders will be received at all Federal Reserve Banks and Branches. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D.C.

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.

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oOo

Attachment

RR-65



**HIGHLIGHTS OF TREASURY OFFERING
OF 64-DAY CASH MANAGEMENT BILL**

February 7, 1995

Offering Amount \$9,000 million

Description of Offering:

Term and type of security 64-day Cash Management Bill
CUSIP number 912794 R6 3
Auction date February 9, 1995
Issue date February 15, 1995
Maturity date April 20, 1995
Original issue date October 20, 1994
Currently outstanding \$13,128 million
Minimum bid amount \$10,000
Multiples \$1,000
Minimum to hold amount \$10,000
Multiples to hold \$1,000

Submission of Bids:

Noncompetitive bids Accepted in full up to \$1,000,000 at
the average discount rate of accepted
competitive bids
Competitive bids (1) Must be expressed as a discount rate
with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must
be reported when the sum of the total
bid amount, at all discount rates, and
the net long position is \$2 billion or
greater.
(3) Net long position must be determined
as of one half-hour prior to the
closing time for receipt of competi-
tive tenders.

**Maximum Recognized Bid
at a Single Yield** 35% of public offering

Maximum Award 35% of public offering

Receipt of Tenders:

Noncompetitive tenders Prior to 11:00 a.m. Eastern Standard
time on auction day
Competitive tenders Prior to 11:30 a.m. Eastern Standard
time on auction day

Payment Terms Full payment with tender or by charge
to a funds account at a Federal
Reserve Bank on issue date

February 7, 1995

FOR IMMEDIATE RELEASE

Law Enforcement Training
Awards Ceremony Held in Georgia

The Federal Law Enforcement Training Center (FLETC), a bureau of the Treasury Department, presented the fourth annual Awards of Excellence in Law Enforcement Training today. The ceremony was held in the FLETC's Glynco, Georgia, Auditorium. Presenting the awards was Under Secretary of the Treasury Ronald K. Noble.

The FLETC has established these national awards to recognize individuals and organizations who have made significant contributions in the profession of law enforcement training, to underscore the critical role law enforcement training plays in our national efforts to protect citizens from violent crimes, to combat the spread of drugs, and to apprehend criminals.

- more -

For further information,
contact Peggy D. Dixon
(912) 230-2447

The recipient of the Individual Achievement Award was James M. Kuboviak, County Attorney for Brazos County, Texas. He was instrumental in the development of procedures and training which resulted in the successful use of mobile video cameras in police vehicles to prosecute criminal cases.

The Lifetime Achievement Award was presented to Noreen M. Grella, Senior Social Services Supervisor for Orange County, California. She was honored for pioneering the use of children's drawings as a reliable investigative technique and for a sustained 20-year teaching career in the areas of Psycho-dynamics of Child Abuse and Child Abuse Investigation Techniques.

The FLETC is an interagency training center serving 70 Federal law enforcement organizations. The FLETC provides basic and advanced training programs to police and investigative personnel, and assists its participating organizations in conducting agency specific training programs. Last year, more than 21,000 students were trained at the FLETC, either at its headquarters at Glynco, Georgia, or at one of its satellite training centers in Arizona or New Mexico.

(Biography sheets for the two award recipients are attached)

Noreen M. Grella
Senior Social Services Supervisor
Orange County, California
and
Lecturer
Delinquency Control Institute
University of Southern California

In 1983, Ms. Grella designed, implemented, and continues to manage a child abuse treatment program that focuses on the parallel treatment of all persons in the social group close to the victim. As a lecturer at USC for more than 20 years, she has taught over 200 course presentations on "Psycho-dynamics of Child Abuse" and "Child Abuse Investigation Techniques". Besides her teaching assignment at USC, she also holds a part time faculty position at the California State University in Fullerton where she teaches "Juvenile Justice Administration". She also maintains a private practice as a licensed clinical social worker providing treatment for victims of sexual and child abuse.

Ms. Grella holds a Master of Social Work degree from the University of Pennsylvania. Her achievements during more than 20 years as an expert in the area of child abuse investigation and prevention has earned her many awards from regional and national associations, such as the County of Riverside and the County of Orange Child Abuse Councils; the California Sexual Assault Crimes Investigators Association; the National Association of County Governments; and the National Exchange Club. She lectures for State and local police academies in more than 20 states and the F.B.I. National Academy and to police officers from more than 50 countries.

Ms. Grella pioneered the use of children's drawings as a reliable investigative technique for law enforcement. Her innovative approach provides a comfortable means of communicating with the victimized child and the law enforcement investigator and are used in her classes to recognize and interpret investigative clues and case evidence.

Ms. Grella has an outstanding reputation among her students, peer faculty, and program administration, as well as law enforcement, as an elite lecturer and infinite source of advice and information in the field of child abuse. She is well perceived as an impartial court witness with unparalleled expertise in the field of child abuse.

Ms. Grella is the recipient of the Individual Achievement - Lifetime Award.

James M. Kuboviak
County Attorney
Brazos County, Texas

As the County Attorney for Brazos County, Texas, Mr. Kuboviak is responsible for investigating offenses against the laws of the state of Texas. In the course of his career, he has been a police officer in both Texas and Mississippi.

He received a B.S. in Criminal Justice from Sam Houston State University in 1968. In 1974 he was awarded a M.S.S. in Sociology and in 1976 a Master in Criminal Justice from the University of Mississippi. He earned his Law Degree in 1981 from St. Mary's University and is a Doctorate Candidate at Texas A&M.

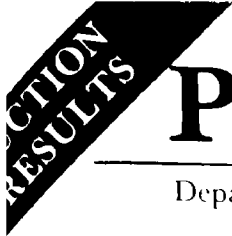
He worked as a police legal advisor with the San Antonio Police Department while completing his law degree and then worked as an Assistant District Attorney in the Brazos County District Attorney's Office, leaving as First Assistant. He was then elected and has served three terms as Brazos County Attorney.

He has written over 20 articles on "Mobile Videotaping" and conducted training for prosecutors and police in 11 states. He received the National Commission Against Drunk Drivers Initiative Award in 1990; the National Highway Traffic Safety Administration's 1993 Administrator Program of Excellence Award; and the Texas Department of Public Safety's Directors Award.

Mr. Kuboviak developed a process to use video cameras installed in police vehicles to gather evidence which is used in prosecuting criminal cases. Although the program was initially begun to assist in prosecuting driving while intoxicated cases, it has expanded into other areas. A video camera installed under his directions was used to assist in a guilty verdict for the capital murder of a police officer and a guilty verdict for aggravated assault on a police officer.

His contributions in this area have significantly reduced the time spent in court by officers because of this overwhelming evidence and has greatly enhanced the safety of police officers by the very presence of this "eye-witness".

Mr. Kuboviak is the recipient of the Individual Achievement - Special Act Award.



PUBLIC DEBT NEWS



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February 7, 1995

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RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for \$17,123 million of 3-year notes, Series W-1998, to be issued February 15, 1995 and to mature February 15, 1998 were accepted today (CUSIP: 912827S78).

The interest rate on the notes will be 7 1/4%. The range of accepted bids and corresponding prices are as follows:

	<u>Yield</u>	<u>Price</u>
Low	7.30%	99.867
High	7.34%	99.762
Average	7.34%	99.762

\$10,000 was accepted at lower yields.
Tenders at the high yield were allotted 93%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$46,880,400	\$17,122,643

The \$17,123 million of accepted tenders includes \$1,570 million of noncompetitive tenders and \$15,553 million of competitive tenders from the public.

In addition, \$699 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$3,031 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

TREASURY



NEWS

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For Release Upon Delivery
Expected at 9:30 a.m.
February 8, 1995

**STATEMENT OF ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE**

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the President's proposed Budget for the 1996 Fiscal Year. I've been in office less than a month, but I am doing something not many Treasury Secretaries get to do: presenting a budget that cuts the deficit and cuts taxes. I am also doing something that you would have to go back 16 Treasury Secretaries to sometime in the Truman Administration to find: announcing that our budget deficit will decline for three years in a row.

Every Administration's agenda is contained in its proposed budgets. President Clinton, from the beginning of this Administration, has had a broad-based economic strategy to stimulate and then protect the recovery, to position the country for the long-term, and to increase the incomes of working Americans.

Prior to joining Treasury, I assisted the President in setting our overall policies. I know how deeply he feels about continuing to move forward on his full economic strategy, which includes fiscal discipline, boosting both private and public investment to increase long-run productivity, opening markets, reforming government and regulation, and achieving health care and welfare reform.

This morning, I would like to summarize briefly what we have achieved, where we are now, and where we are headed, with special attention to the President's proposed Middle-Class Bill of Rights.



What Have We Achieved to Date?

When the President came into office, the economy may have been in recovery, but the recovery was weak and uncertain. Employment growth, in particular, had lagged far behind normal expectations. Large federal budget deficits, which were increasing rapidly as a percent of GDP even as the economy was recovering, created an unstable economic environment. Escalating structural deficits were a clear signal that the chances of an eventual severe financial crisis were on the rise. Prudent business people were reluctant to hire or to invest in this unstable environment. As a result, Americans were experiencing a jobless recovery.

Thus, the first necessary economic move was to bring the deficit under control. Working with Congress, we enacted a powerful deficit reduction program. The \$505 billion deficit reduction package was achieved largely through spending cuts of \$255 billion over five years, including freezing discretionary spending at 1993 levels, and raising income tax rates on only the 1.2 percent of Americans with highest incomes.

We also introduced plans to reduce the size of government. The President's Reinventing Government initiative called for reducing the federal work force by 272,900 over five years, bringing government employment back to levels not seen since John Kennedy was President.

At the same time that we were cutting spending and government employment, we were able to reduce taxes for millions of lower- and moderate-income working individuals and families, and to offer tax relief for small businesses.

The net effect of our plan was to bring the deficit down: from \$290 billion in 1992 to what we now project as \$193 billion this year, the deficit as a share of GDP went from 4.9 percent in 1992 to a projected 2.7 percent for 1995.

I worked in financial markets for 26 years, and I have no doubt that our aggressive deficit reduction program was, in large measure, responsible for the decline in interest rates which in turn was key to jump-starting the economy in 1993. Deficit reduction also reduced uncertainty about our fiscal future and restored confidence conducive to investment.

In addition to addressing the deficit problem, we also made sure that American businesses had access to the credit they needed. When President Clinton took office, small- and medium-sized businesses were facing a "credit crunch." In response, President Clinton announced a program of regulatory and administrative changes to reduce impediments and increase the availability of credit.

The combination of these policies, a sound fiscal environment and increased availability of credit, has paid off. We now have a strong investment-led recovery that is

creating jobs. The first chart at the end of this statement shows that business investment in equipment has increased dramatically under the Clinton Administration. As a percent of real GDP, business equipment investment is at an all-time high.

Most important, as we have cut the deficit and reduced federal employment, the economy has created 5.7 million jobs, putting an end to the jobless recovery. Note that 5.3 million, or 93 percent, of these jobs were created in the private-sector (see attached chart). At the same time, the unemployment rate has declined from 7.1 percent to 5.7 percent. Some say that all these new jobs are in low-paying industries, but that view is incorrect. Over the past year, the number of jobs in construction, which pays 30 percent more than the average wage, has surged by some 325,000. The decline in manufacturing jobs has turned around: factory employment is up 290,000. The high-paying wholesale trade and transportation and public utilities industries provided an additional 295,000 jobs.

All this investment and employment growth has occurred in an environment of low inflation--an absolutely critical objective of this Administration. Even with the strength of the current recovery, inflation has remained under control. The increase in the consumer price index has come in under 3.0 percent for each of the last three years. We see virtually no evidence of cost-push inflation pressure from wages. Growth of the employment cost index--the most reliable measure of labor costs--was lower in 1994 than it had been in 1993.

We have also established the basis for growth of future wages and living standards through our trade liberalization policies. We worked hard to enact NAFTA and GATT because we believe American workers will benefit. In an increasingly integrated world, we are going to have to look outward rather than inward if we are going to stay on top. Moreover, jobs in export industries are more productive than average and pay about 10 to 20 percent more than average. That means shifting the composition of GDP toward more exports automatically shifts the economy toward better paying jobs.

Where Are We Now?

As successful as economic performance has been in the last two years, getting the economy moving and creating jobs in the short term was only part of the challenge. In the longer run, the key test of this Administration will be whether it has succeeded in raising productivity growth--because that is the only way to create higher wages and higher standards of living.

I want to emphasize that productivity growth is not an academic abstraction. In the final analysis, increases in workers' incomes cannot be sustained without increases in productivity--in the amount produced per hour worked. Productivity growth has been extremely slow over the past twenty years. And slow productivity growth has meant slow growth in workers' incomes.

This slow growth in average wages has been accompanied by an unequal distribution of income gains. As you can see from the attached chart, in the past fifteen years, those with incomes in the lowest fifth of American households have seen their real incomes fall below the levels attained by their counterparts in 1980; those in the top fifth have seen their incomes rise by 21 percent; and the middle has stood still.

The unequal distribution of income gains over the past fifteen years has put very real pressures on middle-class families. Their standards of living have failed to match their legitimate expectations. Dealing with this problem is at the heart of the President's budget and his Middle-Class Bill of Rights.

Where Do We Go from Here?

This budget emphasizes a three part strategy to promote growth and improve middle-class incomes: 1) maintaining long-term fiscal discipline, 2) providing tax relief for the middle class, and 3) increasing investment in workers through education and training, as well as in machines and buildings. This is the approach that the President has outlined in his budget.

Maintaining Fiscal Discipline

This Administration fought hard to break the back of the cycle of ever-increasing deficits. But it is not enough to reduce the deficit for three years in a row. We are concerned both about the pattern of projected deficits over the next five years and also about the pattern after the turn of the century.

For the next five years, this budget maintains the progress on deficit reduction made in OBRA '93. As I said earlier, our projections show the budget deficit dropping in 1995 for the third straight year, this time to \$193 billion. After 1995, the deficit, measured in dollar terms, fluctuates in a narrow range before falling back to \$194 billion in 2000.

More important than stabilizing the deficit in dollar terms is reducing the deficit as a share of GDP. Between 1995 and 2000, the deficit-to-GDP ratio falls from 2.7 percent to 2.1 percent. We haven't seen numbers in that range since 1979.

Further, the attached chart shows that the deficit as a share of GDP has been cut in half from what was projected before passage of the 1993 deficit reduction package, fulfilling the President's promise.

This year, we continue our deficit reduction efforts and lower taxes by making substantial cuts in spending. Budget cuts come from three areas. Restructuring government saves about \$26 billion. Most of that \$26 billion is the result of fundamental changes in five agencies--the Departments of Transportation (DOT), Energy (DOE), and

Housing and Urban Development (HUD), the General Services Administration (GSA), and the Office of Personnel Management (OPM). Additional efforts are aimed at terminating certain agencies and programs and restructuring others. In addition, we propose to turn over to the private sector or to state governments activities that they are well positioned to carry out themselves.

We have already had real success in this area. The President's reinventing government initiative has already reduced the federal work force by 102,500 positions. Currently, the federal work force as a share of total employment is at its lowest point since the 1930's. In addition, Congress has enacted \$63 billion of the \$108 billion in reinventing government savings proposed by the Administration. The goal is to make government even smaller and to make it work better for all Americans.

In addition, further lowering of discretionary spending caps from 1996 through 1998 and extending them for two years beyond their scheduled expiration in 1998 produces an additional \$80 billion in savings. The budget contains specific proposals to achieve these savings. The net result of extending the caps and making the cuts will be to keep discretionary spending virtually constant in nominal dollars from 1996 through 2000.

Finally, \$32 billion in savings comes primarily from the mandatory side of the budget through continuing some existing health care savings, imposing user fees for the lucrative electro-magnetic spectrum, accelerating student loan savings, and reducing certain agricultural programs. The remaining \$5 billion of deficit reduction comes primarily from lower debt service, as a result of our success in lowering the deficit.

Together, our program cuts and projected debt service reductions save \$144 billion between 1996 and 2000. The President has proposed using \$63 billion of these savings to provide tax relief to middle-income families as part of his Middle-Class Bill of Rights. The remaining \$81 billion is for deficit reduction.

If our proposed policies are continued beyond the year 2000, we now project that the fiscal year 2005 deficit will be only 1.6 percent of GDP. This good news comes from two developments. First, for the ten-year period from fiscal year 1995 to fiscal year 2005, the President's budget proposals produce substantial deficit reduction. Second, our new budget baseline projects lower spending for Medicare and Medicaid, based on the latest growth rate estimates from the actuaries at the Health Care Financing Administration.

Administration estimates of deficits in the out-years are noticeably lower than estimates that have been recently produced by the Congressional Budget Office. There are several reasons for this.

First, CBO's baseline, by convention, does not include any deficit reduction

proposals. The President's budget proposes substantial deficit reduction over the next ten years.

Second, the Administration's baseline estimates include recent revisions to projected costs of Federal health care programs made by the actuaries at the Health Care Financing Administration. I do not believe that the latest CBO estimates incorporate the full revisions from the actuaries.

Third, over the long term, the Administration has a slightly more optimistic rate of growth for productivity--by one or two tenths of one-percent--than does CBO. By 2005, even very small differences in projected growth rates materially affect deficit projections.

In other words, there are straightforward explanations of the differences between our numbers and CBO's, and we are very comfortable with all our projections.

While we are confident that the deficit outlook for the next ten years is good, all observers agree that the deficit will eventually turn upward. The problems are an increasingly aging population and rapidly rising health care costs. We cannot do anything about the projected demographic shifts, but we need to do something about health care as soon as possible. If we want to maintain fiscal discipline over the long run, we must reform health care.

Before we leave our deficit discussion, let me make two additional points. First, let me refer you to an enlightening chart. This chart shows the difference between program expenditures and revenues for the Clinton Administration and for each of the last eight Administrations. Under President Clinton--for the first time since the 1960s--expenditures on government programs are less than the taxes paid by the American people. We have a deficit solely because of the burden of paying interest on the debt run up largely as a result of the deficits of the 1980s--not because we're overspending today.

The second general point I'd like to make is that I believe the way to achieve deficit reduction is through deliberate and thoughtful policy choices, not through a balanced budget amendment that greatly increases macroeconomic risk in our economy and involves spending cuts that have not been specified at the time the decision on a balanced budget amendment is made.

Providing Tax Relief for Middle-Income Americans

Let me now turn to the centerpiece of the President's budget. On December 15, 1994, President Clinton announced in an Oval Office address his "Middle-Class Bill of Rights." A major piece of his initiative is providing tax relief for middle-income families.

A middle-class tax cut has always been a goal of this Administration. In 1993, however, the Administration faced a deficit crisis larger than had been predicted at the start of 1992. Bringing the deficit under control, and directing tax relief to lower and moderate income Americans were our first priorities.

Due to strong, effective leadership and tough choices, the deficit reduction program has been even more of a success than expected. However, incomes of many working American families have lagged behind--even in the last two years, when growth in the economy has been brisk.

The President's tax cuts will not only provide immediate relief to financially-strapped middle-income families but also will help these families save and invest so that they will become more productive and enjoy higher future standards of living. Individual tax relief coupled with savings and investment will boost American productivity, providing the foundation for sustained increases in real incomes.

The Administration's tax cut is targeted squarely at middle-income families. The attached chart illustrates that a full 86 percent of the benefits of this tax cut will go to families with incomes between \$20,000 and \$100,000.

The tax cuts in the President's Middle-Class Bill of Rights have three elements, aimed at strengthening families, promoting education, and encouraging savings.

\$500 Child Tax Credit: This credit is designed to help younger families, where economic pressure often tends to be greatest, to better provide child care, after-school activity, and the other requisites for good child rearing. This is an investment in children--the future of our country. A \$500 (when fully phased in) non-refundable credit will be allowed for each dependent child under 13. Between 1996 and 1998, the maximum credit would be \$300. This credit would reduce the federal income tax burden of a typical two-child family with an income of \$50,000 by 21 percent. The credit will be phased out for taxpayers with initial Adjusted Gross Incomes (AGI) between \$60,000 and \$75,000. No credit will be available to taxpayers with AGI in excess of \$75,000.

Deduction for Post-Secondary Education Expenses: This deduction can be used for education and training expenses for all members of the family, including spouses and children, and should better enable middle-income families to obtain the education and skills that will equip them to function effectively in a modern economy. This deduction is used in determining a taxpayers AGI (that is, taken above the line) and is, therefore,

available to those who do not itemize their deductions as well as to those who do itemize. The maximum allowable deduction would be phased out ratably for taxpayers filing a joint filers with AGI (before the deduction) between \$100,000 and \$120,000 (\$70,000-\$90,000 for individuals). The maximum deduction would be \$5,000 in 1996-1998 and \$10,000 thereafter.

This proposed tax deduction of up to \$10,000 in tuition and fees can be taken for study at any college, university, or vocational program eligible for federal assistance.

Expansion of Individual Retirement Accounts: This program will substantially increase the availability of individual retirement accounts by raising the income ceiling to \$100,000 for joint filers and to \$70,000 for individuals. Today, only couples with AGI up to \$40,000 and individuals with AGI up to \$25,000 can make fully deductible contributions. Moreover, the flexibility of the individual retirement account has been greatly enhanced: an individual can either deduct the amount deposited up front, or forego this deduction in favor of tax-free withdrawal of all accumulated earnings after five years. The President's proposal would allow penalty-free withdrawals immediately for specified purposes such as education, first homes, long-term unemployment, or certain medical expenses.

Other Revenue Proposals

In addition to the President's proposed middle-class tax cuts, the budget contains certain other provisions that affect revenues. An Appendix to my testimony provides further details. But let me note that we are proposing two additional empowerment zones, thus enlarging empowerment zone tax incentives; reducing a tax on vaccine manufacturers; denying the Earned Income Tax Credit (EITC) to undocumented workers, and to those with significant unearned income; changing the tax treatment of those who renounce their citizenship or use foreign trusts to shelter income; and supporting the extension of the taxes that finance the "Superfund" that cleans up hazardous waste sites.

Also, on the subject of taxes, one of the Administration's priorities is to fully implement the Internal Revenue Service's Tax Systems Modernization (TSM) plan to reduce the administrative burden on businesses and individuals and to raise compliance.

Investing for the Future

Fiscal discipline and middle class tax relief are necessary elements of any coherent economic strategy. Yet, by themselves, they are not enough to ensure higher standards of living for all Americans.

Additional investment in the skills and capabilities of America's workers and in physical capital have always been an integral part of the President's agenda. Today's

investments will translate into stronger productivity growth and higher living standards for years to come. Boosting public investment is an important step towards a rising standard of living for all Americans.

Let me focus on three areas: investment in human capital; investment in science and technology; and investment in infrastructure.

Human Capital: The President has consistently emphasized the importance of "lifelong learning" in an economy which favors the highest skilled workers. The budget proposes \$47.3 billion in 1996 for investment in education and training. This represents a \$5.4 billion increase, or 13 percent, over 1993 levels. Working with Congress, the Administration has already launched legislation from expansion of the Head Start program to cutting the cost of higher-education loans for students.

This year, the President will focus on better opportunities for adults already in the work force. The President's proposal--the "G.I. Bill for America's Workers"--will consolidate and streamline a patchwork of some 70 job training programs. The "G.I. Bill" will offer dislocated and low-income workers "skill grants" through which they can make their own choices about the training they need to find new and better jobs.

Two other Presidential initiatives also deserve mention here.

Welfare reform fits into the over-arching strategy of raising economic growth. The current welfare system costs taxpayers a great deal of money and actually discourages work by participants. This Administration wants to work with Congress to make welfare a temporary safety net only, through time limits and through making work pay. If we succeed, we will both raise the standard of living of participants and lower the tax burden on average Americans.

Similarly, health care reform is not only essential to maintaining long-term fiscal stability, but also important for the take-home wages of the average American. If employees' health insurance costs keep rising, workers' wages won't. Health care cost containment will pay off in higher wages as well as in a more stable fiscal environment.

Science and Technology: We know that the rates of return for R&D are high in the private sector. Industry R&D may have accounted for as much as a quarter of overall productivity growth in recent decades. Commercial firms cannot reap the entire rewards of basic research, however, because other firms easily learn and use the knowledge generated. Despite high rates of return, the private sector does too little basic research to meet all of society's needs.

Thus, the federal government plays an important role in promoting and investing in R&D. Federal spending accounts for nearly 40 percent of the nation's R&D spending. This budget proposes \$69.4 billion in 1996 for research and development--an

increase of \$3.74 billion in nondefense R&D over 1993.

Through the President's National Science and Technology Council, the Administration seeks to support the best possible science on a tight budget. The science and technology program pursues advances in health, business, the environment, information technology, national security, and basic science itself.

In addition, because of the importance of R&E to the nation's economy, we support the extension of the R&E tax credit on a revenue neutral basis, and we will work with Congress to pay for it.

Infrastructure: Infrastructure is one area where the government must play an important role--the private sector could not profitably run many of our nation's roads and bridges or the treatment plants needed to provide clean water. The budget proposes \$58.8 billion for 1996 for infrastructure investment--up \$8.6 billion from 1993.

While infrastructure spending can be among the most effective ways to boost productivity, projects must be chosen carefully. The Administration proposes to restructure the Transportation Department, consolidating its infrastructure activities into a single transportation block grant. Local governments will have more flexibility to direct resources to areas which best address community needs. Our goal is more and better infrastructure, at less cost and with less red tape.

Comments on Contract With America

You asked me to comment on the Contract with America, so let me do that now. One of our primary concerns with the tax cuts in the Contract is their potential effect on the deficit.

We have prepared preliminary revenue estimates of the tax provisions in the Contract based on the bills introduced on January 4, 1995. These preliminary revenue estimates show that the tax cuts proposed in the Contract would lose \$205.4 billion over the period FY1995 - FY2000. The revenue cost grows rapidly after FY2000, to nearly \$120 billion per year in FY2005, raising the FY1995 - FY2005 revenue cost to \$725.5 billion. Joint Tax Committee estimates published on Monday are similar to ours.

Although the Contract proposes a balanced budget amendment, it does not contain specific proposals for expenditure reductions or tax changes necessary to achieve that balance. Nor does it offset the proposed tax cuts or pay for other provisions, such as increased defense expenditures, that would further increase the deficit. Thus, the tax provisions in the Contract would increase the deficit unless they are fully and permanently offset by specific financing proposals.

Moreover, several of the proposals of the Contract, particularly the indexing of

depreciation deductions and the capital gains indexing proposals, could create very serious problems. We predict that if these provisions are enacted, our nation will experience the equivalent of the tax shelter days of the 1980s. Most of the obvious opportunities in the Contract arise from the fact that assets would be indexed, while debt would not. Put simply, artificial tax deductions will be created with little or no out-of-pocket cost. We expect that these abuses will be widely marketed and could substantially reduce any tax on capital gains. Also, these indexing proposals will create significant complexity for taxpayers and the Government.

Conclusion

In conclusion, let me make three points:

First, you can read the priorities of this Administration in its budget. This President is committed to raising standards of living for all Americans, and the policy objectives pursued through the budget--deficit reduction; the middle-class tax cuts; public investments in workers, in knowledge, and in infrastructure; Reinventing Government--are all aimed at attaining that goal.

Second, this budget maintains the ground won in the struggle to reduce the deficit in 1993. We project that, with the deficit-reduction policies in the budget, the federal deficit will remain below \$200 billion in nine of the next ten years, and will shrink to 1.6 percent of GDP in fiscal 2005. We as a country simply cannot afford to return to the days of rising, uncontrolled deficits of the 1980s or early 1990s. This budget will keep us on a sound trajectory that reduces the deficit.

We do this by taking step-by-step reductions in spending programs and in cutting the size of government itself. Reinventing government not only saves money, but also makes government efficient. As a result of the Administration's actions to date, we are reducing the deficit and do not need a balanced budget amendment to enforce fiscal discipline. This is the right way to cut the deficit.

Third, we take a crucial step toward addressing the economic concerns of working families by cutting their taxes. Our proposals are targeted to the people who need them the most when they need them the most. These cuts will help families with young children, people who are paying for education, and those who want to save for the future.

This budget builds upon what has been achieved. It is the next step in the logical sequence of policies designed to raise the living standard for all Americans. It reinforces fiscal restraint. It provides tax relief to millions of Americans who have seen their incomes stagnate for a generation. And it invests in education, infrastructure, and technology.

Much has been accomplished in the past two years, but much remains to be done. I look forward to working with you on a bi-partisan basis to continue moving forward.

APPENDIX: OTHER REVENUE PROVISIONS

Additional Empowerment Zones. The Secretary of Housing and Urban Development would be authorized to designate two urban empowerment zones in addition to the six urban and three rural zones designated on December 21, 1994. This would have the effect of extending the empowerment zone tax incentives to these additional areas. Other current-law limitations, such as those regarding population, size, poverty, and application requirements, would be applicable to these areas.

Reduce Vaccine Excise Tax. Under current law, a manufacturer's tax is levied on vaccines used to prevent diphtheria, pertussis, tetanus, measles, mumps, rubella or polio. These taxes are deposited in the Vaccine Injury Compensation Trust Fund and provide a source of revenue to compensate individuals who sustain certain injuries or to families of individuals who die following administration of these vaccines. Because of large balances in the trust fund, the Administration proposes a reduction in revenues from these taxes. The decrease will allow continued program compensation while lowering the costs of vaccines to both public and private purchasers.

Earned Income Tax Credit

EITC denied to undocumented workers. Under this compliance proposal, only individuals who are authorized to work in the United States would be eligible for the earned income tax credit (EITC). When claiming the EITC, taxpayers would be required to provide a valid social security number for themselves, their spouses, and their qualifying children. Only social security numbers that are valid for employment purposes in the U.S. would enable the individual to claim the EITC. In addition, the proposal would modify the IRS procedure for processing returns with erroneous or missing taxpayer identification numbers so as to reduce improperly claimed credits. These proposals would be effective in 1996.

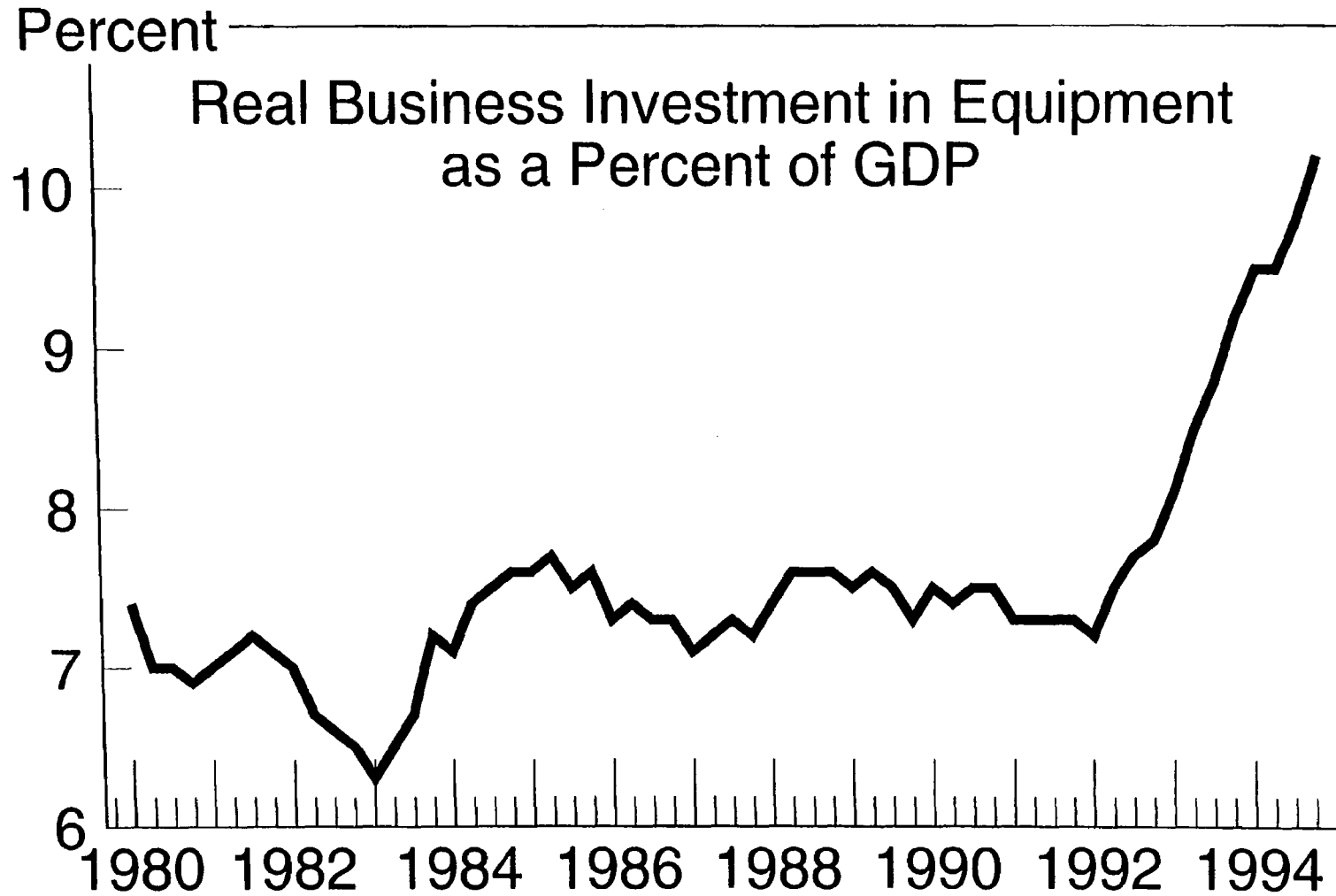
EITC denied if interest and dividends exceed \$2,500. Under current law, an individual must have earned income in order to be eligible for the EITC. Because the EITC is designed to benefit low-income workers, the amount of the credit should decrease as the taxpayer's income increases. A taxpayer with relatively low earned income, however, may be eligible for the EITC even though he or she has significant interest and dividend income from investment assets. Under this proposal, taxpayers would not be eligible to receive the EITC if their combined interest and dividend income for the year exceeds \$2,500. This proposal would be effective in 1996.

Tax responsibilities of Americans who renounce citizenship. The proposal would tax the untaxed gains of U.S. taxpayers who renounce citizenship. The tax would also apply to aliens who have been lawful permanent residents for at least ten years and then cease to be subject to U.S. tax. This tax is intended to apply only where very substantial gains are involved and, thus, an exemption is provided for up to \$600,000 of gain. U.S. real estate and pension assets would also be exempt.

Foreign Trusts. The foreign trust proposal is designed to increase compliance for taxing two categories of people. First, U.S. persons sometimes transfer their assets to foreign trusts and rarely pay tax on the trust income. The proposal would impose enhanced information reporting requirements (with penalties for failure to comply) on U.S. persons who transfer assets to foreign trusts. The second category of taxpayers are U.S. persons who are members of wealthy foreign families. Foreign families often establish foreign trusts for the benefit of U.S. family members. Under current law, the United States treats such trust assets as owned by the foreign family, and any distribution of income earned by the trust to the U.S. beneficiary is treated as a nontaxable gift to the U.S. person. The proposal would tax this trust income.

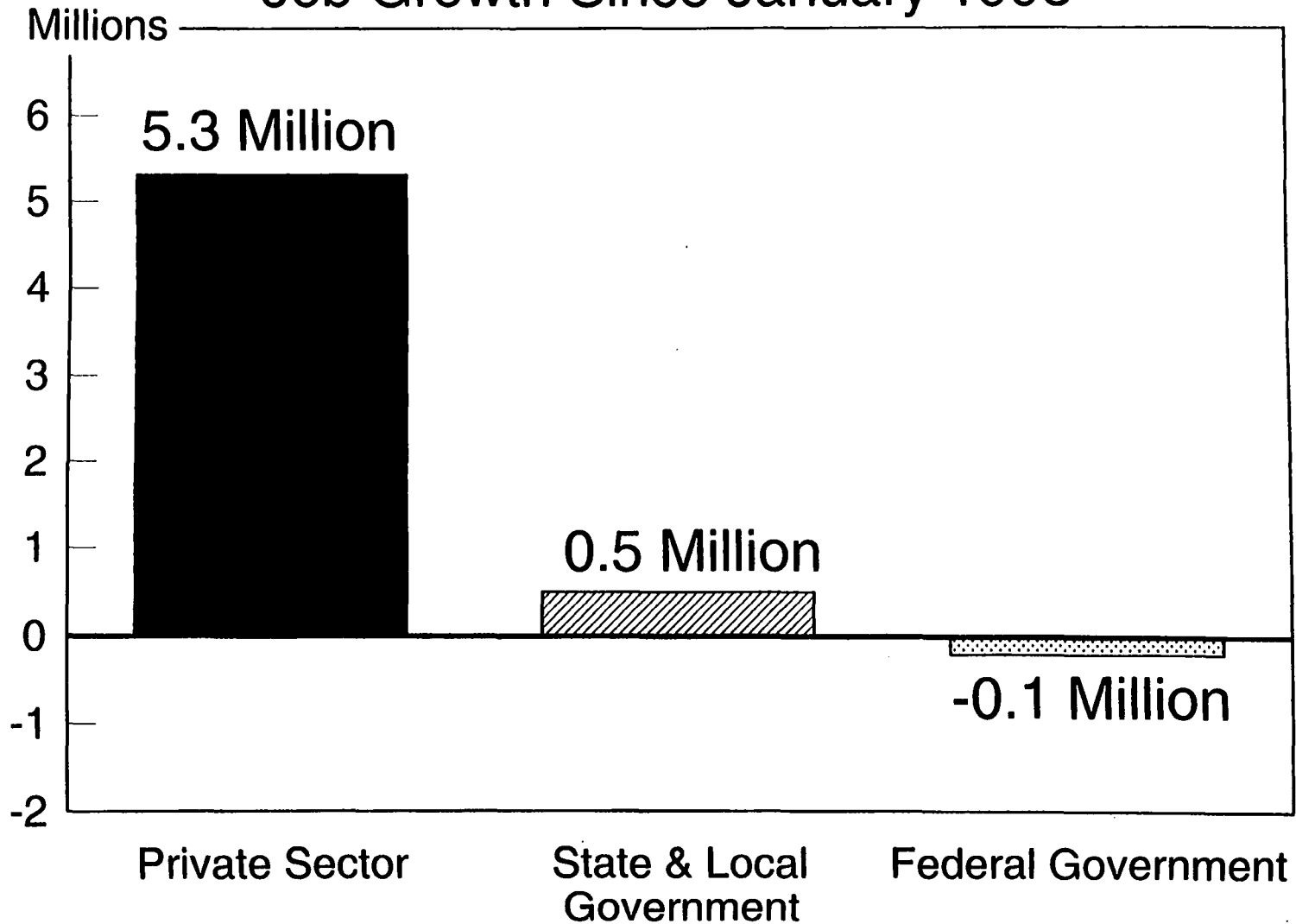
Extension of Superfund Tax. Four different taxes are imposed under present law to fund the Hazardous Substance Superfund (Superfund) program including a corporate environmental income tax equal to 0.12 percent of the amount of modified alternative minimum taxable income in excess of \$2 million, and excise taxes on domestic or imported crude oil or refined products, certain hazardous chemicals, and certain imported substances. These taxes are scheduled to expire generally after December 31, 1995. The Administration supports the extension of the corporate environmental income tax through taxable years beginning before January 1, 2001, and the Superfund excise taxes through December 31, 2000.

Business Investment Has Surged



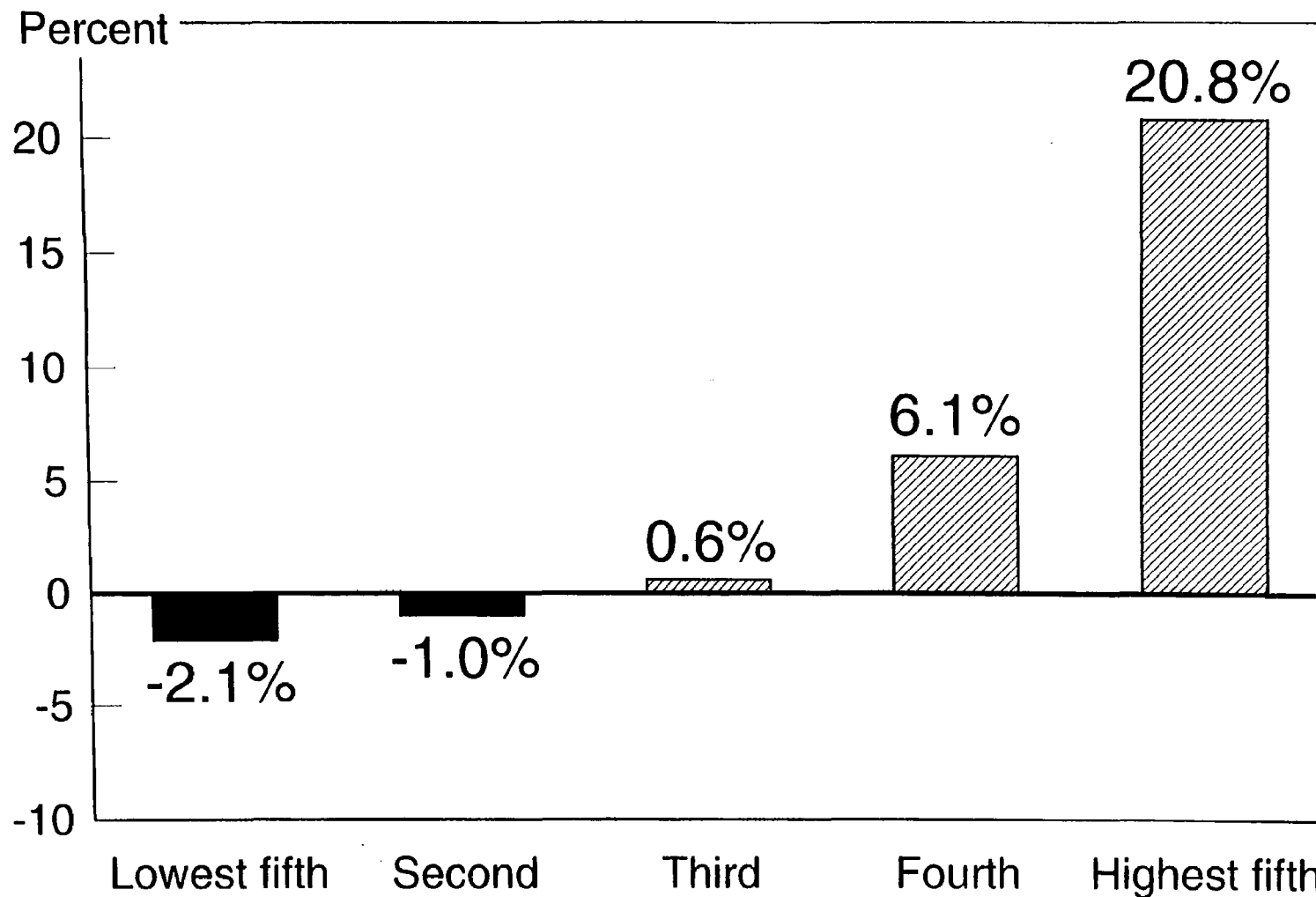
93 Percent of the 5.7 Million New Jobs Have Been in the Private Sector

Job Growth Since January 1993

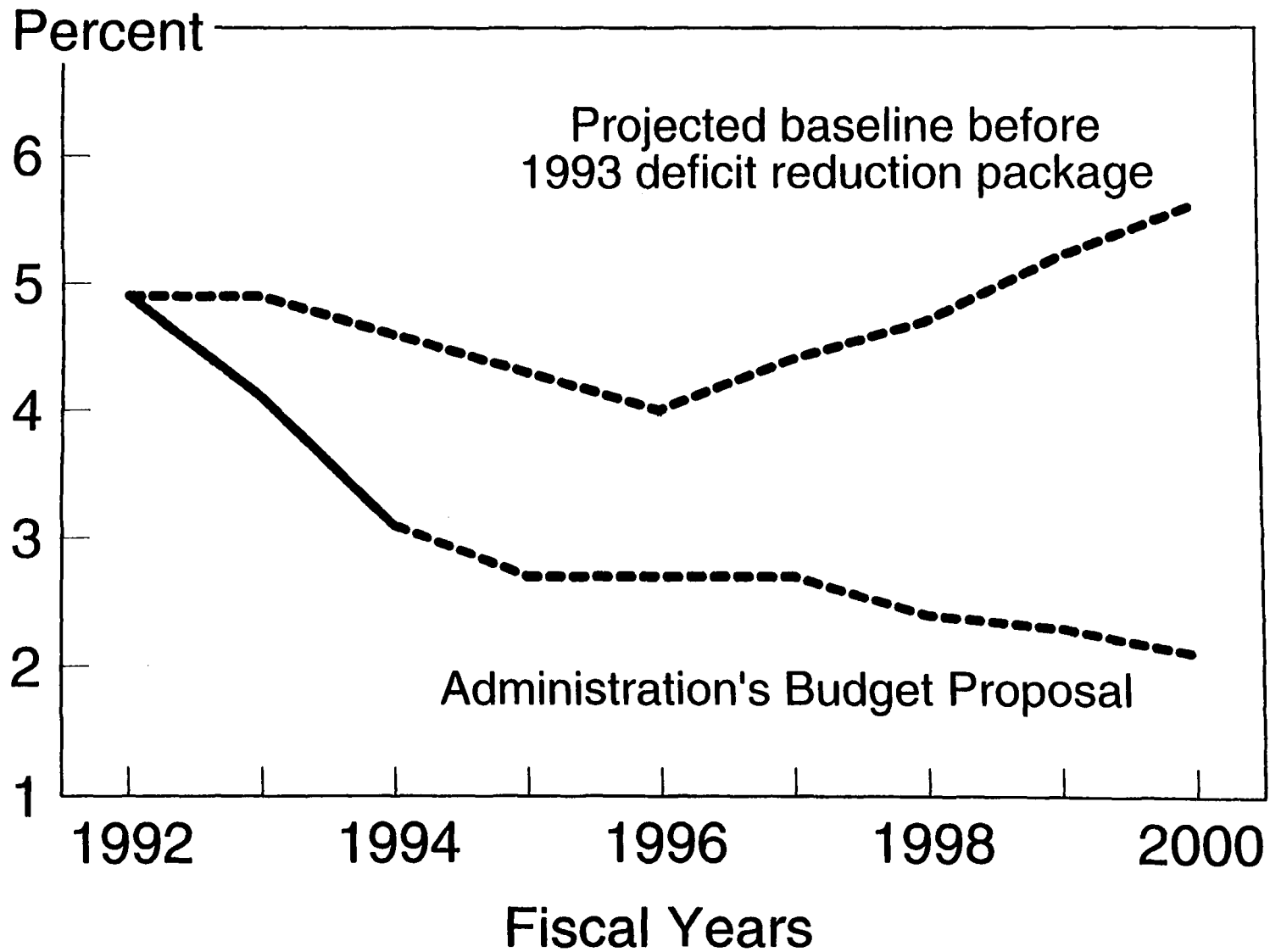


Middle Class Incomes Were Stagnant, 1980-93

Change in Average Real Household Income

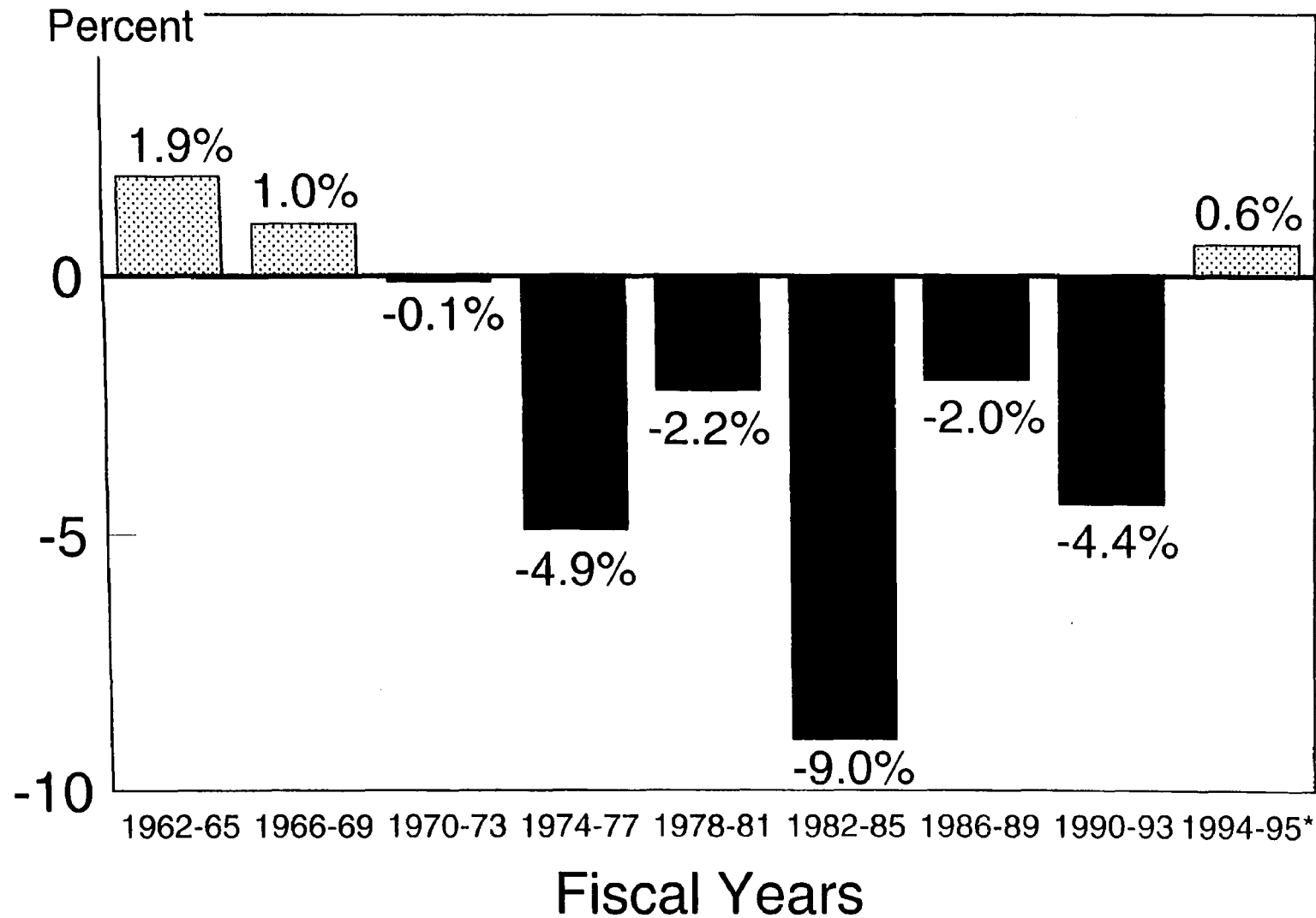


The Deficit Has Been Cut in Half as a Share of GDP



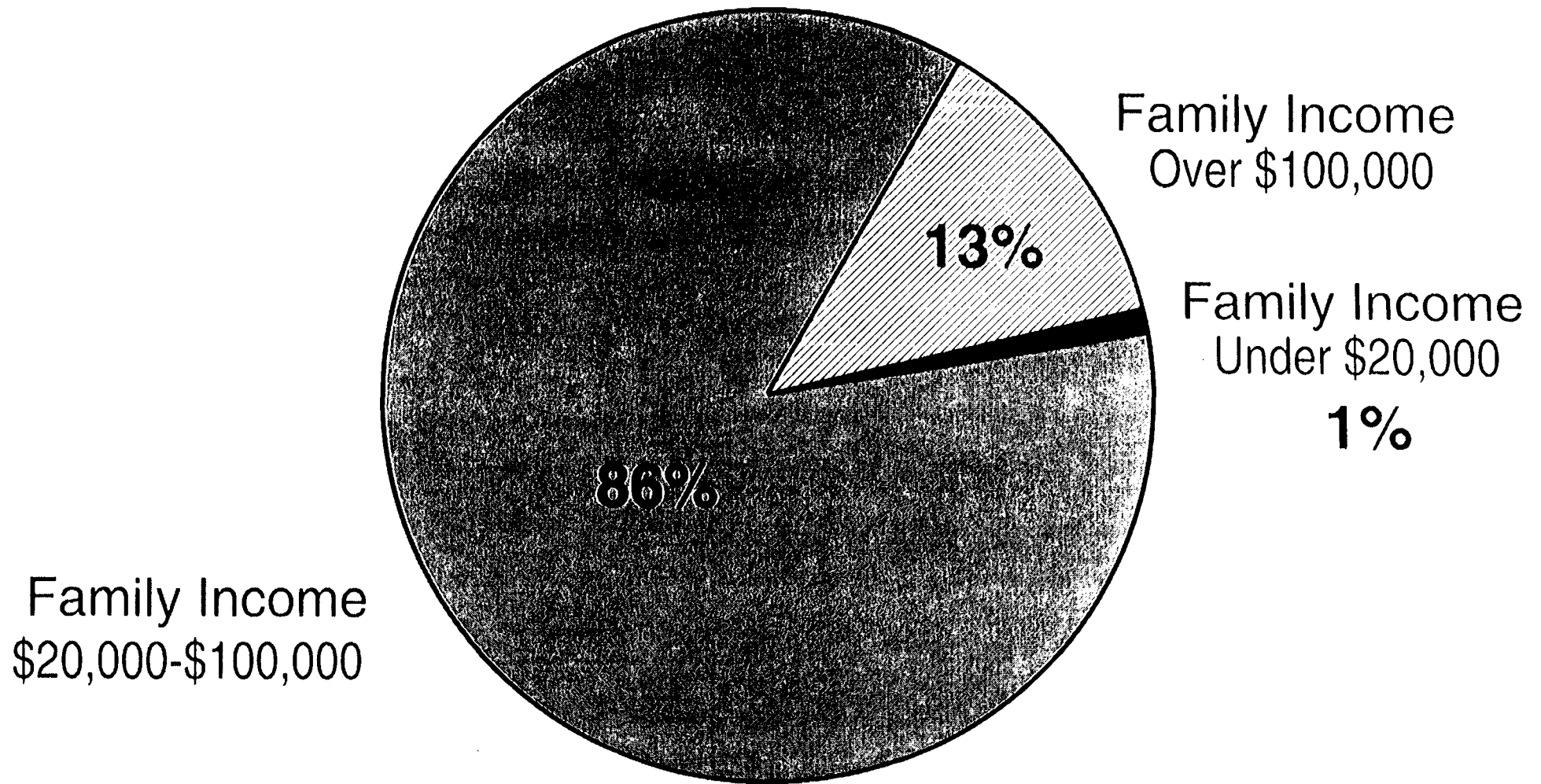
Spending on Government Programs Is Less than Taxes for the First Time Since the 1960's

Revenues Minus Program Spending as a Share of GDP



*Fiscal year 1994 and projection for fiscal year 1995.

Tax Cut Targeted to Middle-Income Families



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For Release Upon Delivery
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**ORAL TESTIMONY OF ROBERT E. RUBIN
SECRETARY OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE**

Chairman Packwood, Senator Moynihan, members of the committee, I'm pleased to appear before you to present the President's budget for fiscal year 1996. I am doing something not many Treasury Secretaries get to do: presenting a budget that continues a process of cutting the deficit begun at the start of the Administration and that cuts taxes and increases public investments both in ways designed to increase future productivity.

I am also doing something that you'd have to go back 16 Treasury Secretaries to the era of President Truman to find: showing a decline in the budget deficit for three years in a row -- 1993 through 1995.

What I'd like to do now is to summarize the longer statement I've submitted for the record.

President Clinton, from the very beginning of this Administration, has had a broad-based economic strategy to stimulate and then protect the recovery, to position the country for the long-term, and to increase the incomes of working Americans.

This strategy consists of fiscal discipline, boosting both private and public investment to increase long-run productivity, opening markets, reforming government and regulation, and achieving health care and welfare reform.

Our first move was to bring the deficit under control after a long period of large and increasing deficits and facing projections for large and increasing deficits going forward. Working with Congress, we enacted a powerful deficit reduction program. As



a result, the deficit has come down from \$290 billion in 1992 to what we now project as \$193 billion this year. Or to use a starker contrast, from a projected \$400 billion in 1998, on the basis of the last budget numbers released by the prior Administration, to \$194 billion projected for the same year under this budget.

The deficit as a percentage of GDP goes from 4.9 percent in 1992 to a projected 2.7 percent for this year (Chart 1), and a projected 2.1 percent of GDP in the year 2,000. Fiscal discipline has been reestablished after a long period of ballooning deficits. The deficit has been reduced by more than one-half, both in absolute terms and as a percentage of GDP.

I worked in financial markets for 26 years, and I have no doubt that our aggressive deficit reduction program was, in large measure, responsible for the decline in interest rates in 1993, which in turn was key to jump-starting the economy in that same year. Rates have now increased reflecting growth but the deficit premium -- that critical impediment to growth -- is in my judgement largely gone.

We now have a strong investment-led recovery that's creating jobs. Business investment in machinery and equipment (Chart 2) has increased dramatically, and as a percent of GDP, is at an all-time high. That's a big plus for future productivity.

The economy has created 5.7 million jobs (Chart 3), 5.3 million in the private sector. The unemployment rate has declined from 7.1 percent to 5.7 percent.

And, even with the strength of the current recovery, the increase in the consumer price index has come in under 3.0 percent for each of the last three years.

In the long term, however, the success of our economy will depend on raising productivity growth. Productivity growth has been extremely slow for a generation, and this has contributed to slow growth in workers' incomes.

Slow growth in average wages has been accompanied by an unequal distribution of income gains. In the past fifteen years, those with incomes in the lowest fifth of American households have seen their real incomes fall; those in the top fifth have seen their incomes rise; and the middle has stood still.

This budget emphasizes a three part strategy to promote growth and improve the incomes of working Americans: 1) maintaining fiscal discipline, 2) providing tax relief for the middle class that is targeted to also promote individual activity that will increase future productivity, and 3) increasing public investment in workers through education and training.

Maintaining Fiscal Discipline

First, maintaining fiscal discipline. On a ten year basis, we project that this budget will reduce the budget deficit to 1.6 percent of GDP.

We continue reducing the deficit while lowering taxes at the same time by making substantial spending cuts in three areas.

Restructuring government saves \$26 billion, savings that come largely from five agencies -- the Departments of Transportation, Energy, and Housing and Urban Development; the General Services Administration; and the Office of Personnel Management.

We save \$80 billion by further lowering the discretionary spending caps in 1996 through 1998 and extending them for two years beyond their scheduled expiration in 1998.

Thirty-two billion dollars in savings come primarily from the mandatory side of the budget through continuing some existing health care savings, imposing user fees for the electro-magnetic spectrum, accelerating the direct student loan program and reducing certain agricultural programs.

A remaining \$5 billion of deficit reduction comes primarily from lower debt service, as a result of our success in lowering the deficit.

All of these program cuts, projected debt service reductions, and other changes save \$144 billion between 1996 and 2000. The President has proposed using \$63 billion of these savings to provide tax relief to middle-income families as part of his Middle-Class Bill of Rights.

While the deficit is projected to continue to fall as a percentage of the economy for the next ten years, eventually the deficit will turn up. The problems are an increasingly aging population and rapidly rising health care costs. If we want to maintain fiscal discipline over the long run, we must reform health care as soon as possible.

Before I leave our deficit discussion, let me make two additional points.

Under President Clinton (Chart 4) -- for the first time since the 1960s -- expenditures on government programs are less than the taxes paid by the American people. In other words, our deficit results from the burden of paying interest on the debt accumulated primarily by the deficits of the 1980s.

The second general point I'd like to make is that I believe the way to achieve deficit reduction is through deliberate and thoughtful policy choices, not through a

balanced budget amendment that substantially increases macroeconomic risk in our economy and involves spending cuts that have not been specified at the time the decision on a balanced budget amendment is made.

Providing Tax Relief for Middle-Income Americans

Let me now turn to the centerpiece of the President's budget. On December 15, 1994 President Clinton announced his "Middle-Class Bill of Rights."

A middle-class tax cut has been an explicit goal of this President from the beginning. Many working American families have lagged behind--even in the last two years, when growth in the economy has been brisk. Not only do these tax cuts provide immediate relief to financially strapped middle income families but these tax cuts also serve an important economic purpose by helping these families save and invest to become more productive and enjoy higher future standards of living.

We've targeted tax reduction squarely at middle-income families (Chart 5). Eighty-six percent of the benefits of these proposals will go to families with incomes between \$20,000 and \$100,000.

First, the \$500 child credit for children under 13. This credit is designed to help younger families, where economic pressure often tends to be greatest, to provide better child care, after-school activity, and the other requisites for good child rearing. This credit, which is non-refundable, would reduce the federal income tax burden of a typical two-child family with an income of \$50,000 by almost 21 percent, once the credit is fully phased in. This is an investment in children -- the future of our country.

Second, a \$10,000 deduction for post-secondary education and training expenses. This deduction can be used by all members of the family, including spouses and children, and will help middle-income families better obtain the education and skills that will equip them to succeed at work in a modern economy -- again, people investing in themselves.

Third, expansion of individual retirement accounts. This program will substantially increase the availability of individual retirement accounts by raising the income ceiling to \$100,000 for joint filers and to \$70,000 for individuals. Under the President's plan, the flexibility of the individual retirement account is greatly enhanced which we believe will increase use and thereby savings. An individual can either deduct the amount deposited up front, or forego this deduction in favor of tax-free withdrawal of all accumulated earnings after five years. Also an individual may save for a broader range of purposes: penalty-free withdrawals may be made at any time for specified purposes such as education, a first home, or certain medical expenses.

Finally, on the subject of taxes, one of the Administration's priorities is to

implement fully the Internal Revenue Service's Tax Systems Modernization (TSM) plan to reduce the administrative burden on businesses and individuals and to raise compliance.

Public Investing for the Future

The President's many-faceted public investment program, critical to future productivity, will focus on his "G.I. Bill for America's Workers," which consolidates and streamlines a patchwork of some 70 job training programs to provide skill grants to lower-income and displaced workers.

Comments on the Contract with America

You asked me to comment on the Contract with America, so let me do that now. One of our primary concerns with the tax cuts in the Contract is their potential effect on the deficit.

We have prepared preliminary revenue estimates of the tax provisions in the Contract based on the bills introduced on January 4, 1995. These preliminary revenue estimates show that the tax cuts proposed in the Contract would lose \$205.4 billion over the period FY1995 - FY2000. The revenue cost grows rapidly after FY2000, to nearly \$120 billion per year in FY2005, raising the FY1995 - FY2005 revenue cost to \$725.5 billion. Joint Tax Committee estimates published on Monday are similar to ours.

Although the Contract proposes a balanced budget amendment, it does not contain specific proposals for expenditure reductions or tax changes necessary to achieve that balance. Nor does it offset the proposed tax cuts or pay for other provisions, such as increased defense expenditures, that would further increase the deficit. Thus, the tax provisions in the Contract would increase the deficit unless they are fully and permanently offset by specific financing proposals.

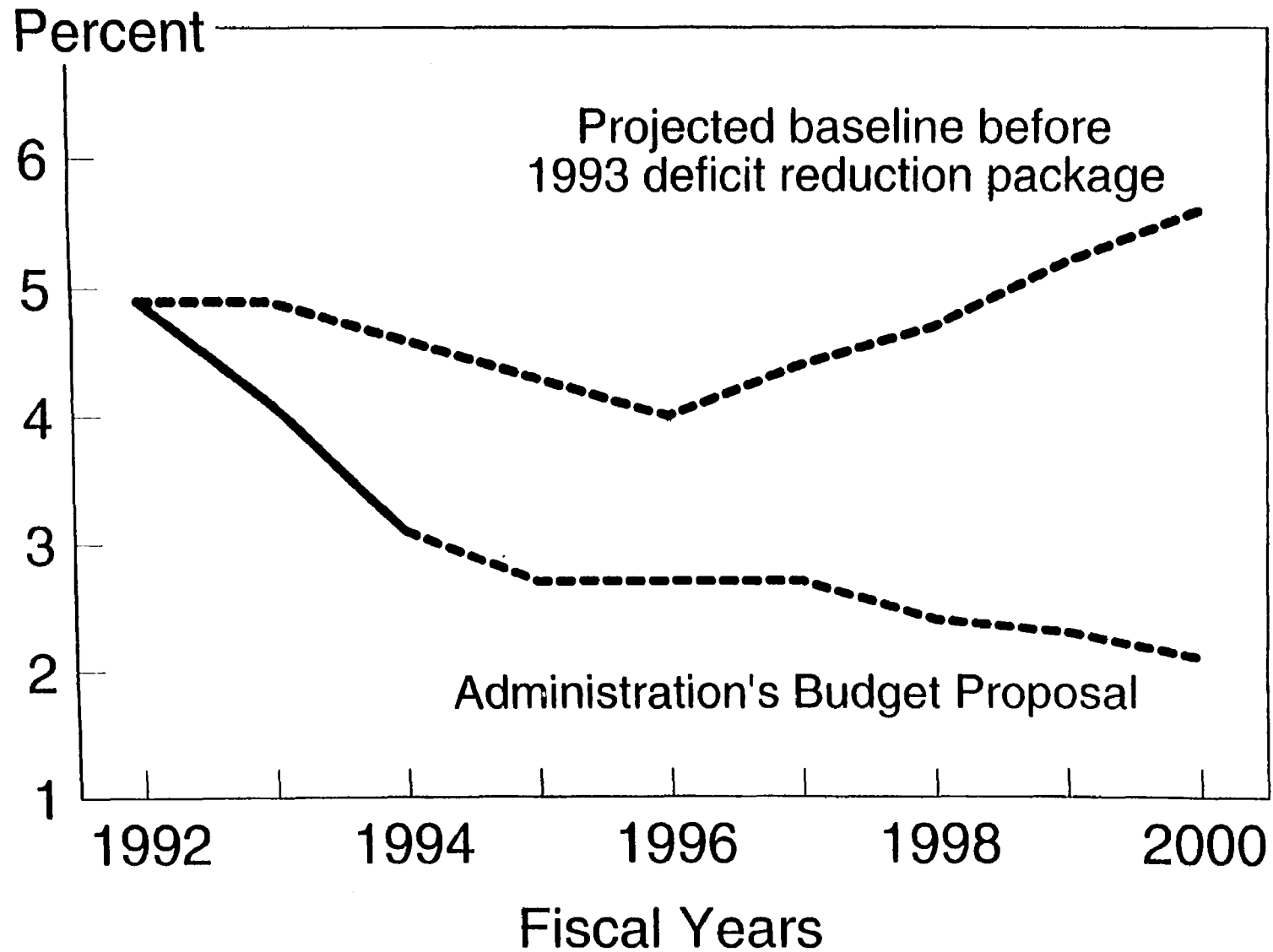
Moreover, several of the proposals of the Contract, particularly the indexing of depreciation deductions and the capital gains indexing proposals, could create very serious problems. We predict that if these provisions are enacted, our nation will experience the equivalent of the tax shelter days of the 1980s. Most of the obvious opportunities in the Contract arise from the fact that assets would be indexed, while debt would not. Put simply, artificial tax deductions will be created with little or no out-of-pocket cost. We expect that these abuses will be widely marketed and could substantially reduce any tax on capital gains. Also, these indexing proposals will create significant complexity for taxpayers and the Government.

Conclusion

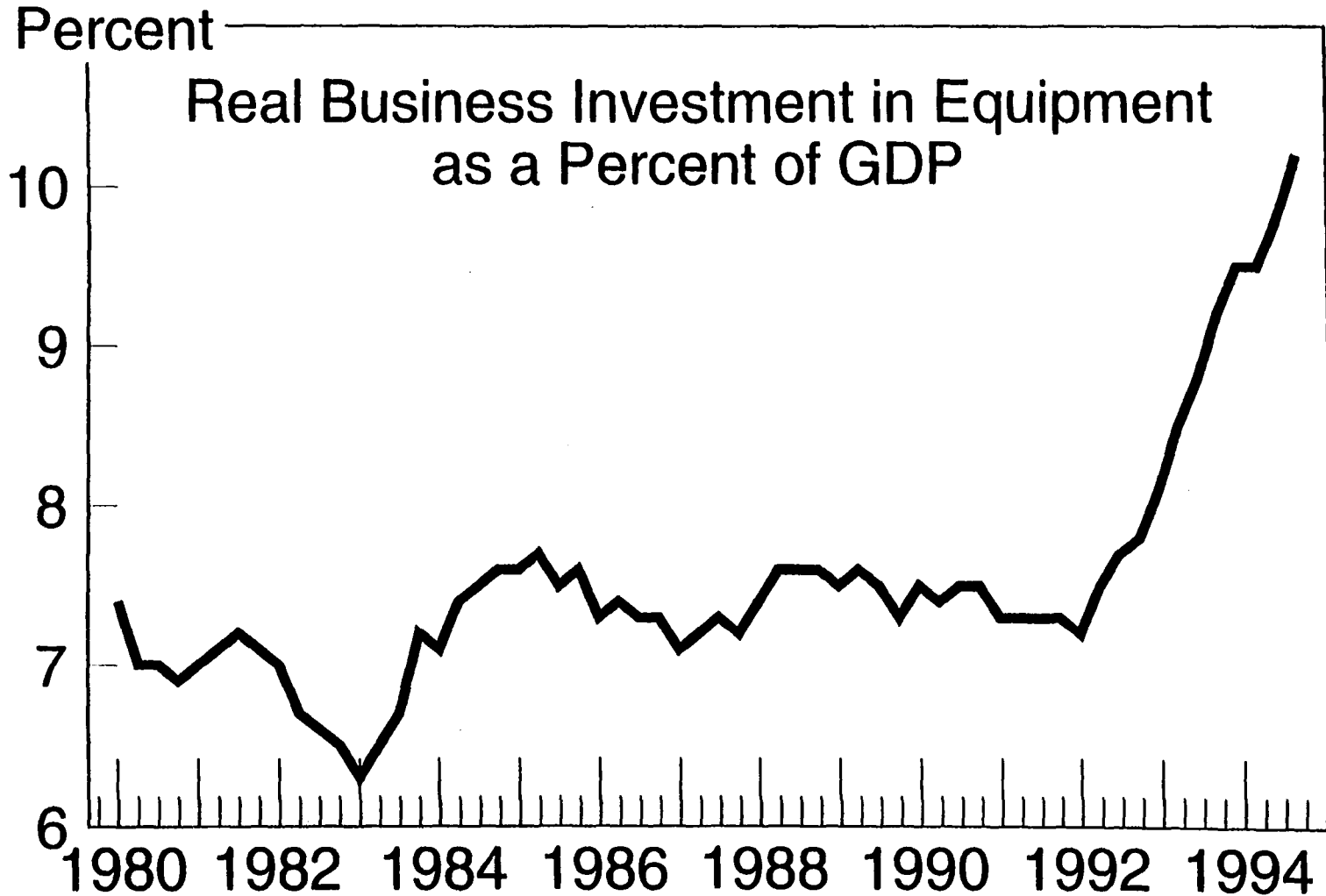
To conclude, this budget is the next step in carrying forward the President's economic strategy designed to raise the living standards for all Americans.

Much has been accomplished in the past two years, but much remains to be done. I welcome the opportunity to work with you on a bi-partisan basis to continue moving forward.

The Deficit Has Been Cut in Half as a Share of GDP

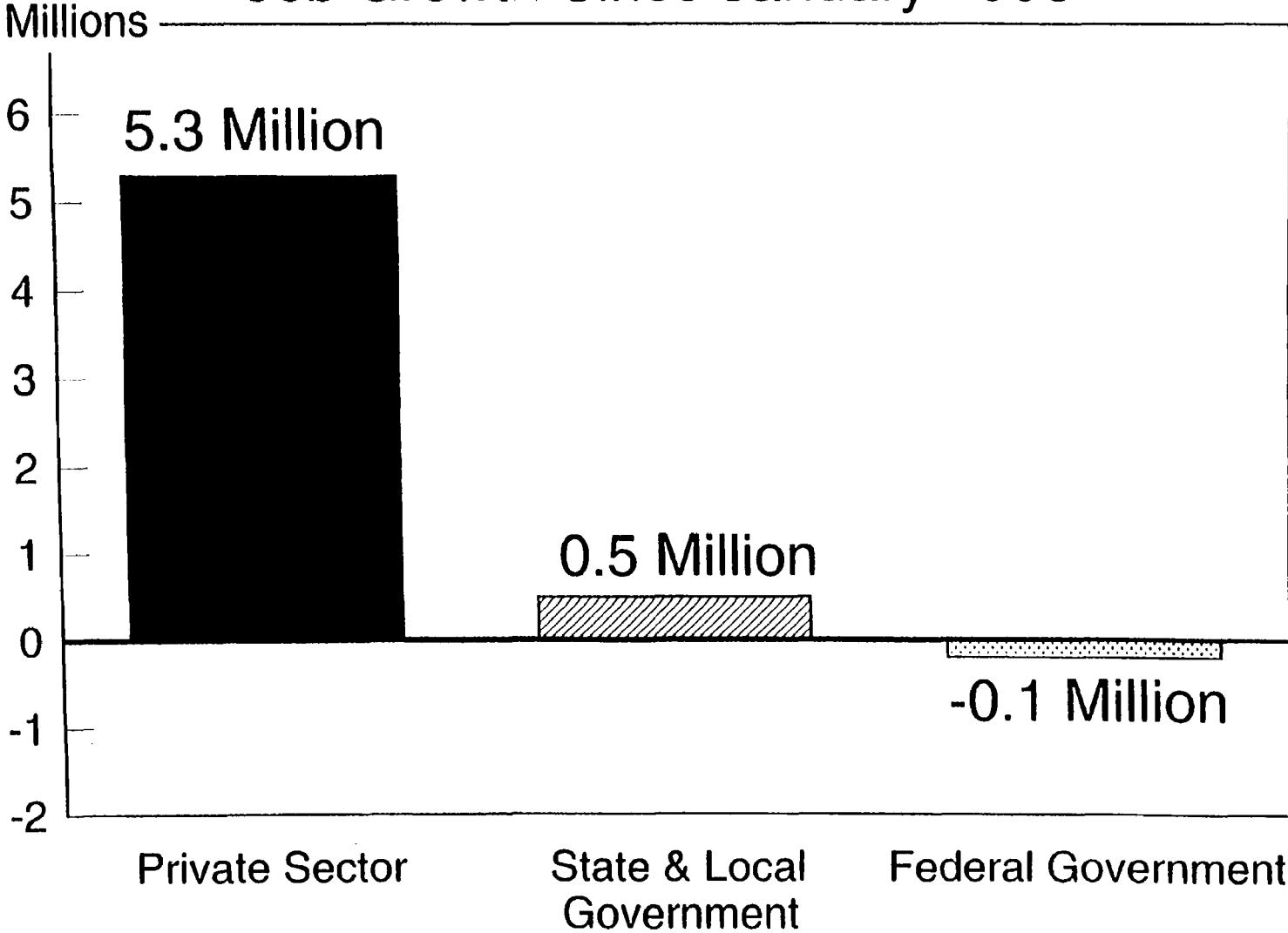


Business Investment Has Surged



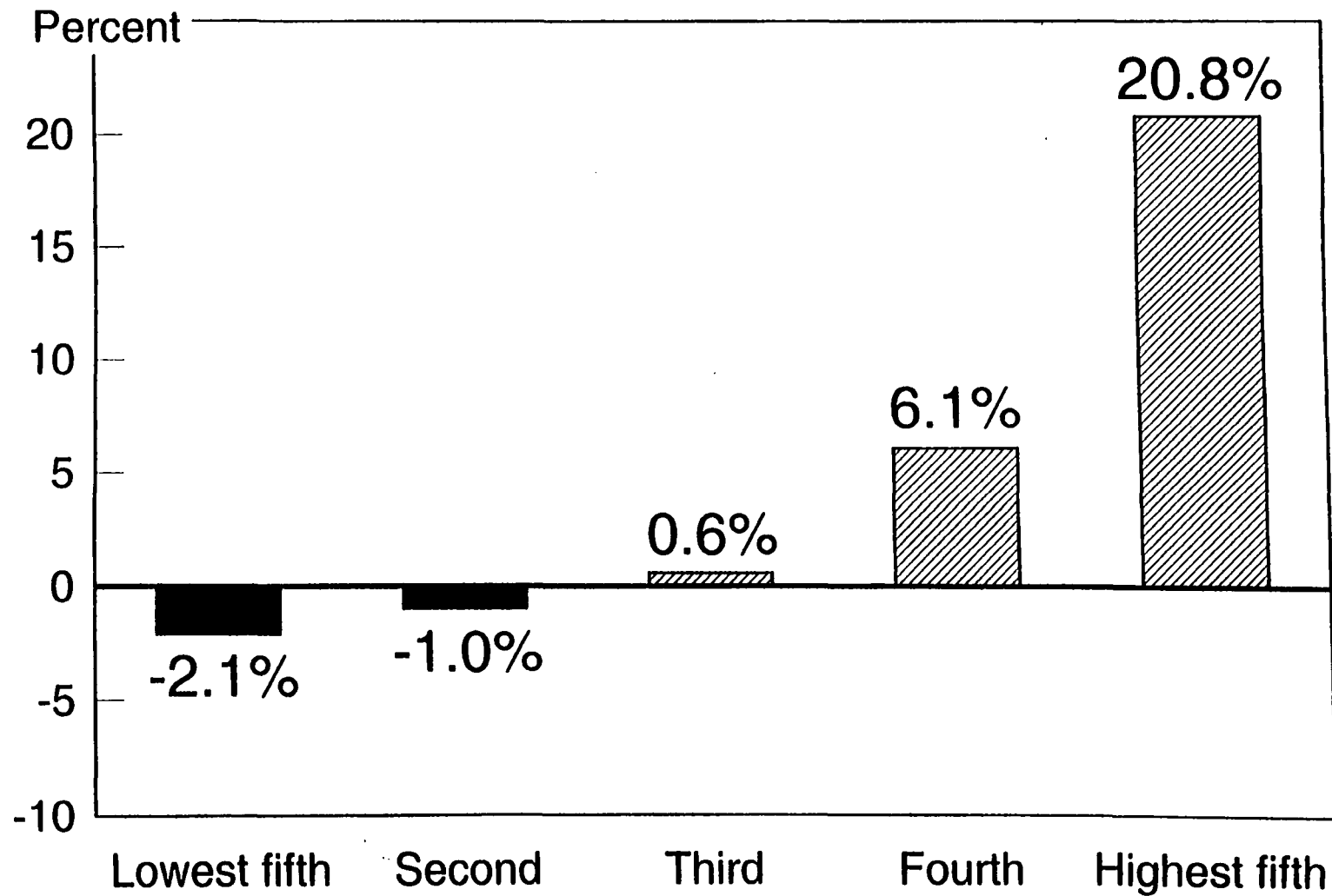
93 Percent of the 5.7 Million New Jobs Have Been in the Private Sector

Job Growth Since January 1993



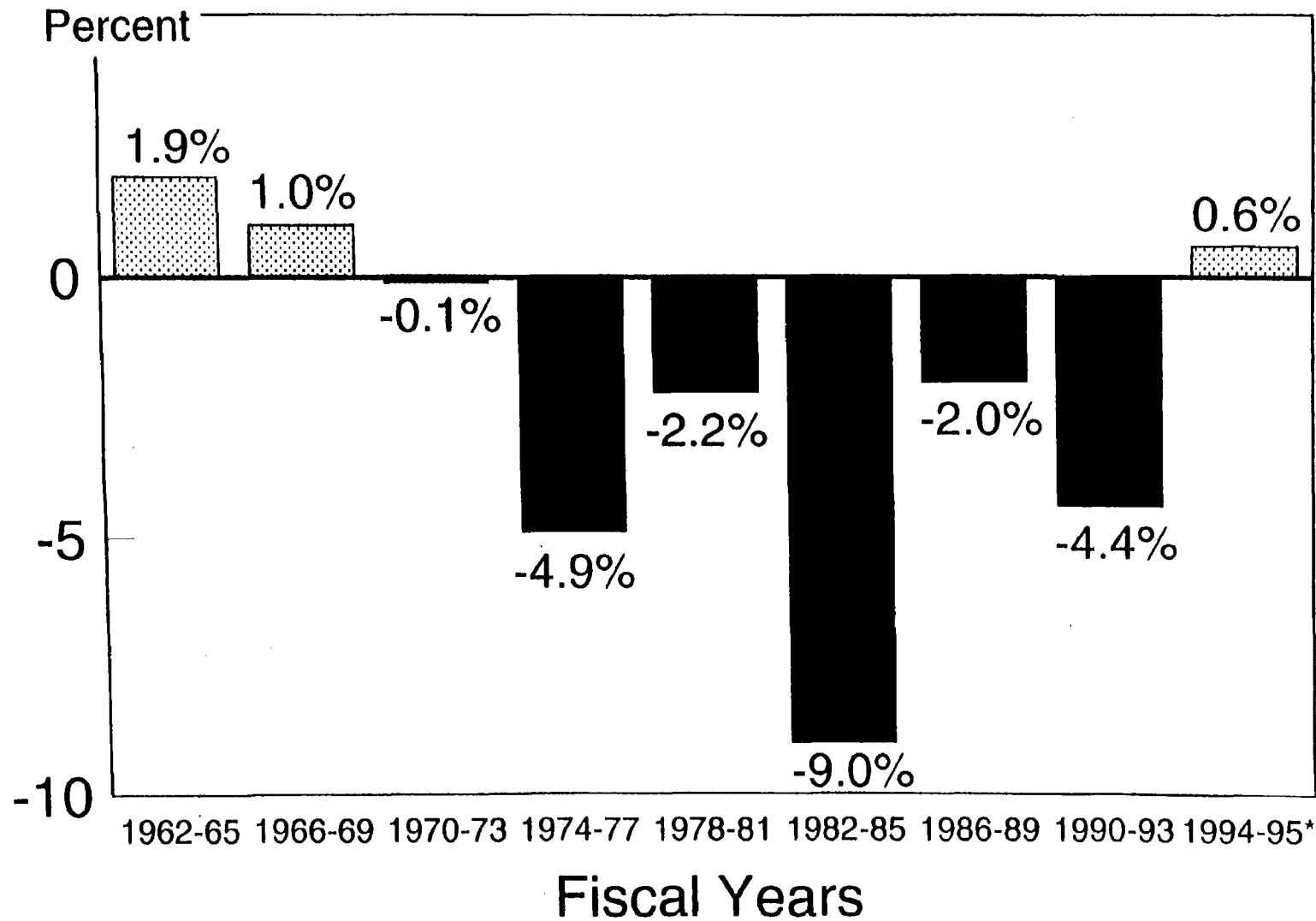
Middle Class Incomes Were Stagnant, 1980-93

Change in Average Real Household Income



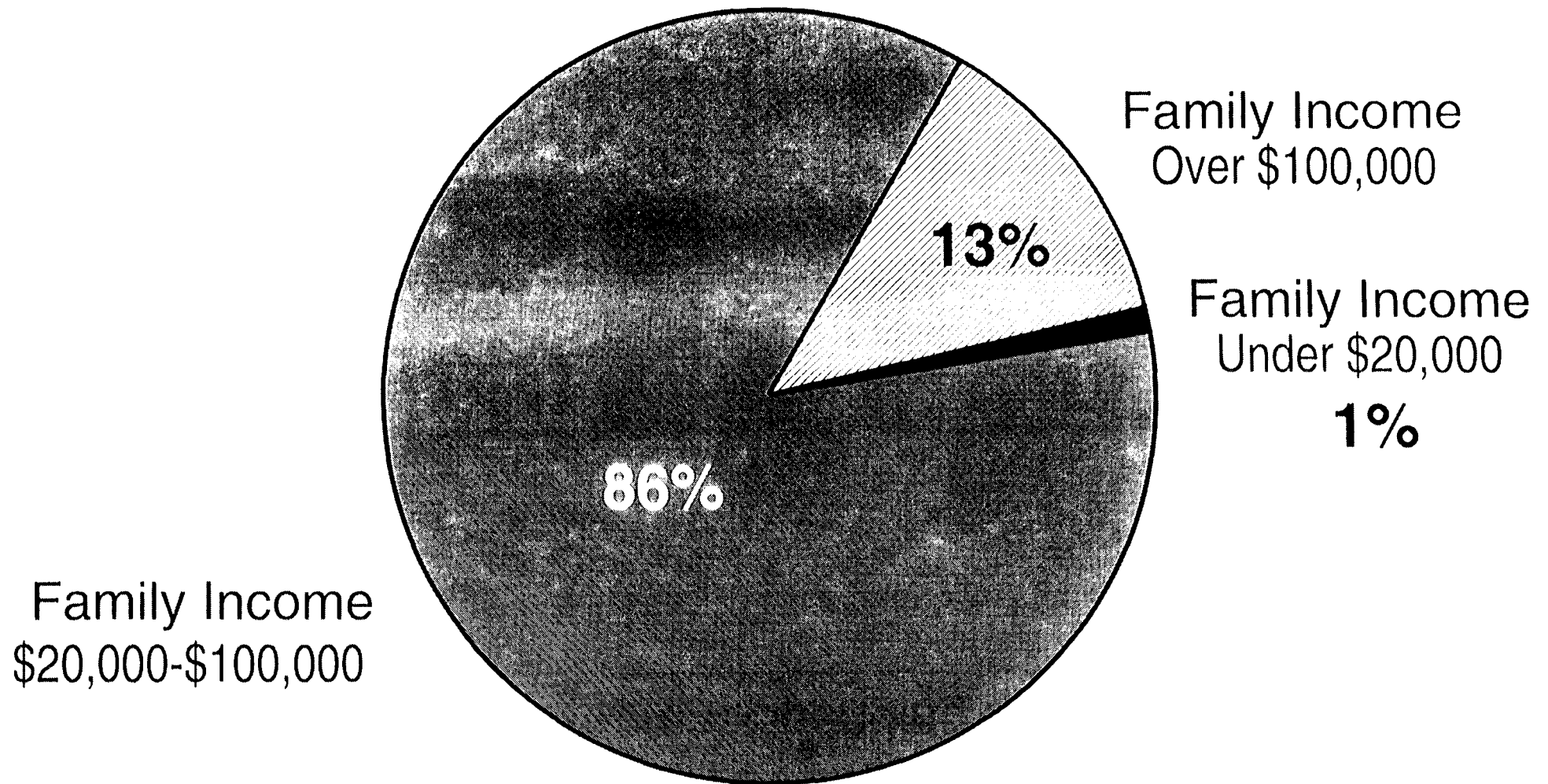
Spending on Government Programs Is Less than Taxes for the First Time Since the 1960's

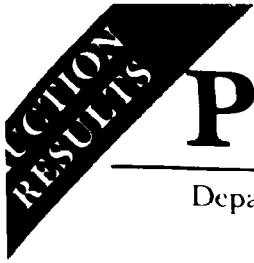
Revenues Minus Program Spending as a Share of GDP



*Fiscal year 1994 and projection for fiscal year 1995.

Tax Cut Targeted to Middle-Income Families





PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
February 8, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Tenders for \$12,045 million of 10-year notes, Series A-2005, to be issued February 15, 1995 and to mature February 15, 2005 were accepted today (CUSIP: 912827S86).

The interest rate on the notes will be 7 1/2%. The range of accepted bids and corresponding prices are as follows:

	<u>Yield</u>	<u>Price</u>
Low	7.54%	99.723
High	7.55%	99.653
Average	7.54%	99.723

\$25,000 was accepted at lower yields.
Tenders at the high yield were allotted 31%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$28,018,017	\$12,044,560

The \$12,045 million of accepted tenders includes \$692 million of noncompetitive tenders and \$11,353 million of competitive tenders from the public.

In addition, \$600 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$1,150 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is \$80,000. Larger amounts must be in multiples of that amount.