Department of the Treasury

PRESS RELEASES

PRESS RELEASE NUMBERS THAT WERE NOT USED

1469
1470
1476
1481
1483
1528

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 2, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $19,298 million of 52-week bills to be issued January 9, 1997 and to mature January 8, 1998 were accepted today (CUSIP: 912794Q4).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.29%	5.59%	94.651
High	5.32%	5.62%	94.621
Average	5.31%	5.61%	94.631

Tenders at the high discount rate were allotted 23%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$47,806,045	$19,297,575
Type		
Competitive	$41,666,872	$13,158,402
Noncompetitive	914,173	914,173
Subtotal, Public	$42,581,045	$14,072,575
Federal Reserve	5,225,000	5,225,000
Foreign Official Institutions	0	0
TOTALS	$47,806,045	$19,297,575

An additional $1,300,000 thousand of bills will be issued to foreign official institutions for new cash.

5.30 -- 94.641

RR-1434

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 6, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,615 million of 13-week bills to be issued January 9, 1997 and to mature April 10, 1997 were accepted today (CUSIP: 9127944E1).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.00%	5.13%	98.736
High	5.02%	5.16%	98.731
Average	5.02%	5.16%	98.731

Tenders at the high discount rate were allotted 25%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$53,356,161	$12,615,209
Type		
Competitive	$47,862,540	$7,121,588
Noncompetitive	1,522,101	1,522,101
Subtotal, Public	$49,384,641	$8,643,689
Federal Reserve	3,382,320	3,382,320
Foreign Official Institutions	589,200	589,200
TOTALS	$53,356,161	$12,615,209

5.01 -- 98.734

RR-1435

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 6, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,567 million of 26-week bills to be issued January 9, 1997 and to mature July 10, 1997 were accepted today (CUSIP: 9127945F7).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.10%	5.31%	97.422
High	5.12%	5.33%	97.412
Average	5.11%	5.32%	97.417

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

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$53,557,995	$12,567,191
Type		
Competitive	$45,052,949	$4,062,145
Noncompetitive	1,289,346	1,289,346
Subtotal, Public	$46,342,295	$5,351,491
Federal Reserve	3,400,000	3,400,000
Foreign Official Institutions	3,815,700	3,815,700
TOTALS	$53,557,995	$12,567,191

RR-1436

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 7, 1997

Contact: Peter Hollenbach
(202) 219-3302

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

The Bureau of Public Debt took action to assist victims of floods in Nevada 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 Nevada affected by the Pacific Northwest Floods. These procedures will remain in effect through February 28, 1997.

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

The counties of Douglas, Lyon, Storey, Washoe and the independent city of Carson City are included in the declaration. 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 Bond 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-244

RR-1437

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 7, 1997

Contact: Peter Hollenbach
(202) 219-3302

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

The Bureau of Public Debt took action to assist victims of floods in Idaho 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 Idaho affected by the Pacific Northwest Floods. These procedures will remain in effect through February 28, 1997.

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 involved are Adams, Boundary, Bonner, Boise, Clearwater, Elmore, Gem, Idaho, Latah, Payette, Shoshone, Valley and Washington. 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 Bond 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-245

RR-1438

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 7, 1997

Contact: Peter Hollenbach
(202) 219-3302

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

The Bureau of Public Debt took action to assist victims of floods in 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 affected by the Pacific Northwest Floods. These procedures will remain in effect through February 28, 1997.

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.

California counties involved are Alpine, Amador, Butte, Calaveras, Colusa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Madera, Mendocino, Modoc, Mono, Monterey, Napa, Nevada, Placar, Plumas, Sacramento, San Benito, San Joaquin, San Mateo, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tuolumne, 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 Bond 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-246

RR-1439

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
January 7, 1997

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR DECEMBER 1996

Treasury's Bureau of the Public Debt announced activity figures for the month of December 1996, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$928,139,515
Held in Unstripped Form	$704,991,159
Held in Stripped Form	$223,148,356
Reconstituted in December	$12,240,936

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-247

RR-1440

TABLE VI – HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, DECEMBER 31, 1996
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month #1
8-1/2% Note A-1997 ...	05/15/97	9 921.237	7,414,037	2,507,200	36,000
8-5/8% Note B-1997	08/15/97......	9 362.836	6.578,836	2,784,000	65,600
8-7/8% Note C-1997	11/15/97.	9 808.329	6.128.329	3,680,000	20,800
8-1/8% Note A-1998	02/15/98	9.159.068	6.883,868	2.275,200	115,200
9% Note B-1998.........	05/15/98	9.165.387	6.636,387	2,529,000	48.200
9-1/4% Note C-1998.....	08/15/98......	11.342.646	8,102,646	3,240,000	24,000
8-7/8% Note D-1998......	11/15/98......	9 902.875	6,405,275	3,497,600	52.800
8-7/8% Note A-1999.....	02/15/99......	9.719.623	7,994,823	1,724,800	19.200
9-1/8% Note B-1999......	05/15/99......	10.047.103	6,883,903	3,163,200	9,600
8% Note C-1999	08/15/99......	10.163.644	7,354,069	2,809,575	52,800
7-7/8% Note D-1999......	11/15/99......	10.773.960	7.193.160	3,580,800	0
8-1/2% Note A-2000	02/15/00......	10.673.033	8.003,033	2,670,000	173.600
8-7/8% Note B-2000......	05/15/00......	10.496.230	5,741,030	4,755,200	48,000
8-3/4% Note C-2000......	08/15/00......	11.080.646	7,138,886	3,941,760	23,360
8-1/2% Note D-2000......	11/15/00.....	11.519.682	7,215,282	4,304,400	112,400
7-3/4% Note A-2001......	02/15/01......	11.312.802	8,031,202	3,281,600	66,400
8% Note B-2001..........	05/15/01......	12.398.083	8.657,708	3,740,375	41,600
7-7/8% Note C-2001......	08/15/01......	12.339.185	9.025,585	3,313,600	33,600
7-1/2% Note D-2001......	11/15/01......	24.226.102	20,887,222	3,338,880	4.960
7-1/2% Note A-2002......	05/15/02......	11.714.397	10,043,357	1,671,040	4,800
6-3/8% Note B-2002......	08/15/02......	23.859.015	22,697,415	1,161,600	137,600
6-1/4% Note A-2003......	02/15/03......	23.562.691	23.210,435	352,256	47,808
5-3/4% Note B-2003......	08/15/03......	28.011.028	27,731,828	279,200	320,800
5-7/8% Note A-2004......	02/15/04......	12.955.077	12.951,877	3,200	169.600
7-1/4% Note B-2004	05/15/04......	14.440.372	14,434,772	5,600	800
7-1/4% Note C-2004......	08/15/04......	13.346.467	13,302,467	44,000	1,600
7-7/8% Note D-2004......	11/15/04......	14.373.760	14,373,760	0	0
7-1/2% Note A-2005......	02/15/05......	13.834.754	13.834,754	0	0
6-1/2% Note B-2005......	05/15/05......	14.739.504	14,739,504	0	0
6-1/2% Note C-2005......	08/15/05......	15.002.580	15.002.580	0	0
5-7/8% Note D-2005......	11/15/05......	15.209.920	15.209.920	0	0
5-5/8% Note A-2006......	02/15/06......	15.513.587	15,513,587	0	0
6-7/8% Note B-2006......	05/15/06......	16.015.475	16,015,475	0	0
7% Note C-2006......	07/15/06......	22,740,446	22,740,446	0	0
6-1/2% Note D-2006......	10/15/06......	22.459.536	22,459,536	0	0
11-5/8% Bond 2004.......	11/15/04......	8.301.806	4,306,606	3,995,200	0
12% Bond 2005...........	05/15/05......	4.260.758	1,710,808	2,549,950	7,600
10-3/4% Bond 2005.......	08/15/05......	9.269.713	7,212,913	2,056,800	376,000
9-3/8% Bond 2006........	02/15/06......	4.755.916	4,734,156	21,760	0
11-3/4% Bond 2009-14....	11/15/14......	6.005.584	1,939,984	4,065,600	20,000
11-1/4% Bond 2015.......	02/15/15......	12.667,799	11,210,519	1,457,280	875,360
10-5/8% Bond 2015.......	08/15/15......	7.149.916	4.807,516	2,342,400	456,320
9-7/8% Bond 2015........	11/15/15......	6.899.859	4.803,859	2,096,000	448,000
9-1/4% Bond 2016........	02/15/16......	7.266.854	6.459,654	807,200	47,200
7-1/4% Bond 2016........	05/15/16......	18.823.551	18.637,151	186,400	296,000
7-1/2% Bond 2016........	11/15/16......	18.864.448	18,174,128	690,320	120,480
8-3/4% Bond 2017........	05/15/17......	18.194.169	11,339,769	6,854,400	647,680
8-7/8% Bond 2017........	08/15/17......	14.016.858	8,116,058	5,900,800	449,600
9-1/8% Bond 2018........	05/15/18......	8.708.639	3,455,839	5,252,800	660,800
9% Bond 2018............	11/15/18......	9.032.870	3,385,670	5,647,200	769,400
8-7/8% Bond 2019	02/15/19......	19.250.798	5.605,998	13,644,800	572,800
8-1/8% Bond 2019........	08/15/19......	20.213.832	18 158,152	2,055,680	254,720
8-1/2% Bond 2020........	02/15/20......	10.228.868	5.878.468	4,350,400	168,000
8-3/4% Bond 2020........	05/15/20......	10.158.883	3.753.603	6,405,280	98,880
8-3/4% Bond 2020........	08/15/20......	21.418.606	6.122.606	15,296,000	547,040
7-7/8% Bond 2021........	02/15/21......	11.113.373	9.756.573	1,356,800	132,800
8-1/8% Bond 2021........	05/15/21......	11.958.888	5,449,448	6,509,440	26,240
8-1/8% Bond 2021........	08/15/21......	12.163 482	5.278.042	6,885,440	1.822,400
8% Bond 2021............	11/15/21......	32.798.394	6.070,694	26,727,700	82,800
7-1/4% Bond 2022	08/15/22......	10.352.790	8,486.390	1,866,400	277,600
7-5/8% Bond 2022........	11/15/22......	10.699.626	2.875.626	7,824,000	70,400
7-1/8% Bond 2023........	02/15/23......	18.374.361	13.839.961	4,534,400	0
6-1/4% Bond 2023........	08/15/23......	22.909.044	20.311,924	2,597,120	377,568
7-1/2% Bond 2024........	11/15/24......	11.469 662	4.054.862	7,414,800	191,200
7-5/8% Bond 2025........	02/15/25......	11.725.170	5.187,570	6,537,600	324,800
6-7/8% Bond 2025	08/15/25... ..	12 602 007	12.198.807	403,200	69,120
6% Bond 2026........	02/15/26......	12.904.916	12,799,016	105,900	419,000
6-3/4% Bond 2026........	08/15/26.	10 893 818	10.839,418	54,400	0
6-1/2% Bond 2026	11/15/26......	11.493.177	11.492.377	800	0
Total	....	928.139 515	704.991.159	223.148.355	12.240,936

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

Note On the 4th workday of each month Table VI will be available after 3:00 p.m. 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.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
January 7, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,000 million, to be issued January 16, 1997. This offering will result in a paydown for the Treasury of about $4,575 million, as the maturing weekly bills are outstanding in the amount of $27,568 million.

Federal Reserve Banks hold $7,387 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 $4,182 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, as amended) 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-1441

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JANUARY 16, 1997

January 7, 1997

Offering Amount	$11,500 million	$11,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4F 8	912794 5E 0
Auction date	January 13, 1997	January 13, 1997
Issue date	January 16, 1997	January 16, 1997
Maturity date	April 17, 1997	July 17, 1997
Original issue date	October 17, 1996	January 16, 1997
Currently outstanding	$13,059 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

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

TESTIMONY OF DONALD C. LUBICK, ACTING ASSISTANT SECRETARY (TAX POLICY), DEPARTMENT OF THE TREASURY, BEFORE THE NATIONAL COMMISSION ON RESTRUCTURING THE INTERNAL REVENUE SERVICE

January 8, 1997

Chairman Kerrey, Chairman Portman, and Members of the Commission:

I am pleased to appear before you today in my role as Acting Assistant Secretary for Tax Policy, in response to the Commission's request to discuss tax policy concerns related to the use of the Internal Revenue Service ("IRS") for what have been described as "non-tax functions."

As some of you may know, until last June I had been based in Europe for almost two years, as Director of Treasury's Tax Advisory Program, advising the countries of Eastern Europe and the former Soviet Union as they institute tax systems as part of the transition to a market economy and a free society. This experience has left me with a heightened appreciation for the effectiveness of our own system of taxation. Our system embodies some fundamental features -- such as periodic self-reporting and self-assessment, withholding, information reporting, and collections strictly in accordance with statutory and constitutional protections -- that many nations are trying to copy. Along with Americans' innate respect for democratic values and the rule of law, this system has given us a high level of tax compliance at low cost. While we must continue to improve efficiency and maintain correct and fair treatment of taxpayers, we should be extremely careful not to unfairly discredit the efforts of the many dedicated public servants who have created an independent, non-partisan mechanism to enforce our revenue laws.

My testimony today will address what the Commission's staff has referred to as "non-tax functions" in the briefing materials provided in connection with my invitation to testify. I will first discuss the generic topic of using the IRS to perform so-called non-tax functions, and then comment specifically on the provisions mentioned in your briefing materials. As the focus of today's hearing is to consider certain aspects of the IRS's role in administering the taxes imposed under current law, I will not address how the IRS's role might be different or similar under alternative tax systems. As to our current tax system, there is always room for improvement. Indeed, this Administration remains committed to working with Congress to simplify and improve the federal tax system where feasible, as consistent with policy goals and budgetary and related constraints.

So-called "non-tax functions"

There can be little doubt that the most important function of the Internal Revenue Service (IRS), like that of any revenue system, is the collection of the revenue prescribed by the federal tax laws. That revenue, in turn, enables the federal government to finance the myriad of responsibilities which the American people, through their elected representatives, have delegated to Washington. As our federal tax system relies so heavily on self-assessment and voluntary compliance, the collection of revenue by the IRS must be handled both efficiently and fairly. The IRS's revenue-collection responsibilities are explicit in the Internal Revenue Code (Code). For example, section 7801 of the Code provides that, "[e]xcept as otherwise expressly provided by law, the administration and enforcement of this title shall be performed by or under the supervision of the Secretary of the Treasury." Section 7802 establishes the office of Commissioner of Internal Revenue, and section 7803 authorizes the Secretary to employ such other persons "as the Secretary deems proper for the administration and enforcement of the internal revenue laws." In fact, administration of most of the Internal Revenue Code has been delegated to the IRS, with only a few subject areas (notably excise taxes on alcohol, tobacco, and firearms) delegated to other agencies.

The central revenue-collection responsibility of the IRS, and the guiding principles governing how those responsibilities are to be carried out, are summarized in the IRS's Mission Statement. I know that you have all reviewed the Service's Mission Statement, but I think it nonetheless bears repeating:

> The purpose of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness.

Like any mission statement, this one describes the ultimate goals that the IRS is constantly striving for. And of course the IRS, like any institution, sometimes falls short of these aspirations. But the Mission Statement captures what the public should expect of the IRS.

Contrary to the rhetoric of some of its critics, the IRS does not aim to extract the maximum amount of money it can from every member of an unwilling public; rather, its job is to collect the correct amount of tax that has been imposed by law, whether that amount is more or less than the amount a taxpayer has paid in any particular case. Stating that the IRS collects only the "proper amount" of tax revenue, however, does not answer all the questions regarding what that "proper amount" of tax revenue is. The answers to those questions depend greatly on substantive tax law, not merely the administrative structure of the tax-collecting agency or the procedural methods by which the tax is collected.

The Code is under constant scrutiny and is frequently amended, in large part because it is used to implement social policies or goals other than those that would be prescribed solely by revenue raising objectives. The various taxes imposed under the Code -- income taxes, excise taxes, employment taxes, estate and gift taxes, and social insurance taxes -- also serve various policy goals, such as encouraging or discouraging certain activities, supporting specific programs with earmarked funds, or matching the cost of a particular government function with its anticipated beneficiary.

There is nothing inherently wrong with including incentives and disincentives through the tax laws, and indeed it seems to be inevitable under all tax systems, whether based on income, wealth, or consumption. Something similar is the result in nearly every tax system I have worked with in Europe and Asia.

It is important, however, to recognize what is being done and to keep the system from breaking down under such matters as unanticipated revenue drains, the complexity of rules that taxpayers must comply with and the IRS administer, or simply the frequency and number of changes to the law. In the 1960s, Stanley Surrey and others here in the United States developed the "tax expenditure" concept -- looking at tax incentives as if they were expenditures of appropriated funds -- to illustrate the extent to which the Internal Revenue Code deviates from the revenue consequences of a pure (e.g., Haig-Simons) income tax model. Estimated tax expenditure "budgets" are now prepared annually by the Joint Committee on Taxation and the Treasury Department to remind us of the extent to which such provisions are built into the Code and the cost of those specific policy decisions.

In a broad sense, any tax expenditure might be considered a "non-tax function," since it serves other social goals and not exclusively revenue raising goals. On the other hand, once a conscious decision is made that the best way to implement a desired policy is to use elements of the tax system (such as exemptions, deductions, or credits), then the administration of the particular provision becomes a "tax function" by definition. A question that policy makers must consider, in the context of the entire federal financial system (including for example the Budget Enforcement Act), is the comparable efficiency and fairness of using the tax system to implement the desired social or economic policy.

Recall that the IRS is charged with the administration and enforcement of the internal revenue laws. Once a provision is added to the Code, the IRS must determine the proper amount of tax due taking that provision (and its exemptions, deductions, or credits) into consideration. That, of course, is a necessary component of the function of the revenue administration in any government.

I mentioned that among the important factors to be weighed in deciding whether to use the tax system to implement particular policy goals are the administrative burdens, for both the IRS and taxpayers, of targeted, and sometimes complex, changes to the Code. Before I turn to some specific provisions, let me suggest a few issues that should be considered, questions that we in the Treasury Department's Office of Tax Policy take into account in evaluating the administrative impact of tax proposals. Some tax expenditure functions are more resource-intensive to administer than others, and in an era of belt-tightening the IRS should not be given additional responsibilities of this nature unless Congress is willing to support them with appropriations for the necessary personnel and equipment. On the other hand, policy goals that do not demand large additional resources can sometimes be implemented efficiently in the tax system, since the IRS already transacts business with the vast majority of Americans annually.

A second factor that should always be considered is the impact of a program on taxpayers and their relationship with the IRS. A provision that is too complex for taxpayers to comply with, or that makes the filing process too burdensome, is likely not only to lead to lost (or at least improper) amounts of revenue. It may also jeopardize the confidence taxpayers have in the IRS and the voluntary self-assessment system on which we rely.

Thus in every case there must be a "cost v. policy benefit" analysis: Can this program be administered most efficiently through the Internal Revenue Code and by the IRS? Or is there another agency (or non-tax method) better suited to do it? Consideration needs to be given to whether tax provisions are likely to be more or less effective than alternative mechanisms (e.g., spending programs) for achieving the federal policy objectives. The Administration is developing a framework for evaluating the economic and other effects of tax expenditures as part of its efforts under the Government Performance and Results Act, and we expect to report to Congress on this work later this year. This new framework could lead to an even more rigorous assessment of the effectiveness of policies implemented through the tax system.

But for today's hearing it is sufficient to note that implementing policies that are driven by more than just revenue considerations through the tax laws requires a balancing between targeting and administrability. One of the typical arguments in favor of using the tax system is the understanding that the behavioral response to the incentive or disincentive will be influenced relatively more by market forces without being impeded by bureaucratic processes. On the other hand, however, to the extent a tax provision is narrowly targeted (whether for budgetary reasons or simply to encourage a particular type of activity by particular taxpayers), the IRS often faces difficult resource-allocation issues with respect to monitoring compliance with the targeting criteria. In general, administrative concerns would dictate that more narrowly targeted tax incentives be reserved for promoting the most important non-revenue goals.

I would also like to mention here the role that the Treasury Department's Office of Tax Policy plays in this context. This office has the primary responsibility within the Administration for evaluating proposed amendments to the Code. The vast majority of the analysis within the office is performed by non-partisan economists and lawyers, who take into account administrative as well as efficiency, equity, budgetary, and other considerations. In analyzing proposals, we devote substantial time and energy to potential administrative issues that may be faced by taxpayers or the IRS. We often work closely with the IRS in identifying potential problems, and consult with the tax-writing committees to resolve them before the proposals are enacted. We also actively consider on an ongoing basis ways in which the tax laws can be simplified. For example, we expect to propose later this year a number of measures that in the aggregate would provide substantial statutory and administrative simplification, for taxpayers as well as the IRS. Thus, our goals in this area are similar to those of this Commission, and we look forward to working with and assisting the Commission in its efforts.

Specific areas described as "non-tax functions"

I will turn now to discussing the particular issues mentioned in your briefing materials. Some of these functions and programs are typical of the many societal aims, not directly related to revenue collection, that successive Congresses and Administrations have attempted to implement through either specific tax incentives or other operational features of our tax system. However, as discussed below, most of these programs as implemented are properly viewed as tax functions.

Employee Plans and Exempt Organizations. A prime example involves the Employee Plans and Exempt Organizations ("EP\EO") function within the IRS. This country has long determined that retirement savings and charitable activities should be fostered through substantial tax incentives. Our goals are to encourage the development of a broad, privately funded retirement system and private charitable programs for the common good. In the retirement context, for example, hundreds of thousands of tax-qualified plans, including traditional pension, 401(k), Keogh, and other plans, cover about 50 million participants and hold trillions of dollars in assets. However, we have also determined that these valuable tax benefits should be made available only under specified conditions, such as the widespread availability to rank and file workers of pension benefits or the actual performance of charitable activities, without special benefits to managers and donors. It is therefore essential that the IRS protect against misuse of the foregone revenue, as well as implement the social purposes of the corresponding tax benefits, by actively enforcing the rules and limitations under which the tax benefits are granted. While only limited additional revenue is usually generated by enforcement of this part of the tax code, failure to enforce the conditions of favored tax treatment would clearly lead to extensive abuse of the valuable benefits Congress has provided, a result contrary to the law and unfair to compliant taxpayers.

This discussion of the EP/EO function highlights a more general principle: in an ideal, perfectly compliant world, there arguably would be no need for a tax administrator, because everyone would comply with the law, always paying the correct amount of tax due without any controversy or disagreement whatsoever. Needless to say, this will never come true in the field of taxation any more than in any other field of human endeavor. Rather, in the EP/EO area, success is indicated by lower amounts of noncompliance instead of simply by additional amounts of revenue. Further, IRS presence in this area (as well as the involvement of the Labor Department and the Pension Benefit Guaranty Corporation (PBGC)) improves compliance and deters noncompliance. In this connection, I would note that Congress and the Administration recently worked together to enact legislation providing for "intermediate sanctions" as part of the Taxpayer Bill of Rights 2, Pub. L. No. 104-168, 110 Stat. 1452, 1475 (1996). By authorizing additional remedies better suited to minor offenses by non-compliant exempt organizations, these provisions should most importantly improve compliance and incidentally provide some revenue in this area.

Thus, even though employee plans and exempt organizations are generally not liable for tax, the IRS must nevertheless allocate appropriate resources to ensure compliance with the law's specific conditions for the grant of exemption. Enforcement of the Code is a tax function, whether the particular Code provisions relate to collection of, or exemption from, taxes.

Earned Income Tax Credit. Let me now discuss another program which the Commission's staff has questioned as possibly a "non-tax function," the earned income tax credit (EITC). The Administration is strongly committed to the EITC and to its goals: to make work pay and to lift workers out of poverty in the most efficient and administrable manner possible. The EITC achieves these goals of making work pay and relieving poverty by reducing the tax liabilities of low and moderate-income families. The EITC thus provides an adjustment to tax liability to reflect taxpayers' ability to pay, in much the same manner as the dependency exemption reduces the tax liabilities of taxpayers with family responsibilities. Thus, it is incorrect to characterize the EITC as a "non-tax function" of the IRS.

Perhaps the question in this regard relates to the refundable nature of the EITC and the budgeting conventions applied with respect to it. Under conventional budget accounting practices, the EITC is shown in the budget as a reduction in taxes only to the extent to which it offsets a taxpayer's liability for taxes paid through the income tax system. This is because the EITC is claimed through the income tax system and because, as a practical matter, the credit can be most easily measured as an offset against the taxes paid through that system. Thus, under these conventions, about one-fifth of EITC costs in FY 1997 are shown in the budget as a reduction in federal income taxes and other taxes paid through the income tax system, including self-employment taxes (SECA).

Because the EITC was created to offset the overall tax burden of low and moderate-income families, however, it should not simply be measured as an offset to income and SECA taxes. Nearly three-quarters of EITC costs offset the combined individual income tax and employee and employer portions of social security tax liabilities attributable to recipients' income. Even this measure does not take into account other federal taxes which are offset by the EITC. During the consideration of both OBRA 1990 and OBRA 1993, the EITC expansions were also viewed as a way of offsetting the burden of increases in excise taxes, including the increases in the gasoline tax. Thus, notwithstanding the fact that it is defined as a refundable income tax credit, the EITC continues to serve its role of relieving recipients' overall tax burden.

The Commission staff has also posed the question of whether the EITC indicates the need to establish new procedures to ensure that administrability is considered during the legislative process. This Administration, like previous ones, has given significant weight to the goals of simplicity and verification with respect to the EITC. A detailed description of some of those efforts is set forth in Appendix A to this testimony. As a consequence, compliance has improved, while the other goals of the EITC have been met. It is not clear whether explicit procedural guidelines could further elevate EITC administrative concerns without upsetting this balance.

Federal-State Cooperation and Information Sharing. The Commission staff's briefing materials also mentioned as an example of a "non-tax function" the IRS's information-sharing efforts with State tax administrators, which are intended to facilitate and coordinate tax filing, examination, and certain collections practices with them. The Administration has previously proposed and supported additional Federal-State cooperative efforts -- for example, a version contained in H.R. 3419 in the 103rd Congress -- and we will continue to work with Congress to enact additional Federal-State legislation. (Please note that a memorandum in your briefing materials, dated April 11, 1995, from David Mader of the IRS to my predecessor Les Samuels, reflects only an earlier draft of this legislation and not a final Administration proposal.)

As with pensions, exempt organizations, and the EITC, I believe that it is inaccurate to describe the Federal-State program as a "non-tax function." Rather, tax administration is the primary responsibility of both the IRS and the State tax agencies with whom information is shared and enforcement is coordinated. We also believe that enhancing further joint cooperative efforts is in everyone's interest -- the States, the IRS, and the taxpaying public. For example, taxpayers may one day be able to electronically file a single return, with only one agency, for both State and federal income tax purposes. This will potentially reduce paperwork burdens on all three parties, so it's not just a "win-win" situation, it's a "win-win-win." We firmly believe that IRS expansion of the Federal-State cooperative program is appropriate, within certain constraints that reflect long-standing policies regarding the collection of federal income taxes and tax information sharing.

Turning to the specific issue of information sharing, disclosure of returns and return information under section 6103(d) is currently permitted, and should continue to be permitted, only if the disclosure is for the purpose of "the administration of [State] tax laws." It is true that in its current form section 6103 presents a potential barrier to single return filing as described above. That is why a technical amendment relating to common data elements should be made to section 6103(d), as the IRS has suggested. The information at issue involves common data elements that are essential to the determination of tax liability for both federal and State purposes, and sharing them would thus be a tax administration function. The amendment is necessary to permit subsequent use of the common data by the State for non-tax purposes under its own laws, the same as if it had collected the information on a State return directly from the taxpayer.

Although the goal of further Federal-State cooperation may require several other, similarly technical changes to existing Internal Revenue Code provisions, I want to comment further on section 6103, as I understand that it has been the subject of some previous testimony before this Commission. The Treasury Department firmly supports the policy underlying section 6103. Taxpayers submit their returns and other tax information with the expectation that they will remain confidential, and that expectation is essential to maintaining confidence in our self-assessment system. Further, that expectation of confidentiality should be respected, and taxpayer information should be disclosed only under the most compelling circumstances. This policy is reflected in section 6103, which as you know states a general rule of non-disclosure and then goes on to list the specific situations in which limited disclosure is considered acceptable.

Notwithstanding this well-established general policy, Treasury and the IRS, as well as Congress, are frequently faced with additional requests for the use of tax return information. Decisions whether to support additional exceptions to this confidentiality policy should be made only after carefully balancing the general policy of confidentiality against criteria designed to demonstrate the necessity for any exception. For example, the requested information must be shown to be relevant to the program for which it is to be disclosed; the request must be narrowly tailored to the information actually necessary; the information must be the best data that is available; the disclosure must not involve significant resource demands on the IRS; the disclosure must not be expected to have an adverse impact on tax compliance; and the information must continue to be treated confidentially within the agency to which it is disclosed.

We are always open to discussing the precise contours of any particular disclosure exception, within the parameters discussed above. Clearly, some are more critical than others, and some changes may be appropriate. But I would urge this Commission not to overturn the general non-disclosure policy embodied in section 6103 of the Code or to recommend wholesale changes to that provision.

Refund Offset. Another program mentioned by the Commission's staff, and which also involves policy questions concerning information disclosure, is the use of "refund offset" to collect other, non-tax debts. This program does indeed implicate the central question of what a "tax function" is.

Often, due to overwithholding or higher estimated tax payments than necessary, taxpayers find that they have overpaid their federal income taxes. Generally, Congress has given the IRS discretionary authority to apply any overpayment to other federal taxes due or to refund it to the taxpayer. See generally Code § 6402(a). For the vast majority of taxpayers due a refund, the matter ends when they receive a refund check for the full amount they overpaid and expected to get back.

Congress, however, has also decided that certain kinds of debts are important enough that overpayments or refunds may be "offset," or reduced, in order to use the money to pay the other outstanding debt. (Indeed, the IRS's authority to apply a refund for one tax year against another federal tax due for another year is just a variation on this general theme, limited to the field of tax debts.) The categories of non-tax debts that can be collected include delinquent child support payments and other "past-due legally enforceable" debts to federal agencies, the most notable of which are probably delinquent student loans. See generally Code §§ 6402(c), (d). There are certain technical requirements that must be met before a delinquent debt will be offset against a refund, mostly intended to guarantee that the debtor has been accorded due process, and the Treasury has issued regulations governing these requirements. See generally 31 U.S.C. § 3720A; Treas. Regs. §§ 301.6402-5 and -6.

Your briefing materials contain a Tax Notes article by George Guttman, describing how the refund offset program has worked in the past, and also some statistics which illustrate that the refund offset program has been very effective in collecting many qualified non-tax debts. See G. Guttman, "Using Refund Offsets and the IRS to Collect Nontax Debts," Tax Notes (May 20, 1996). On the other hand, as Mr. Guttman's article mentions, there is some evidence (in studies separately performed by IRS and GAO) that offsetting refunds may have an adverse impact on the rate of subsequent-year return filings by the debtors whose refunds are offset. The amounts collected through refund offset outweigh the revenue potentially lost by subsequent non-compliance. Moreover, some of the lost revenue is recaptured through standard IRS enforcement efforts, and some is voluntarily paid late by the taxpayers. Although manageable, this compliance effect indicates the need for examining the balance between tax policy and non-tax policy goals whenever we contemplate giving the IRS broader collection functions.

The refund offset program is currently undergoing some significant revisions in connection with the Clinton Administration's ongoing efforts to reinvent and streamline Government. Within the Treasury Department, the Financial Management Service ("FMS") is responsible for actually making all sorts of federal payments, including disability and pension payments, payments on certain federal contracts, and even IRS refunds. In effect, when such a federal payment is approved, FMS is the agency that "cuts the check" to the recipient. FMS also manages the Treasury Offset Program ("TOP"), under which many non-tax federal payments are subject to being intercepted and offset against other, non-tax federal debts. See generally 31 U.S.C. § 3716. It makes sense to coordinate the tax and non-tax offset programs, and the Administration proposed just that in its Debt Collection Initiative, which became the Debt Collection Improvement Act of 1996, Pub. L. No. 104-134.

The Debt Collection Improvement Act gives Treasury's disbursing officials (e.g., FMS) the authority to administer the tax refund offset program, and recently the IRS and FMS entered an Agreement to merge the refund offset program, currently managed by the IRS, with the Treasury Offset Program, administered by FMS. A copy of this Agreement is in your briefing materials. In the future, FMS will coordinate with other agencies and in effect keep a master list of the delinquent debts owed to them (the "National Interactive Delinquent Debtor Database"). This database will be cross-checked against many types of federal payments that FMS administers, including (after January, 1998) tax refunds payable, and payments owed to delinquent debtors will be intercepted and offset to reduce their debts. After the IRS performs its own offsets to satisfy federal taxes, the IRS will certify refund payments to FMS, and FMS will perform offsets of other debts. In short, it is anticipated that the IRS will not be performing the total refund offset function in the future.

Inevitably, some disclosure issues under section 6103 of the Code arise in merging the offset functions, and you will see that several provisions of the IRS-FMS Agreement deal with these issues. While the Code and regulations permit the use of contractors in discrete and carefully defined circumstances involving tax administration, no such authority exists to disclose tax information generally to contractors for non-tax purposes. One particularly sensitive issue, which is mentioned in your briefing materials, is the provision of refund offset information, or other tax return information, to private debt collection agencies, which some federal non-tax agencies retain to manage and collect their delinquent debts. We have strongly opposed providing tax return information (including even the fact and amount of a refund offset) to private debt collectors, as it is fundamentally inconsistent with the confidentiality policy underlying section 6103 and is especially subject to potential abuses. This was a concern in consolidating refund offset with other FMS offset programs (although the briefing materials are erroneous in implying that this concern was the sole cause of "insourcing" the refund offset function with FMS).

This issue has been resolved to the satisfaction of all agencies in a manner that preserves the integrity of taxpayer return information under section 6103 and still manages to satisfy all parties with a need for such information. Far from illustrating a problem with "non-tax functions" or information sharing under the Code, this process demonstrates that reasonable people can accommodate the privacy policy inherent in section 6103 without unduly hampering efficient government.

Refund offset to collect non-tax debts may represent the outer boundary of what is logically viewed as a "tax function." Certainly the Treasury has the taxpayer's money in hand only because of the tax system -- usually overwithholding or excess estimated tax payments, but perhaps because an IRS examination found the taxpayer to have overpaid. Likewise, refunding the money to the taxpayer would be considered by most people to be a "tax function," as presumably would offsetting a refund to satisfy another federal tax debt. Offsetting the refund to collect a State tax debt (as some Federal-State proposals suggest) is more remote from the IRS's revenue collection function, but it is still "tax administration," albeit not federal tax administration. Collecting non-tax federal debts through refund offset is arguably not a "tax function;" it is unclear, however, whether the distinction between a "tax function" and a "non-tax function" is particularly meaningful in this context, particularly after the programs are consolidated in a non-tax, fiscal services agency (FMS). In this instance, at least, collecting both tax and non-tax debts through the refund offset system appears to be an efficient use of government resources.

Low Income Housing Tax Credit. The Commission staff has also described the low income housing tax credit (LIHTC) as an example of a so-called "non-tax" function of the IRS. The Administration is strongly committed to the objectives of the LIHTC, which are to make decent and safe housing available to low and moderate income individuals and families and to achieve this objective through a federal/State partnership. This Administration supported the permanent extension of the LIHTC in 1993.

Although the credit mechanism is new, the use of the tax incentives for accomplishing housing goals is not. Congress determined in 1986 that prior tax incentives for encouraging low income housing were poorly targeted, and in response enacted a very detailed statute to specify requirements with respect to the types of projects, the income of tenants, the role of the State and local housing agencies in administering the provision, and the responsibilities of the IRS. Each of these details relates to the amount of credit that can properly be taken by a taxpayer, and thus implicates the IRS's responsibility to see that the proper amount of revenue is collected.

In this context, the LIHTC may be viewed as an example of where decision makers determined that the importance of the relevant social goals warranted a narrowly targeted incentive, and accordingly one that requires greater resources to administer. For example, the State or local housing agency files a form with the IRS identifying a specific building and the amount of credit for which that project is eligible. Because these projects are typically syndicated to many limited partners, IRS monitoring of the proper credit amount taken in any one year requires a check of the partners' individual tax. In the past, the IRS did not make monitoring of this temporary credit a priority in allocating its limited resources available for matching information returns to tax returns. Now that the credit is permanent, the IRS has taken steps to assure compliance with this aspect of the LIHTC.

I would like to point out that many of what might be characterized as "non-tax" functions with respect to the LIHTC are delegated by statute to State and local partners. The State housing agencies, and in some cases local housing agencies, play a vital role in establishing priorities with respect to which projects within their jurisdiction will receive the credit, in allocating the credit and filing allocation information with the IRS, and in monitoring compliance with the detailed rules in the tax code. For example, the State allocating agency is given the responsibility of monitoring whether the building receiving a credit meets certain continuing requirements (such as the income of tenants). In the event the State monitoring process turns up noncompliance, the State is required to notify the taxpayer of the violation and give the taxpayer a period in which to cure the problem. If the taxpayer does not cure the problem, the State must notify the taxpayer and the IRS that the building no longer qualifies for the full amount of the credit. No other federal tax code provision establishes this unique relationship between the IRS and a State or local agency, and the IRS is continuing to work through the issues that have arisen from this early effort by Congress to "devolve" federal responsibilities to the States.

Organ and Tissue Donation. The Commission staff's briefing materials refer to one final provision, a provision sponsored by Senator Dorgan and included in the Health Insurance Portability and Accountability Act of 1996, relating to organ donation information. Of all the programs I have discussed so far, this is the one which is probably the least related to taxes. But it again illustrates the general principle that our tax system is often the most convenient vehicle for implementing non-tax social policies.

When the Treasury Department sends taxpayers income tax refunds by mail, it occasionally inserts additional material into the envelope besides just the refund check. Previously there were no statutory provisions governing the content of such additional material, although FMS, which actually mails the checks out, has heretofore insisted that inserts be directly related to the information on the refund checks or serve as a means of generating additional federal revenue. The organ donor card provision, however, requires Treasury to include a different kind of insert with income tax refund checks that are mailed during the 1997 filing season. The document must encourage organ donation, include a detachable organ donor card, and urge recipients to sign the card, to discuss organ donation with their family members, and to encourage their family members to request or authorize organ donation.

The inserts provide an easy way to reach millions of taxpayers with this message. And this leads to my final point, which is that the tax system is often used by decision-makers for non-tax goals because it is indeed the best method of implementing them. A donor card document that was directly mailed to tens of millions of Americans would probably be treated as junk mail, perhaps discarded before even being opened, and would undoubtedly cost millions of dollars. But most people who are due an income tax refund will be watching for their check from Uncle Sam and will at least open the envelope, even if they may not read the insert material carefully. So in this case, at least, using one minor aspect of the tax system for a non-tax purpose is probably an efficient, low-cost method of accomplishing the desired policy goal. We note that no appropriation was provided for the cost of preparing the organ donor inserts, although as your briefing papers note the expense is not a particularly large one.

Conclusion

In our view, the use of the term "non-tax function" is misleading when considering the administrative responsibilities of the IRS. Simply put, the IRS is charged with administering federal tax laws, and those laws often reflect a variety of social goals that extend beyond generating the revenues sufficient to fund governmental activities. If given appropriate resources, we believe the IRS is capable of administratively handling its responsibilities. Yet, the IRS's performance in this regard can only be enhanced when substantive and administrative simplicity is accorded due weight in evaluating potential changes in the tax laws. Both Congress and the Administration should work toward greater simplification and, in those cases where simplicity must be balanced with other considerations, the IRS's administrative responsibilities should be anticipated and acknowledged appropriately.

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(Appendix A attached)

APPENDIX A

As the EITC has been expanded during the past decade to improve its effectiveness as a work incentive and anti-poverty tool, the Treasury Department has recognized the need to ensure that EITC eligibility criteria are simple and verifiable. If eligibility rules are simple, taxpayers can more accurately claim the EITC and avoid costly errors. With simple and verifiable eligibility rules, the IRS can also better ensure that the EITC is paid only to those taxpayers eligible for the credit.

Congress and the Bush Administration recognized the importance of simplicity and verification during the consideration of OBRA 1990. At that time, the IRS released data from the 1985 Taxpayer Compliance Measurement Program (TCMP), showing that 39 percent of EITC claims exceeded the amounts for which taxpayers were eligible. The TCMP data suggested that EITC errors were linked to complicated and unverifiable support and household maintenance tests. These rules were very difficult for taxpayers to understand because they did not conform well to most people's notions of caring for a child. Moreover, the IRS could not enforce these rules because information was not readily available on taxpayers' expenditures in support of their children or household. OBRA 1990 thus replaced the support and household maintenance rules for EITC eligibility with simpler age, residency, and relationship tests, lowered the age requirement for reporting a taxpayer identification number for EITC qualifying children, and created a Schedule EIC. These provisions were a first step toward reducing EITC error rates.

This Administration, with the support of Congress, has taken additional legislative and administrative actions to further improve IRS's ability to verify EITC eligibility. First, Congress has enacted stricter reporting requirements proposed by the Clinton Administration, and the IRS has tightened enforcement of these requirements. Since 1995, the IRS has transcribed the social security numbers of all EITC qualifying children and most dependents, and it has intensified its examination of returns with missing social security numbers. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the welfare reform act) contains a Clinton Administration proposal which will enable the IRS to use the simpler and more cost-efficient mathematical error procedures to deny both the EITC and dependent exemptions to taxpayers who fail to provide valid social security numbers. As a consequence of the Uruguay Round Agreement Act of 1994, taxpayers will also be required to provide social security numbers for all dependents and EITC qualifying children without regard to their age on their 1997 tax returns.

Other reporting requirements have also been strengthened. The Uruguay Round requires the Department of Defense to report to both the IRS and military personnel nontaxable earned income used in the computation of the EITC. The 1996 welfare reform act also authorizes the IRS to treat the omission of self-employment taxes as a mathematical error, if the taxpayer claims eligibility for the EITC on the basis of self-employment income.

The IRS, with the support of Treasury and Congress, has also intensified scrutiny of "questionable" EITC claims and preparers. For the last several years, the IRS has conducted studies of EITC compliance and has used this information to better identify questionable returns.

During the 1995 filing season, the IRS slowed EITC refunds for over four million taxpayers who matched profiles of noncompliant taxpayers. In addition, the IRS increased scrutiny of electronic return originators (EROs), instituted fingerprint and credit checks on certain new ERO applicants, and eliminated the direct deposit indicator.

Finally, the Administration has consistently opposed proposals which would add significant complexity to the EITC and has striven to ensure that EITC reforms can be administered. In 1993, the Administration proposed the repeal of two supplemental credits (for children under the age of one and for the purchase of health insurance for qualifying children), arguing that the IRS could not enforce the eligibility criteria for them, and these supplemental credits were subsequently repealed. In 1995, the Administration successfully opposed, on administrative grounds, Congressional proposals to base EITC eligibility on child support payments and hours of work. The Administration's proposal to deny the EITC to undocumented workers, included in the welfare reform act, was designed to be based on information available to the IRS through social security records.

In combination, it is likely that legislative and administrative changes have been successful at significantly reducing the EITC error rates. A pilot IRS study of EITC compliance, drawn from a sample of over 1,000 taxpayers who filed electronically during a two-week period in January 1994, found that about 26 percent of every dollar claimed in the EITC was in excess of the actual amount owed to the taxpayer. When this estimate is adjusted for certain IRS enforcement activities and the repeal of the complicated supplemental credits, the net error rate declines to 19 percent. The remaining EITC noncompliance problems present difficult issues, but they are not inherently different from the administrative issues associated with other tax provisions (such as dependency exemptions). Moreover, other tax provisions -- such as income reporting by sole proprietors and independent contractors -- continue to constitute a much larger share of the total tax gap than the EITC.

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January 8, 1997

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of December 1996.

As indicated in this table, U.S. reserve assets amounted to $75,090 million at the end of December 1996, down from $75,444 million in November 1996.

U.S. Reserve Assets (in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/		Reserve Position in IMF 2/
				ESF	System	
1996						
November	75,444	11,049	10,386	19,240	19,253	15,516
December	75,090 p	11,049p	10,312	19,112	19,182	15,435

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/ Holdings of Treasury Exchange Stabilization Fund (ESF) and Federal Reserve System. Beginning November 1978, these holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

RR-1443

DEPARTMENT OF THE TREASURY

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America's Role in Global Economic Integration
Lawrence Summers
Deputy Secretary of the Treasury
Brookings Conference on
"Integrating National Economies: The Next Step"
January 9, 1996
Washington, DC

Good afternoon. Thank you, Bob for that kind introduction. I wish to applaud Bob, Bob Lawrence and all those who have participated in this ongoing project on the vital subject of economic integration. It is altogether appropriate that we honor Eddie Bernstein as well. As one of the chief architects of the Bretton Woods agreement, Eddie played a major role in creating a framework for development and integration that has transformed the world and lifted entire nations from the throes of poverty.

I. The Importance of American Leadership
It is, in many ways, a critical moment in our nations' history.

- America is the world's largest economy and strongest nation with no single, dominant competitor.
- At the same time, Americans are weary after a long period of conflict. Increasingly, they are preoccupied by problems at home, not abroad, and wish to withdraw from foreign entanglements.
- Conservative ideas are in ascendancy; there is high regard for business and the rights of capital; markets are strong; successful investors are heroes. Yet workers and those at the bottom of the ladder still feel insecure.
- Internationally, the breakdown of empires and the absence of large power balances has made the world ripe for ethnic and nationalist conflicts.
- A major nation traditionally remote from the US is growing rapidly and asserting itself on the international stage.

I suppose I could be describing 1997. I am actually describing 1927. That was a time of high optimism, a time when continued peace and stability was widely foreseen, a time when Americans felt

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very safe at home and yet in the succeeding 15 years the world system spiraled out of control, first economically and then politically. The period of depression and World War that followed are perhaps the darkest two decades in of this century and, arguably, the two darkest decades of the last millennium.

History does not repeat itself. And any historical analogy between the world of today and the world of the 1920s is surely imperfect.

But I think many historians would accept the idea that different American policies could have done more to avert depression and the Second World War.

The US withdrawal from international organizations weakened international norms against aggression. American protectionism set off a spiral of protectionism that contributed to the depression.

Punitive policies toward Germany and Japan did much to create the resentments that encouraged the aggressions that led to the Second World War. Think of what it might have meant for humanity if after World War I, the US had not allowed unpayable debts to be placed on Germany, had been prepared to participate in collective security arrangements that could have resisted Mussolini's aggression and if no cycle of tariff increases and devaluation had made the Great Depression great.

Eddie Bernstein and his generation learned these lessons. That is why after World War II, they shaped the global vision of an America committed to create an ever-widening circle of ever more prosperous, ever more international economy as the centerpiece of America's foreign and economic policy.

It is this idea that lies at the center of President Clinton's economic policy. It starts with the recognition that the US is the world's indispensable nation, that it must compete, not retreat and that, "open and competitive commerce...spurs us to innovate and promotes global growth without which no rich country can help to grow wealthy".

These ideas shape what we have done over the last four years and what we will continue to do over the next four years. We have been and remain focused on creating an ever-widening circle of more prosperous, integrated nations, not just because it means more exports and more jobs, though it does, but because of what it means for the prospects for a safe, secure world.

I believe the case for globalist economic policy is now stronger than it has ever been.
After World War II, the primary concern was with the economic development of a war-ravaged Europe and Japan. Now our challenge is to integrate the 5 billion people of the developed world into a truly global economy.

A half century ago, there were only a small number of nations able to inflict casualties at a distance. Today there are many. New problems of narcotics, greenhouse gases, the proliferation of weapons of mass destruction have raised our stake in enlarging the circle of cooperation.

And our ideology, capitalism, is in ascendance, not just in the formerly Communist countries, but also in the developing world.

But as the examples of economies like Korea, Taiwan and Argentina illustrate, economic improvement brings democratization in its wake. And yet despite the force of these arguments and the convictions of almost everyone of the kind of people that participate in Brookings conferences, American internationalism is under siege.

The critics of the Bretton Woods Washington Consensus form a wide and growing school of what might be called separatists. This is not a new strain in American history. Indeed, one might also call this group Washingtonians, mindful of that George Washington's admonition against "entangling alliances". I have purposely avoided choosing the term isolationists because of its pejorative connotation.

Separatists argue that integration is not good for people, economically, that the Bretton Woods Washington Consensus is bad diplomacy because it is bad economically for those to whom it is preached and finally that it is no longer a luxury we can afford. Their argument has three principle elements.

First, Separatists suggest that economic integration impoverishes most Americans who must compete with low wage labor for the benefit of a small number of American international businesses. In a nutshell, this is the thesis of Bill Greider's recent book and is manifest in much of the opposition to NAFTA and other trade agreements we have seen.

It is a serious argument that needs to be taken seriously. But I believe that our integrationist strategy benefits the vast majority of American workers.

Note, first, that American trade barriers are already very small. We give up very little when we enter into trade agreements and others give up much more. NAFTA, for example, brought trade barriers in Mexico down by five times as much as it reduced American trade barriers.

Note also that countries' wage rates reflect their productivity.

If our desire is to eliminate competition from low wage workers abroad, we have a far better prospect of making their wages grow by helping their economies to develop than by maintaining US trade barriers and accepting restrictions on US exports.

Of course, imports replace jobs; but exports create them and the export jobs pay better, are more secure and have better fringe benefits.

More fundamentally, it is important to understand that what constrains the American economy is not a lack of demand but our productive potential. That is why it is so important that we invest in all of our people, save and invest more and marshall technology as effectively as possible.

Now I know that many people worry about the foreign investment that goes with trade, believing that foreign investment exports jobs.

By this standard, Americans are fortunate the global capital market is as free as it is because we are substantial importers of investment.

American foreign direct investment has been shown in study after study to increase the quantity of US exports of capital equipment to set up plants, of goods to fill distributive capacity and of American supplies for production and operations.

America will fare better as a platform for global business than it will by walling itself off.

The second argument that Separatists make against the Bretton Woods Washington Consensus policy is paradigm is that we are exporting a chimera, that market-oriented policies abroad will work only for a few, not the many and that the effort to export the Bretton Woods model ultimately will lead to a clash of cultures and reduce stability.

That is why the Clinton Administration has urged with considerable success the IFIs to be more transparent to focus on growth as well as adjustment and to worry about the quality as well as the quantity of deficit reduction.

That is why we have sought to put labor standards and the environment in a prominent place in discussions of international trade.

It is why we have put such an emphasis on promoting democracy and popular participation in our economic policy.

Abroad as in America, growth must be inclusive it is to be enduring. But I believe that it is a real mistake to suppose that there are alternatives to market-oriented development that work.

The historical record is quite compelling. It is not just that countries that adopt the Bretton Woods Washington consensus participate more fully in the global economy and purchase more of our products which they do:

- Over the period 1981 to 1994, countries receiving World Bank lending linked to policy changes, recorded an 8.3% annual rise in imports from industrial countries and a 6.6% rise from developing countries compared with growth rates of 3.6% and 6.4% in countries not receiving Bank policy-based lending.
- The US saw its exports to that group of countries rise 11.8% per year compared with 3.7% to countries that did not receive loans from the Bank.

It is also that countries that adopt the Bretton Woods Washington Consensus view ultimately do better than those that stick with more traditional, dirigiste, nationalist approaches as case after case has shown.

A third main argument of those who oppose the Bretton Woods Washington consensus that Eddie Bernstein helped develop is that they are something we can no longer afford.

George Bush was never more wrong than when he said we have more will than wallet. We are spending $100 billion less than we would be spending if the Cold War had not ended.

If we could afford that $100 billion ten years ago when the economy was only 80% as large as that today, we can afford to spend a small fraction of that to maintain US economic leadership.

In fact, the real question is if we can afford not to engage in the defense of our interests by promoting prosperity and integration around the world.

The Marshall Plan would have been a bargain for the US at twice its costs in terms of the future costs we avoided. It represented 2% of GDP, $140 billion at current magnitudes.

The current US Foreign Assistance budget is, including all efforts through the IFIs, only about 5% as large.

International economic leadership is the forward defense of America's deepest security interest. It is still a dangerous world and US leadership is needed to make it safer.

It is interesting to note that one variant of this argument against American leadership that might have been heard three years ago is now hollow, namely that America can no longer bear the burden of leadership it bore after World War II since it was Germany and Japan that won the Cold War. To the contrary, the experience of the 1990s has shown that the four decades-old story of convergence has ended. The United States began the 1990s as the richest country in the world and is pulling away.

The debates in this city this year will determine the capacity of the US to continue to exercise leadership as it has in the past.

In a long-run sense, I doubt that the US has security priorities greater than maintaining open markets through Congressionally authorized trade agreements and restoring our credibility in global financial institutions by meeting our financial obligations.

II. The US Agenda
More specifically, there are three crucial priorities for the US in the international economic sphere:

> first, promoting open markets
> second, fostering global economic growth and stability; and

third, strengthening cooperative efforts to address global concerns.

Let me address each in turn.

Promoting Open Markets

This is not the forum for a detailed articulation of our trade strategy. But it is, I think, clear in today's complex world that our approach to trade must rest on three pillars..

First, we will work to widen and deepen the integration achieved by the WTO to widen it by bringing as many countries as possible, including the major cases of China and Russia as rapidly as possible, consistent with their meeting the necessary conditions.

We will deepen the WTO's effectiveness by expanding its reach as we take up such issues such as financial services beginning this April.

In the multilateral sphere, we will also work with the OECD to continue to reduce tied aid as we have already to reach a multilateral investment agreement.

The second pillar of our trade policy consists of regional agreements.

- We have already laid the groundwork with our commitments in APEC, after the Summit of the Americas and in the transatlantic dialog.

In Latin America and Asia, for example, the debate 5 years ago was about whether economic integration was good.

Today, the debate takes economic integration as a given and asks whether the US should be part of it.

If we are not prepared to participate in regional arrangements, we take a very real risk that they will be trade diverting, not trade creating to slip into economists' jargon and that it is trade with the US that will be diverted.

Regulatory arrangements can also be important symbols of policy commitment and can reinforce a momentum of economic reforms as with NAFTA.

The third pillar of our trade policy is to promote unilateral trade measures to insure that markets are opened. The American people will not support an open world trading system if it is only we who are open. Our trade policy towards Japan over the last few years has been successful in stimulating American exports in a number of key sectors.

If the US were to renounce the use of unilateral trade policy, the consequences could be backsliding in a number of other countries' openness to imports and backsliding in our own political commitment to opening markets globally.

Fostering Global Growth and Stability

The second crucial priority is promoting global growth. When other countries grow more rapid, they buy more of our products, produce better goods for us to buy and cooperate on global objectives.

We promote growth around the world in a whole range of ways.

The most important but least often discussed means is through our example and knowledge. U.S. technical assistance efforts have made an enormous difference in promoting financial stability and privatization through the formerly Communist world. At Treasury, our most crucial international priority remains the creation of a well funded, truly global capital market.

- That's what Secretary's Rubin's periodic meetings with Latin American and Asian financial ministers are all about.
- That's what a post-Mexico agenda of transparency, better surveillance and improved capital markets to respond to emergencies is all about.
- That's what our ongoing work to strengthen the regulatory apparatus...at banks and financial systems in other countries is all about.

But promoting global growth depends on more than capital markets. That's why it is in a sense the ultimate mission of the Bretton Woods institutions. The IMF does its work in stabilization. The World Bank does its work on reducing poverty. For the majority of the world's nations that still cannot attract private capital on a large scale, the financing these institutions can provide is absolutely critical.

To be in a position to encourage them to do the things we think should be done to promote growth, help the environment, attack corruption and reduce military expenditures, we will have to maintain our firm commitment in years ahead.

Things have been easier for us in the US than for those in Japan and continental Europe but we will continue to cooperate with them to promote stabilization and encourage growth.

Addressing Global Concerns

Our third crucial priority is that there must be closer cooperation to address global concerns. We have seen important progress in recent years with the creation of...

- The Global Environmental Facility
- The Global Agreement to Reduce the Debt of the Heavily Indebted Poor Countries
- The US Japan Common Agenda
- International agreements to set standards for money laundering; and the list goes on.

But we are only at the beginning. There is much more that can be done. I expect the next few years will bring important challenges where it will be essential that we employ the substantial resources of the development banks as creatively and effectively as we can. As private markets take on more functions that development banks once performed, these energies can be channeled to meeting social concerns.

That has been our successful strategy as we have replenished these institutions and will continue to be our strategy.

No discussion of the global agenda can be complete without a word about Africa. In too many countries, children are more likely to die before the age of five than to attend secondary school. However, there are important signs of progress.

Those countries that have entered into adjustment programs have seen growth rates significantly accelerate. As we move to the Denver Summit and beyond, helping Africa rejoin the global economy as a strong partner must be a key priority.

Conclusion

My point here today has really been a simple one. The United States' economic policy should and will be based on the idea that promoting integration and prosperity around the world is enormously in our national interest, enormously in our national interest because of the stability it brings in a world that is still a dangerous place.

The great challenge we face is to maintain broad support for this idea. It is much harder now than it was after World War II for at least three reasons.

- There is no longer the Communist threat to motivate us.
- There is a more populist approach to international economic policy than there once was; I am confident that no one ever focus-grouped the Marshall plan.
- And there is more economic insecurity but less generosity and willingness to focus on the future on the part of our people.

What, then can be done? Explaining history, explaining economics and making the case issue by issue can surely help. But ultimately whether we remain an international leader will depend on deeper currency.

If we succeed in giving our people the tools they need to prosper in a changing economy, they will come to see the world more as an opportunity and less as a threat.

Now after the Cold War, it is a question of whether we can restore trust in public institutions.

Moves to restore civility in our political life will make possible the kind of bi-partisan cooperation that made the Marshall Plan and so much else possible.

The era of big government may be over. But no one denies that national security is a government's responsibility. And as the 1920s remind us, mistakes in international economic policy can have great security consequences.

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January 9, 1997

"Russia's Stake in Capital Market Development"
Deputy Secretary of the Treasury Lawrence H. Summers
Kennedy School of Government
Cambridge, MA

Introduction

Thank you, Graham for that kind introduction. It is a pleasure to be here tonight among a group that is doing so much for Russia's future. I share with the organizers of this conference the view that the development of Russia's capital markets will be critical to Russia's re-dedication to the process of reform. This evening I would like to talk about two things. First, I would like to strike a note of warning: Russia must restore momentum to its process of reform. Second, I would like to discuss the potential of Russia's capital markets and chart out the concrete steps that Russia must take to achieve this potential.

I. The Stakes for Russia

I do not have to tell this group about the tremendous distance that Russia has covered in its journey towards a market economy. Since embarking on a process of reform, Russia has...

- fundamentally changed the character of its society to a market economy,
- shifted 70 percent of its enterprises to a private form of ownership; and
- laid to rest the risk of hyperinflation.

Last year, Russian inflation dropped to 22 percent -- below Mexico's 27 percent, and near the 19 percent recorded by Hungary and Poland.

Yet in applauding what Russia has achieved, we must also recognize that 1996 was a year consumed less by policy than by politics and cardiology. Let me be frank: The Russian government drew and defended a line on macroeconomic policy in 1996, but the rest of the economic reform process stalled.

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- Privatization of large firms proceeded at a snail's pace amidst serious questions about the fairness of the process.
- Key structural measures dropped off the reform agenda.
- Other reforms slowed as well including efforts to audit and tax major state enterprises, adjust pension fund benefits, and make "strategic customers" pay for energy purchases.

The Russian tax system was essentially missing in action in 1996, at least for domestic firms, threatening macroeconomic stability and even the minimal core functions of the government.

To compare Russia's process of reform to a football game, the team has had a pretty good first half. But halftime has gone on too long, for most of 1996 in fact, and the crowd has begun to squirm in its seats. It is now time for Russia's economic reform team to come back on the field, or else risk losing the contest by default.

Let me be clear about the risks Russia faces if it fails to follow through on reform. Successful transition does not end with the creation of markets. Far too many market economies, where poor policies have discouraged investment, have struggled from economic crisis to crisis without managing to raise living standards. In contrast, countries that succeed in creating a favorable investment climate, can see living standards double in only a decade.

The record of development shows that the longer you delay, the harder progress becomes. Latin America, for example, paid a steep price for gradual reform in the 1970s.

Whether Russia ends up trapped in a cycle of instability and despair, or graduates to become a strong economy, has tremendous implications not only for Russia but for the world as a whole.

Compare the following two scenarios, the first in which Russia stands still and the second in which it renews its commitment to reform.

In Russia today:

- At current exchange rates, per capita GNP is about $3400 or only one sixth of the EU average.
- Only 25 companies' shares trade actively in Russia, and the top 200 firms (excluding Gazprom) are capitalized at under $40 billion -- roughly equal to the capitalization of Gillette or Motorola.
- Turning to Russia's major export sector, a barrel of oil reserves in Russia is capitalized at under 5 cents, versus about $2.50 anywhere else.
- Russian international trade reflects the primitive state of many of its industries. Russians import half their food and pay for it with oil, timber and aluminum. Russians buy more consumer goods in Istanbul than they do in St. Petersburg.

While I do not claim to have 20/20 vision in looking into Russia's future, I have found it instructive to speculate on what Russia could look like in the year 2020 if it accomplishes goals already met by other emerging countries--using some simple arithmetic.

- Were Russia able to attain the same depth of capital markets as other emerging economies, the capitalization of the Russian stock market would be 35 times what it is today, or over $1 trillion -- a combination of increased capital issuance and share appreciation.
- If Russian economic growth were to average six percent a year to the year 2020, per capita income in dollars would be four times what it is now--or $14,000 (in real terms)--on a par with that of Spain.
- Sustained growth in Russia would lead to huge demand for consumer durables--automobiles, appliances, and electronic equipment--as it has already in Eastern Europe. If Russian domestic demand reached current Spanish levels, this would mean...
    - 55 million passenger cars on the roads versus 13 million today; and
    - 60 million telephone lines versus 25 million today;

I want to emphasize that these are possibilities not predictions. But while ambitious, they lie within Russia's power to achieve. Growth at this pace will not happen automatically, however. And it most assuredly will not happen unless Russia re-invigorates its process of reform.

II. What Russia Needs to Do

The list of reforms Russia needs to rediscover to join the highly successful market economies is extensive and detailed. But they share one thing in common: if enacted, they will improve Russia's hospitality to capital.

Russia must enact reforms to attract capital but it must also put an end to policies and practices that repel it. Two things in particular keep capital at arms-length -- the tax system and crime and corruption.

Tax Reform

The most potent factor repelling investment in Russia is the Russian tax system, as many in this group can probably attest. Despite some of the highest tax rates in the world, Russia has one of the lowest rates of overall tax collections.

- The high rates, complexity, and arbitrariness of the tax system lead far too many investors -- actual as well as potential -- to throw up their hands in despair -- as you are all no doubt aware.
- In fact nowhere on earth is the case for supply-side economics as strong as it is in Russia and several other countries of the NIS.

In contrast to the current system tax rates should be low, and applied to as wide a base as possible. In addition, taxes should be paid by all. According to some estimates, only about 17 percent of firms pay taxes regularly and in full, while at least a third publish no accounts and make no tax payments at all.

- With a federal tax system that now collects only 9 percent of GDP in taxes, Russia has room to boost its revenues and still remain one of the world's lowest tax environments.

Crime and Corruption

The second factor repelling capital is crime and corruption. No society is completely free of crime or corruption, but the pervasiveness, and certainly the perception of widespread crime and corruption has increased sharply during Russia's transition and, equally debilitating, there is a growing sense among businesses that they have no recourse when problems occur.

- By some estimates, 80 percent of businesses make payments to criminal organizations to provide a "roof" or *kryshe* [KRIH-SHA] over their heads.
- The Russian Interior Ministry sent a truck loaded with vodka on a 700 km trip in 1995. Police stopped the truck 24 times, and demanded bribes in all but 2 cases.

I have spoken often before on the issue of crime and corruption, arguing that liberalization eliminates opportunities for bribery, urging reforms of the criminal code and judicial procedure, and offering U.S. assistance in strengthening law enforcement.

- But we must also recognize that a successful campaign against crime and corruption must begin with a commitment at the very top. The leadership of the government must say flatly that there is no longer impunity in Russia. And that statement must be followed by action--prosecutions and imprisonment--demonstrating that the rule of law will be applied evenly and universally and that even prominent and powerful people will be called to account.

Capital Market Development

I have talked about the things that keep capital away. Now let me talk about how Russia can attract capital for productive investment.

I don't need to convince this audience of the importance of capital market development for investment and long term growth. Capital market development is necessary in order to...

- channel funds from savers to investors
- discipline management to ensure good performance
- meet individual needs such as housing and retirement finance; and
- provide citizens with a financial stake in the success of Russian capitalism.

Almost all of the former Communist countries have set up securities markets, but capital markets are much more than a stock exchange and a group of listings.

- In fact the equity markets in Russia, the rest of the NIS, and all of Eastern Europe raised less than $1 billion in new capital from 1991 to 1995. This is about equal to net inflows into US mutual funds per day last year.

Infrastructure

What is lacking is the basic infrastructure for participation in the capital markets, principally mechanisms that confirm, facilitate and legitimize securities ownership and transactions.

- With equity shares in Russia largely paperless, ownership is recorded in the ledgers of share registries. Hundreds of registries exist in Russia, most of them outside of Moscow and most representing a single company.
- If you buy shares in a Siberian company, your broker has to travel there to transfer the shares and verify that the registry entry is accurately made in your name.
- For example, the register of Komineft was until recently kept in the city of Ukhla in the Komi Republic -- a city not known for the frequency of its international flight connections.
- If the fact that companies often own the registrars of their shares makes you suspicious, it should. There have been cases where registry entries have been "erased" and shares assigned to someone else.
  - In one notable case two years ago, UK-based Transworld bought a 20% stake in Krasnoyarsk Aluminum Smelter, only to find that the enterprise had unilaterally decertified its holdings.

In addition, concepts of minority shareholders' rights have not yet taken hold, and both managements and controlling shareholders regularly abuse the smaller holder.

- In October, the Surgut Holding Company purchased an entire new share issue in Surgutneftegaz at a price far below market. After actions by the Federal Commission on Securities Markets, Surgut was forced to increase its purchase price by 40 percent.
  - In April 1995, Primorsky Shipping sold a secret share issue worth $20M to a subsidiary for $90,000, diluting the holdings of foreign investors.

The Russian Federal Commission on Securities Markets has taken action to develop and regulate independent share registries for registries that have over 500 shareholders.

- But enforcement of new regulations remains a problem; it is one thing to delicense a poorly performing registry; it is another thing to get it to cease operations.
- Even some very simple steps have yet to be taken to improve the security of Russian share registries. One of the major selling points of the National Registry Co., for example, has been that unlike many competitors, they back up their data.
- Other infrastructure elements must also be developed. Share depositories and improvements in payments systems would greatly facilitate trading in shares.

One of the sharpest paradoxes of Russian stock trading is that, with over 50 stock exchanges and over 2,000 banks, virtually all stock trading is nonetheless done over-the-counter and settled offshore.

- Recognized custodial services, along with centralized depositories, would allow purchase of Russian shares by U.S. mutual funds, greatly increasing demand.

Taxation

The Russian tax system is also an obstacle to development of smoothly functioning securities markets. Broker/dealers pay taxes of 43 percent on their share-trading profits. Moreover, their capital losses cannot be used to offset capital gains, and there is no allowance for inflation.

The tax system also discriminates against certain kinds of securities, and certain kinds of institutions:

- Broker/dealers, *but not banks*, are subject to a 3 percent road use tax on their profits from share trading.
- As a result of the difficulties in settlement and the tax system, 9 out of 10 Russian securities transactions are settled offshore.

Transparency and Corporate Governance

Yet another obstacle to fair and efficient markets is the absence of appropriate mechanisms for corporate governance. Russian privatization resulted in a concentration of ownership in the hands of company insiders. In well over half of privatized firms, insiders hold a majority stake.

- The absence of protections for minority shareholders has retarded access to equity capital and the development of equity markets.
  - To illustrate the problem, the Gazprom Board of Directors has the right to approve or disallow each trade in Gazprom shares in Russia. Not surprisingly, trades are few.

- Let me particularly emphasize the importance of accurate information -- through accounting standards of value to investors, auditing, and rules on disclosure--to healthy markets. A strong body of research suggests that access to information drives the development of markets. One need only look to the passage of the Companies Act of 1900 in the United Kingdom, which opened up the growth of equity markets there.

Mutual Funds

One area of great potential is the development of mutual funds to tap the estimated $20-30 billion in mattress savings. In the longer run, the development of private pension funds, which now have assets of under $500 million, could provide a powerful impetus to the growth of this market.

- The creation and effective regulation of mutual funds is a priority of the Federal Commission on Securities Markets, which licensed its first funds in November. Nine funds are now operating in Russia.
- However public confidence is still fragile after the experience with the MMM pyramid scheme and the abuses that characterized many of the voucher funds. Careful shepherding of the funds industry will be crucial to its development; Russia cannot afford another small investor debacle.

Capital Markets Forum

Assisting Russia in the development of its capital markets is a top priority of the Treasury Department. Secretary Rubin and SEC Chairman Levitt have agreed to co-chair the U.S.-Russia Capital Markets Forum, designed to marshal the expertise of the U.S. private sector to help support and guide the development of Russia's capital markets.

- Four working groups, drawing on some of the best talent that the United States has to offer, are working on capital markets infrastructure, investor protection, mutual funds, and accounting and tax issues.
- The Forum will produce detailed, operational recommendations endorsed by high level officials from Russia and the United States.
- While foreign direct investment will play a vital role in supplying technology and managerial expertise, and in supplementing Russian capital, we should recognize that Russia will largely finance its investment needs from its own resources. By quickly implementing the recommendations of the Capital Markets Forum, Russia can begin to tap the considerable savings of the Russian population, as well as those of overseas investors who have remained on the sidelines.

III. Conclusion

Let me conclude where I began. Russia has made the transition to a market economy, out the transition has lost momentum. The reforms necessary to place Russia in the ranks of the highly successful economies are both technically and politically difficult. But the rewards are enormous.

To do nothing, or to continue to show the lethargy that characterized 1996, will almost urely consign Russia to the ranks of struggling nations and leave Russians little better off in a lecade's time than they are today.

But if Russia renews its commitment to reform and the kind of market-friendly environment that attracts capital, rather than repels it, then, I believe, Russia can assume its place s a free, great, and prosperous market economy.

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January 13, 1997

Treasury Secretary Robert E. Rubin
International Development Conference
J.W. Marriott Hotel
Washington, D.C.

Since the beginning of the Administration, President Clinton has spoken often and forcefully about the importance of U.S. leadership in the world and in the global economy. He understands that now more than ever, the United States is inextricably linked to the rest of the world; that our economic success is a function of a healthy global economy; that we are affected by what happens in distant places on issues ranging from political instability to environmental degradation; and that the United States is truly the only nation in the world that can provide leadership in the global economy. With this understanding, we've had a coordinated strategy that has enabled us to advance our interests by promoting growth and reform in the global economy.

Opening markets and expanding trade have been a large and highly visible part of this effort. Passage of NAFTA, GATT and scores of other trade agreements has been an important result.

Yet beyond trade, there is another part to our strategy in the global economy. It receives far less attention but is absolutely vital to our interests. That is our effort to promote growth and reform in the developing world, particularly through instruments such as the development banks and the IMF.

Bringing developing countries into the economic mainstream raises living standards, promotes political stability, extends the reach of democratic institutions and ideals, and contributes directly to human dignity and promise. Many would argue that for these reasons alone America's enormous effort and support over the past fifty years have been justified and worthwhile -- and they are probably right. But economic growth and development abroad also increase markets for U.S. products and ideas and promote our own national security.

It is vital for all of us in the economic development business -- public officials, practitioners, legislators and investors -- to appreciate fully these crucial linkages. The developing world now absorbs
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about 42 percent of America's total exports. Between 1990 and 1995, exports to the developing countries surged 75 percent, twice as fast as exports to other industrialized countries. Developing Asia now accounts for nearly a quarter of world GDP, with imports growing at an average annual rate of percent. In 1995, U.S. exports to the 79 countries eligible for IDA funding from the World Bank totaled approximately $26 billion. During the same period, countries that have graduated from IDA funding imported roughly $60 billion worth of American goods and services.

Maintaining this progress, and extending the reach of free markets, democracy, and equitable prosperity, are therefore not some abstract policy objectives with little apparent connection to the lives of ordinary Americans. They are a real imperative, with concrete benefits for each of us here today as well as future generations, benefits in the form of jobs, profits, new companies, new markets and new ideas.

The international financial institutions have never been more central to this effort, nor more uniquely suited to the task at hand. The last half century of progress has been due to many things. But surely U.S. leadership has been a key factor; and surely these institutions have been--and remain--at the core of much that we have achieved. We need not look far to see the evidence of this leadership, and from that to conclude that America's continued leadership role in the multilateral system must remain a top priority.

Under U.S. intellectual and financial leadership, the international financial institutions have become the leading force for market-oriented policy reforms to create the conditions for private sector-led growth and development. Around the world, the institutions are promoting financial, legal and regulatory reforms to bring the power and opportunity of the market to ordinary people.

Multilateral bank environmental policies are widely acknowledged as state-of-the-art, bringing the most up to date practices to infrastructure investments worldwide. Information policies based on the presumption of disclosure, and the direct participation of affected people in project design and execution, is giving a voice to millions of people who effectively have never had one.

Each of the banks has conducted a top-to-bottom review of its structure, operations and policies. The result has been sweeping reorganization, budget and administrative reform, and major operational changes. The overall picture is one of institutions that recognize that challenges and expectations have changed dramatically and that are moving determinedly to change with them. Is the job finished? Far from it. But has real progress been made? Absolutely.

It has been my privilege as Treasury Secretary to visit multilateral bank projects in India, the Philippines, and Brazil.

I've seen these institutions working at the ground level. In the Philippines, I spoke with a woman who used a micro-enterprise loan through the Asian Bank to buy a taxi, enabling her to dramatically improve the life of her family. In India I visited a village that had learned through a World

Bank program how to conserve water in a parched area, and, as a consequence, had dramatically improved its standard of living. Efforts such as these are not only having an enormous effect on those people. They are also enhancing political stability enormously, which is in our national security interest. We can replicate these successes across the developing and transitional world.

Africa, in particular, faces huge development challenges and must be the focus of intensified efforts.

There are those who say that the institutional reforms I referred to were long overdue, and they are right. But these reforms are now firmly in place, and they are directly shaping the institutions in new and fundamentally constructive ways.

U.S. leadership will remain vitally important in the years ahead. One priority, for example, is to continue to clarify the proper role of the state in the development process.

In far too many cases the real obstacles to development and prosperity are legal and regulatory barriers that permeate the economy and poor choices by governments that are not sufficiently accountable for their actions.

Looking ahead, there are other, even more fundamental ways for the institutions to contribute. For developing countries, just as for developed countries or corporations, budgets are an expression of a strategic vision. Fiscal choices give substance to strategic priorities.

When budgets provide three times more funding for loss making state enterprises than for primary health care, a basic choice has been made. When unnecessary military spending dwarfs spending for clean water or rural development, a basic choice has been made. And these choices are not only about today, or this fiscal year; they are about the future.

I believe very strongly that these are issues on which the international financial institutions must be directly engaged.

The International Monetary Fund and the World Bank must concern themselves with more than the quantity of public spending, though that surely is important. They must work on the central issue of the quality of fiscal choices.

In all of these areas, continued U.S. leadership will be critical. But to exercise this leadership it is vital that we meet our financial commitments to the institutions. We cannot continue as the only major nation in the world with large scale arrears to the World Bank, the Asian Bank, the Inter-American Bank and the Global Environment Facility.

The Clinton Administration, and I personally, are committed to working with the Congress to obtain the resources necessary to fund these key programs and institutions, particularly IDA, within the constraints of our balanced budget goals. I have spent an enormous amount of time personally going up to the Hill, to work with Congress toward these ends.

But frankly, it won't be easy. There is a growing resistance in this country, and elsewhere, to engagement in the global economy.

When we came forward with our Mexican support program, because it was in our economic and national security interest to do so, we nevertheless encountered vigorous Congressional opposition. There is great unease in the American public about American engagement in the global economy. There is a large segment of the public -- maybe not a majority, hopefully not a majority, but nevertheless, a large segment --that believes international financial institutions and trade agreements don't work in their interest. I believe that simply is not so.

But the burden is on us to show this, to build the domestic constituency necessary to maintain America's commitments to these programs. The imperative is there, the case for US leadership is clear, and long-term U.S. interests are on the line. In my view, if we all work together -- we in the Administration, you who understand these issues so well, and a new Congress -- it is doable.

We rose to the challenge before. After World War II, even though the American public was exhausted with international engagement, we did not turn inward -- and the result of that decision was prosperity in the United States and growth in many countries in the developing world.

Let us rise to the occasion again. Let us renew our commitment to the institutions that have served us, and the developing world so well. Let us remember one of the great lessons of the 20th century: withdrawal from international affairs cannot work. When we withdraw, we suffer; when we engage, we prosper.

I thank you and I look forward to working with all of you in the months ahead.

-30-

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 13, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,553 million of 13-week bills to be issued January 16, 1997 and to mature April 17, 1997 were accepted today (CUSIP: 9127944F8)

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.02%	5.16%	98.731
High	5.04%	5.18%	98.726
Average	5.04%	5.18%	98.726

$1,500,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 34%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$46,366,676	$11,552,676
Type		
Competitive	$40,365,960	$5,551,960
Noncompetitive	1,538,355	1,538,355
Subtotal, Public	$41,904,315	$7,090,315
Federal Reserve	4,186,860	4,186,860
Foreign Official Institutions	275,501	275,501
TOTALS	$46,366,676	$11,552,676

An additional $86,399 thousand of bills will be issued to foreign official institutions for new cash.

5.00 - 98.736   5.03 - 98.729

RR-1447

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 13, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,568 million of 26-week bills to be issued January 16, 1997 and to mature July 17, 1997 were accepted today (CUSIP: 9127945E0).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.09%	5.30%	97.427
High	5.11%	5.32%	97.417
Average	5.11%	5.32%	97.417

Tenders at the high discount rate were allotted 22%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$44,845,381	$11,568,031
Type		
Competitive	$36,970,730	$3,693,380
Noncompetitive	1,430,351	1,430,351
Subtotal, Public	$38,401,081	$5,123,731
Federal Reserve	3,200,000	3,200,000
Foreign Official Institutions	3,244,300	3,244,300
TOTALS	$44,845,381	$11,568,031

5.10 - 97.422

RR-1448

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 13, 1997

CONTACT: Office of Financing
202/219-3350

AMENDED RESULTS OF TREASURY'S 13-WEEK BILL AUCTION

Because of an error in reporting noncompetitive bids, the press release dated January 13, 1997, announcing the 13-week bill auction results improperly stated that there were additional amounts issued to foreign official institutions in the amount of $86,399 thousand. In fact, there were no additional amounts issued to foreign official institutions for new cash.

The correct total received and accepted for foreign official institutions is $361,900 thousand. The total amount received changed from $46,367 million to $46,453 million, and the total amount accepted changed from $11,553 million to $11,639 million.

All other particulars in the auction results press release remain the same.

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RR-1449

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 14, 1997

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED NOTES
FEBRUARY REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of February for the new 10-Year Treasury inflation-indexed notes. This information is based on the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the U.S. Department of Labor. This announcement is made in anticipation of the auction of the inflation-indexed notes on January 29, 1997.

In addition to the publication of the reference CPIs (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period. Public Debt intends to announce the reference CPI numbers and the related index ratio monthly for at least one year.

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 1450. The information is also available on the Internet at Public Debt's home page: (http://www.publicdebt.treas.gov).

The information for March is expected to be released on February 19, 1997.

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PA-248

RR-1450

Contact: Office of Financing *202-219-3350*

TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES:	A-2007
CUSIP:	9128272M3
AUCTION DATE:	January 29, 1997
ORIGINAL ISSUE DATED DATE:	January 15, 1997
ORIGINAL ISSUE DATE:	February 6, 1997
MATURITY DATE:	January 15, 2007
Ref CPI on DATED DATE:	158.43548
TABLE FOR MONTH OF:	February, 1997
NUMBER OF DAYS IN MONTH:	28

CPI-U (NSA) Oct. '96	158.3
CPI-U (NSA) Nov. '96	158.6
CPI-U (NSA) Dec. '96	158.6

Ref CPI and Index Ratios for February 1997

Calendar day			Ref CPI	Index Ratio
February	1	1997	158.60000	1.00104
February	2	1997	158.60000	1.00104
February	3	1997	158.60000	1.00104
February	4	1997	158.60000	1.00104
February	5	1997	158.60000	1.00104
February	6	1997	158.60000	1.00104
February	7	1997	158.60000	1.00104
February	8	1997	158.60000	1.00104
February	9	1997	158.60000	1.00104
February	10	1997	158.60000	1.00104
February	11	1997	158.60000	1.00104
February	12	1997	158.60000	1.00104
February	13	1997	158.60000	1.00104
February	14	1997	158.60000	1.00104
February	15	1997	158.60000	1.00104
February	16	1997	158.60000	1.00104
February	17	1997	158.60000	1.00104
February	18	1997	158.60000	1.00104
February	19	1997	158.60000	1.00104
February	20	1997	158.60000	1.00104
February	21	1997	158.60000	1.00104
February	22	1997	158.60000	1.00104
February	23	1997	158.60000	1.00104
February	24	1997	158.60000	1.00104
February	25	1997	158.60000	1.00104
February	26	1997	158.60000	1.00104
February	27	1997	158.60000	1.00104
February	28	1997	158.60000	1.00104

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
January 14, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,000 million, to be issued January 23, 1997. This offering will result in a paydown for the Treasury of about $4,175 million, as the maturing weekly bills are outstanding in the amount of $27,180 million.

Federal Reserve Banks hold $6,833 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 $4,717 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, as amended) 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-1451

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JANUARY 23, 1997

January 14, 1997

<u>Offering Amount</u>	$11,500 million	$11,500 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4G 6	912794 2S 2
Auction date	January 21, 1997	January 21, 1997
Issue date	January 23, 1997	January 23, 1997
Maturity date	April 24, 1997	July 24, 1997
Original issue date	October 24, 1996	July 25, 1996
Currently outstanding	$13,137 million	$20,185 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

<u>The following rules apply to all securities mentioned above</u>:

<u>Submission of Bids</u>:	
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.
<u>Maximum Recognized Bid at a Single Yield</u>	35% of public offering
<u>Maximum Award</u>	35% of public offering
<u>Receipt of Tenders</u>:	
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
<u>Payment Terms</u>	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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EMBARGOED UNTIL 2:30 P.M.
January 15, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $30,000 MILLION

The Treasury will auction $17,500 million of 2-year notes and $12,500 million of 5-year notes to refund $27,916 million of publicly-held securities maturing January 31, 1997, and to raise about $2,075 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $550 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 $1,704 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, as amended) 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-1452

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED JANUARY 31, 1997

January 15, 1997

<u>Offering Amount</u>	$17,500 million	$12,500 million
<u>Description of Offering</u>:		
Term and type of security	2-year notes	5-year notes
Series	AB-1999	C-2002
CUSIP number	912827 2F 8	912827 2G 6
Auction date	January 22, 1997	January 23, 1997
Issue date	January 31, 1997	January 31, 1997
Dated date	January 31, 1997	January 31, 1997
Maturity date	January 31, 1999	January 31, 2002
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

<u>The following rules apply to all securities mentioned above</u>:

<u>Submission of Bids</u>:

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 three decimals, e.g., 7.123%
(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.

<u>Maximum Recognized Bid at a Single Yield</u> . . . 35% of public offering

<u>Maximum Award</u> . . . . 35% of public offering

<u>Receipt of Tenders</u>:

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

<u>Payment Terms</u> . . . . 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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January 17,1997

Statement of
Robert E. Rubin
Secretary of the Treasury
before the
Senate Judiciary Committee

Good morning. Chairman Hatch, Senator Leahy and other distinguished members of the committee. I am grateful for this opportunity to testify regarding the Balanced Budget Amendment.

I spent 26 years on Wall Street before joining the Administration four years ago, and I have a deep and abiding belief in the profound importance of fiscal responsibility to our national economy. I have now spent four more years of my life working to implement this conviction, and I know this is a view that many members of this committee deeply share.

I have an equally strong conviction that a balanced budget amendment is a threat to our economic health, will expose our economy to unacceptable risks and should not be adopted. I also believe that such an amendment is not necessary to achieve the critical objective of balancing our budget.

Throughout our history, with the exception of wartime, budget deficits -- when they existed at all -- were generally small. In the 1970's and 1980's, they began to rise and the federal debt grew sharply. But after experiencing this period of fiscal indiscipline, I believe the atmosphere in Washington has changed.

This process of change began in 1990 with the passage of the Omnibus Budget Reconciliation Act signed into law by President Bush. We then took an enormous step forward with the deficit reduction program enacted in 1993, which has led to a reduction in the size of the deficit from 4.7% to 1.4% of GDP. Last year, both the Administration and the Congress proposed budgets that would eliminate the deficit by 2002 and both are expected to do so again this year.

Not only has the atmosphere in Washington changed, but there is also a new enforcing factor at work which is the emergence of global markets that are highly sensitive to a nation's degree of fiscal responsibility. A nation that does not address fiscal matters will be severely punished by markets with high interest rates that could impair or even severely impair its economy.

The sum total is that politically, historically and economically, the forces are in place to balance the budget. We are not far apart. Now we need to get the job done.

However, there is a distinction between balancing the budget and passing a constitutional amendment. When we contemplate an action as significant as amending the Constitution to require a balanced budget, we owe it to the American people to understand exactly what its consequences would be. And those consequence are serious. I believe the balanced budget amendment proposal would subject the nation to unacceptable economic risks in perpetuity.

- First, a balanced budget amendment could turn slowdowns into recessions and recessions into more severe recessions or even depressions.
- Second, it could prevent us from dealing expeditiously with emergencies such as natural disasters or military threats.
- Third, it would seriously increase the risk of default on our national debt.
- Fourth, the escape clauses it provides at best are likely to be far from fully effective. Under the amendment, there would be a significant time lag from when an economic problem developed until we reach a consensus on how to solve it. The escape clauses would also enable a minority in either the House or Senate to use its leverage to subject the nation to unacceptable economic risks; and
- Fifth, the amendment poses immense enforcement problems that might well lead to the involvement of the courts in budget decisions, unprecedented impoundment powers for the President or the temporary cessation of all federal payments. Any of these options could disrupt Social Security and Medicare payments. Alternatively, the balanced budget amendment might be unenforceable and therefore have no effect at all, contributing to cynicism about the process of government.

For these and other reasons, I would like to expand on why I believe a balanced budget amendment would create unacceptable risks for our economy.

I. More Severe Recessions

As Secretary of the Treasury, I am deeply concerned that a balanced budget amendment could turn slowdowns into recessions, mild recessions into worse ones and bad recessions into depressions. A balanced budget requirement in the Constitution would make recessions longer and more painful, first, by eliminating automatic stabilizers that protect people during a downturn and, second, by instead requiring measures to cut spending or increase taxes during slowdowns and recessions when the economy is already suffering from lack of demand.

Since World War II, we have made immense progress in reducing the toll of the boom and bust cycle through the introduction of automatic fiscal stabilizers and effective use of counter-cyclical fiscal policy. Under current law, for example, if unemployment rises, unemployment insurance payments rise as well, moderating the economic impact of recessions on companies, workers and their families.

Mr. Chairman, the extremes of the business cycle have declined sharply over the post-war period compared with the pre-war era. A balanced budget amendment would undo this progress by turning off these stabilizers and actually require measures that could exacerbate a recession.

To take just one example, without automatic stabilizers, Treasury has estimated that unemployment in 1992 might have hit 9 percent instead of 7.7 percent, in excess of one million more jobs lost. Even were a 3/5 vote to waive the provisions of an amendment obtainable, slowdowns and recessions are hard to anticipate, and congressional action would almost surely be at the very least months late, by which time critical damage to the economy would already have been done.

II. Inability to Cope with Crises

A balanced budget amendment would also prevent us from dealing quickly and effectively with crises, from a second S&L crisis to a second Hurricane Hugo to an escalating military threat.

For example, in September of 1989, Hurricane Hugo struck the Carolinas, causing billions of dollars of damage. After President Bush declared a major disaster, Congress took action by appropriating $2.7 billion in emergency supplemental assistance to help the area rebuild. Under the Balanced Budget Amendment, if the budget were otherwise in balance, this could not be done until after a vote of 60% in both houses.

III. Increased Risk of Default

As Secretary of the Treasury, I am also highly concerned that limits on our flexibility would increase the risk of default on the federal debt. The possibility of default should never be on the table. Our creditworthiness is an invaluable national asset that should not be subject to question.

Default on payment of our debt would undermine our credibility with respect to meeting financial commitments, and that in turn would have adverse effects for decades to come, especially when our reputation is most important, that is, when the national economy is not healthy. Moreover, a failure to pay interest on our debt could raise the cost of borrowing not only for government, but for private borrowers from companies to homeowners making payments on an adjustable mortgage.

It is also worth remembering that interest payments are only one type of obligation. If we are not able to meet our obligations, members of our armed forces, retirees receiving Social Security, those who depend on Medicare and many others, could suffer as well. The risk of this happening must not be increased.

Finally, the history of debt limits shows that raising the statutory debt limit is never an easy process. We all remember the enormous difficulties that surrounded this issue in 1995 and 1996. A requirement for a supermajority vote in both houses could make it far harder.

IV. Potential for Gridlock from the Supermajority Requirement

Proponents argue that the Constitutional amendment is needed to stiffen our resolve to balance the budget. But they also assume that, when necessary, Congress will waive its provisions by obtaining a three-fifths majority vote.

This is a risky assumption. In fact, the history of Congress shows that it can be extremely difficult to obtain a three fifths majority. It will be especially difficult to obtain a supermajority to waive the Constitution of the United States. And it ought to be.

It is true that 60 votes are usually required for cloture in the Senate. Even more fundamentally, the Senate has long honored the rights of a minority to express its views and influence legislation. Nevertheless, recognizing that certain essential matters should not be held up by a minority, Senate rules permit a reconciliation bill which can be a vehicle for passing a budget or increasing the debt limit, to be passed by a simple majority. In contrast, this amendment would require a 3/5 majority to increase the debt limit or obtain a waiver from its provisions and would extend this supermajority requirement to such votes in the House.

Thus, for example, 41 Senators or 175 Congressmen could throw the government into default; 41 Senators could stop Social Security checks from going out or could advance a special agenda. In effect, a minority in either house could put the economic health of our Nation at risk by refusing to waive the balanced budget requirement or refusing to increase the debt limit unless that minority's agenda -- which could be budget related or related to social policy or any other matter -- was satisfied.

Let me add that a balanced budget amendment would also limit our ability to deal with national economic downturns in which only some regions were suffering, because most members would not be experiencing the economic problems making a 60% waiver more difficult to obtain.

Finally, we cannot predict the political environment, ten, twenty or thirty years from today, and we should not create enormous minority leverage in the face of uncertainty about future political conditions.

V. Enforcement Difficulties

A balanced budget amendment may well be unenforceable. There is no way to compel Congress and the President to enact legislation to cut spending or raise taxes to balance the budget. Yet there is also no way to compel enactment of legislation to waive the provisions of the amendment. It is not hard to imagine a situation in which a 2/5 minority of Congress opposes tax increases, a different 2/5 minority opposes spending cuts, and another 2/5 minority opposes a waiver of the balanced budget amendment to raise the debt limit. The amendment provides no method for resolving such an impasse.

Some proponents have suggested that under these circumstances, the President would stop issuing checks, including those for Social Security benefits. Alternatively, judges might become deeply involved in determining whether Social Security or Medicare checks would be stopped. The President might also impound funds of his choosing. Or, the amendment might just prove to be unenforceable and therefore a nullity, reducing respect for the Constitution. All of these potential outcomes are extremely undesirable.

VI. Additional Problems

Let me mention, finally, two other problems. First, by requiring that a majority of the whole Congress approve a revenue increase, the amendment could make it more difficult to close special interest loopholes and eliminate obsolescent deductions and credits. Over time, this would reduce the fairness and efficacy of our tax code.

Second, unforeseen events could lead to a large end-of-the-year shortfall that could only be met in a very short period of time. Such shortfalls happen in many years. In FY 1990, for example, CBO re-estimated the deficit upward by $60 billion in the last nine months of the fiscal year. In such a case, huge cuts would be needed in those programs that happen to have payments late in the year, or where cuts can be made quickly regardless of the consequences.

These are just two examples of why it would be a mistake to enshrine economic policy in the Constitution. We have no idea what economic conditions will be like in 10, 20, 30 or 40 years, and creating policy inflexibility is extremely unwise.

Conclusion

As I said at the beginning of my testimony, I have a deep commitment to the importance of deficit reduction and fiscal discipline to our nation's economic health, and I believe that we can put in place balanced budget legislation this year. But I have an equally strong conviction that a balanced budget amendment poses real risks for our nation's economic future and, for this reason, must not be adopted.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED until 12:30 p.m. EST
Remarks as Prepared for Delivery
January 17; 1997

Treasury Secretary Robert E. Rubin
Conference of Mayors
Capital Hilton Hotel

As I travel around the country speaking to business people and to the media, I am often called upon to address a traditional portfolio of Treasury Secretary issues: the markets, the dollar, financial institutions, trade. But I almost always include another issue: the fate of our cities. I think an absolutely key domestic issue this country faces is how to revitalize our cities and bring the residents of our inner cities into the economic mainstream. This is a subject that I've cared an enormous amount about for a long time.

As some of you know, I worked at a major investment banking firm for 26 years. I developed the view a long time ago that until we bring the residents of the inner cities into the economic mainstream, all of us -- no matter where we live or what our incomes may be -- will remain powerfully disadvantaged; that we lose tremendously by virtue of the lost potential of our economy and a worsening of our social conditions. Just think of the enormous costs that are currently borne by taxpayers, in productivity, and in quality of life. Contrast that with the great benefits that we could reap, if we could break the cycle of poverty and equip the urban poor to join in the economic mainstream.

Being in the White House for two years, and now at Treasury for two years, has given me an extraordinary and rare opportunity to act on these issues, but all of us in government and the private sector, no matter where we are or what we are doing, can contribute in a meaningfully way.

We need a true marshaling of national will and effort. One of the things I have tried to do to further that cause is to speak out on this issue. It is my hope that the example of a Secretary of the Treasury discussing the cities as a critical aspect of the economic life of this country will provide reinforcement for those who are already involved, and perhaps, spark an interest in those who are not yet active.

There are programs that work,- federal, state and local -- contrary to some popular conceptions. But in an era of tightly constrained budgetary resources, we must choose rigorously and then once we've made our choices, we must sustain the will to bring these programs to critical mass.

RR-1454

I'd like to talk for a moment about welfare. As you well know, the President signed the welfare bill this fall, but at the same time said the bill contains serious shortcomings, shortcomings that he will do everything he can to fix. As you also know, the bill was not simply a welfare reform bill. It was in addition a bill that dealt with legal immigrants and with food stamps. It was primarily in those two areas that critical problems arose that we need to address.

And with the welfare bill now law, we must even more urgently ask and answer these questions: Where will the jobs come from? How do you produce the economic conditions necessary to create them? How do you equip the poor to be job-ready, so that they have the training and social skills necessary to work?

Solving the problem of our inner cities will require a great deal more than simply addressing the shortcomings of the welfare bill. What we need to do is to put in place initiatives that will have the effect of providing jobs for those who move from welfare to work. And that, in turn, is part of the larger issue of economic development in our inner cities and the larger task of moving the disadvantaged in our inner cities into the economic mainstream.

That is a challenge that you mayors face every day. We can help, and we will. But the additional tools we provide will only be a partial answer, and we must work together with you to make sure that our limited resources are most affectively used.

And you'll need to work closely with the private sector and with nonprofits. The President recently met with senior corporate executives who saw it as in their long-term business self-interest to ensure that welfare recipients are trained and get jobs. And all around the country, local community groups are working with the private sector and with government to create environments in which businesses will choose to come back to the inner cities. These CDCs are training inner city residents and placing them in productive jobs. I encourage you to think about these community based efforts and the important role of private companies as you work to move families from welfare to work and the businesses of the inner cities more generally.

But to start with, success with our cities requires sustained economic growth that creates jobs and increases standards of living. I think too often those focused on cities and in particular on the conditions of the poor do not focus adequately on the imperative that we build a strong economy to provide the economic underpinnings for development efforts. Conversely, I also think that too often those who are focused on creating a good economy do not adequately recognize the other components needed to overcome poverty.

That said, I believe the requisites for moving forward fall into three categories.

First, and probably most importantly, we must invest in people. That includes, for example, education and training efforts such as Head Start, adult skills training and technical training efforts. It includes providing decent housing, and it includes health care.

The second category is public safety, and the President has made this a high priority through the Brady Bill, the assault weapons ban and the program to put police back on the streets. Public safety is a precondition to economic activity.

The third is access to private sector capital and other measures to create economic activity in the inner cities. This has received relatively little public attention, but is critical to revitalizing America's distressed cities.

The last two decades have witnessed enormous innovations in finance and in the financial markets. Ideas that were once unknown on Wall Street have become commonplace. Financial markets in the United States are today the most innovative, the broadest and deepest in the world.

But, we still have a severe shortage of credit and of financial institutions willing to provide credit to build housing and create jobs in the inner city. And this shortage, in some ways, dwarfs the shortcomings of traditional public efforts. Robert Kennedy once said, "To ignore the potential contribution of private enterprise is to fight the war on poverty with a single platoon, while great armies are left to stand aside."

The Treasury Department has been deeply and energetically involved in bringing its broad-based experience in capital markets and financial services to bear on the inner city, and we have pursued action, not rhetoric, on an eight point program which I'd like to very briefly describe today.

Step one was to reform and thereby make more effective the Community Reinvestment Act, which encourages banks to provide capital throughout the community to creditworthy borrowers.

Step two was to make the Low Income Housing Tax Credit permanent.

The third step is to follow through on President Clinton's call in 1992 for a nationwide network of community development banks.

The fourth step is to expand micro-enterprise loans.

The fifth step is a proposed new tax incentive to clean up abandoned industrial properties in economically distressed areas -- so called brownfields. This is an issue you know very well, and your efforts led us to introduce this proposal. We have proposed a $2 billion tax incentive. We estimate this would give us $10 billion in private leverage enough resources to resurrect 30,000 brownfields sites around the country.

Sixth, we've introduced legislation for 100 new Empowerment Zones and Enterprise

Communities.

The seventh step, something that I am personally getting involved in, is to try to increase the involvement of the private sector in mentoring private business.

Eighth and still a work in progress, is a joint Treasury and Commerce effort to see if we can create secondary markets for community and economic development loans to the inner cities that are on the books of public and private institutions.

Let me also mention that we are engaged in a major effort to reach out to the 10 million Americans who receive Social Security, veterans, or other government checks but don't have bank accounts. We are currently working on a means to integrate this group into the financial system. If we can figure out a way to move them into the banking system for the first time, not only will it give them a better way to access services, but it may also encourage them to save, to plan financially, and thus, to improve their economic life over time.

Most of the programs I just discussed have been under attack by some in Congress. Efforts were made to eviscerate CRA and to eliminate the low income housing tax credit as well as the community development bank program. We have fought vigorously and, so far, successfully against those efforts. My hope is that as we go forward now, we will see more of an effort to find common ground, between the Administration and the Republican majority. If we can move constructively toward consensus on a balanced budget and other areas, then, the efforts to undermine these kinds of programs may well diminish. In any event, I believe we must continue to do everything possible both to defend these programs, and to expand the programs that work.

We have a new opportunity to work together with Congress in helping to revitalize our Nation's capital. As you know, we've just announced a multi-faceted effort to restructure the federal relationship with the District of Columbia and to take on a number of tasks that states play with respect to your cities. We are also going to be coming up with some economic development tools to meet the unique needs of our Capital.

Let me say in regard to the budget more broadly, that we are going to work hard to get a balanced budget, reached the right way -- with the investments we need for our future -- not the wrong way. And we are going to be fighting hard to prevent passage of a constitutional Balanced Budget Amendment that would enshrine fiscal policy in the constitution and straightjacket our economy

I testified in Congress earlier this morning against the Balanced Budget Amendment because I strongly believe that the proposal would subject the nation to unacceptable economic risks for perpetuity. It could turn slowdowns into recessions, prevent us from dealing with emergencies such as natural disasters or military threats. It would seriously increase the risk of default on our national debt. And it poses immense enforcement problems.

Let me conclude:

My hope is that we can all work together to invest in the people of the inner city, to improve public safety, and to increase access to capital to create jobs. If you take all this together and bring it to critical mass, I believe it is a strategy that gives us the opportunity to make a real break from the past and bring America's distressed communities and the residents of these communities into the economic mainstream.

These tasks are urgent. Today, at a moment when America is enjoying durable economic growth, and when many cities are on the road to recovery, is the time to address them in a vigorous way. The old adage -- fix the roof when the sun is shining -- applies. It won't be easy; it won't be quick; but it can be done, and it must be done for the benefit of all Americans.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL NOON EST
Text as Prepared for Delivery
January 21, 1997

Treasury Secretary Robert E. Rubin
Press Conference
Inflation-Indexed Notes

Good morning. Today, Treasury carries through on a promise we made last year to provide investors, both middle income savers and big institutions, with the opportunity to purchase securities that provide protection from inflation

This is an extremely important development in the U.S. financial markets. For the first time, the United States is offering investors protection from inflation. Inflation can erode savings, whether the savings are those of a retiree, a person saving for college or a big institutional investor. This product offers advantages to middle-income savers which have not been available before now.

We believe that over time it may well spawn significant changes in the financial markets, it could encourage investors to think about investments more in terms of real rates of return, which in turn could lead to intermediaries, like mutual funds, to offer "purchasing power" products such as indexed annuities.

Treasury is a conservative issuer, and appropriately so. We rarely introduce new products. In fact, Treasury has been studying inflation-indexed securities since at least the 1940s. This is a big idea, and now it is a reality. This product offers new opportunities to savers and, over time, will save the Treasury money.

I know from my years on Wall Street that the introduction of new financial instruments is never an easy process, even for those market participants who do it frequently.

We have gone through a long process. We asked market participants for their advice on how to design indexed securities so they would have the broadest possible market appeal. We then met with more than 800 people to solicit their views. We learned a great deal from this exchange of views, and many of the comments we received helped shape the product we are selling today.

RR-1455

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 12:00 NOON
January 21, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION $7,000 MILLION OF 10-YEAR INFLATION-INDEXED NOTES

The Treasury will auction $7,000 million of 10-year inflation-indexed notes to raise cash.

Amounts bid by Federal Reserve Banks for foreign and international monetary authorities will be added to the offering.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive 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, as amended) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Because the issue date and the dated date are different in this offering, Treasury wishes to clarify the formula which is applicable to the price and accrued interest for the inflation-indexed note. Therefore:

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref CPI}_{\text{Date}}}{\text{Ref CPI}_{\text{Dated Date}}}$$

Where Date = Valuation date

Bidders should understand that the settlement amount for these securities in this auction may be greater than the par amount.

Details about the new security are given in the attached offering highlights.

RR-1456

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HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 10-YEAR INFLATION-INDEXED NOTES TO BE ISSUED FEBRUARY 6, 1997

January 21, 1997

Offering Amount . . . . . . $7,000 million

Description of Offering:

Term and type of security	10-year inflation-indexed notes
Series	A-2007
CUSIP number	912827 2M 3
Auction date	January 29, 1997
Issue date	February 6, 1997
Dated date	January 15, 1997
Maturity date	January 15, 2007
Interest Rate	Determined based on the highest accepted bid
Real yield	Determined at auction
Interest payment dates	July 15 and January 15
Minimum bid amount	$1,000
Multiples	$1,000
Accrued interest payable by investor	Determined at auction
Premium or discount	Determined at auction

STRIPS Information:

Minimum amount required	Determined at auction
Corpus CUSIP number	912820 BV 8

STRIPS Information:

Due dates and CUSIP numbers for additional TINTs:

	912833
July 15, 1997	SA 9
January 15, 1998	SB 7
July 15, 1998	SC 5
January 15, 1999	SD 3
July 15, 1999	SE 1
January 15, 2000	SF 8
July 15, 2000	SG 6
January 15, 2001	SH 4
July 15, 2001	SJ 0
January 15, 2002	SK 7
July 15, 2002	SL 5
January 15, 2003	SM 3
July 15, 2003	SN 1
January 15, 2004	SP 6
July 15, 2004	SQ 4
January 15, 2005	SR 2
July 15, 2005	SS 0
January 15, 2006	ST 8
July 15, 2006	SU 5
January 15, 2007	SV 3

Submission of Bids:

Noncompetitive bids: Will be accepted in full up to $5,000,000 at the highest accepted yield.

Competitive bids:

(1) Must be expressed as a real yield with three decimals, e.g., 3.123%.
(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.

Indexing Information:

CPI Base Reference Period	1982-1984
Ref CPI 01/15/1997	158.43548
Ref CPI 02/06/1997	158.60000
Index Ratio 02/06/1997	1.00104

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 21, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,616 million of 13-week bills to be issued January 23, 1997 and to mature April 24, 1997 were accepted today (CUSIP: 9127944G6).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.00%	5.13%	98.736
High	5.03%	5.16%	98.729
Average	5.03%	5.16%	98.729

Tenders at the high discount rate were allotted 50%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$44,074,186	$11,615,946
Type		
Competitive	$38,941,755	$6,483,515
Noncompetitive	1,365,231	1,365,231
Subtotal, Public	$40,306,986	$7,848,746
Federal Reserve	3,357,500	3,357,500
Foreign Official Institutions	409,700	409,700
TOTALS	$44,074,186	$11,615,946

5.02 -- 98.731

RR-1457

ACTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 21, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,519 million of 26-week bills to be issued January 23, 1997 and to mature July 24, 1997 were accepted today (CUSIP: 912794282).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.11%	5.32%	97.417
High	5.11%	5.32%	97.417
Average	5.11%	5.32%	97.417

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

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$53,062,519	$11,518,710
Type		
Competitive	$45,275,147	$3,731,338
Noncompetitive	1,259,472	1,259,472
Subtotal, Public	$46,534,619	$4,990,810
Federal Reserve	3,475,000	3,475,000
Foreign Official Institutions	3,052,900	3,052,900
TOTALS	$53,062,519	$11,518,710

RR-1458

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
January 21, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,000 million, to be issued January 30, 1997. This offering will result in a paydown for the Treasury of about $4,400 million, as the maturing weekly bills are outstanding in the amount of $27,401 million.

Federal Reserve Banks hold $6,958 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 $6,443 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, as amended) 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-1459

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JANUARY 30, 1997

January 21, 1997

<u>**Offering Amount**</u>	$11,500 million	$11,500 million
<u>**Description of Offering:**</u>		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 2P 8	912794 5G 5
Auction date	January 27, 1997	January 27, 1997
Issue date	January 30, 1997	January 30, 1997
Maturity date	May 1, 1997	July 31, 1997
Original issue date	May 2, 1996	January 30, 1997
Currently outstanding	$33,499 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

<u>**The following rules apply to all securities mentioned above:**</u>

<u>Submission of Bids</u>:

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.

<u>Maximum Recognized Bid at a Single Yield</u> . . . . 35% of public offering

<u>Maximum Award</u> . . . . 35% of public offering

<u>Receipt of Tenders</u>:

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

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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 22, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,503 million of 2-year notes, Series AB-1999, to be issued January 31, 1997 and to mature January 31, 1999 were accepted today (CUSIP: 9128272F8).

The interest rate on the notes will be 5 7/8%. All competitive tenders at yields lower than 5.984% were accepted in full. Tenders at 5.984% were allotted 16%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 5.984%, with an equivalent price of 99.797. The median yield was 5.970%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.931%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$42,691,593	$17,503,168

The $17,503 million of accepted tenders includes $1,651 million of noncompetitive tenders and $15,852 million of competitive tenders from the public.

In addition, $1,600 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $320 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

RR-1460

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
January 22, 1997

Contact: Jon Murchinson
(202) 622-2960

RUBIN ANNOUNCES NOMINEE FOR OFFICE OF THRIFT SUPERVISION DIRECTOR

Treasury Secretary Robert E. Rubin announced today that President Clinton intends to nominate Ellen S. Seidman to be director of the Treasury Department's Office of Thrift Supervision.

"I am very pleased the President has selected Ellen Seidman to direct the Office of Thrift Supervision," Secretary Rubin said. "She has made great contributions to the Administration's economic achievements at the NEC and is well-suited to lead OTS at a time when the financial services sector of the economy is undergoing rapid change."

Ms. Seidman is currently Special Assistant to the President for Economic Policy at the White House National Economic Council. During her four years at the NEC, she has chaired the interagency working group on pensions and been responsible for issues such as financial institutions, natural disaster insurance, bankruptcy and homeownership. Prior to joining the White House, Ms. Seidman was Senior Vice President for Regulation, Research and Economics at Fannie Mae. Her office was responsible for the corporations's regulatory policies and relationships, housing policy and finance research and economic research forecasting and reporting.

Prior to joining Fannie Mae, Ms. Seidman was special assistant to the Treasury Under Secretary for Finance. She also served as Deputy Assistant General Counsel for Environmental, Civil Rights and General Law at the Department of Transportation. Ms. Seidman practiced law for three years with a Washington, D.C. firm specializing in tax, securities and bankruptcy issues.

Ms. Seidman received an A.B. in government from Radcliffe College, an M.B.A. from George Washington University and a J.D. from Georgetown University Law Center.

The Office of Thrift Supervision charters Federal thrift institutions and regulates approximately 1,400 Federal and state chartered thrifts belonging to the Savings Association Insurance Fund. Its mission is to regulate savings associations to maintain the safety, soundness and viability of the thrift industry, and to support the industry's efforts to meet housing and other financial services needs.

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

FOR IMMEDIATE RELEASE
January 23, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $12,503 million of 5-year notes, Series C-2002, to be issued January 31, 1997 and to mature January 31, 2002 were accepted today (CUSIP: 9128272G6).

The interest rate on the notes will be 6 1/4%. All competitive tenders at yields lower than 6.325% were accepted in full. Tenders at 6.325% were allotted 73%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.325%, with an equivalent price of 99.683. The median yield was 6.307%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.273%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$30,305,070	$12,502,564

The $12,503 million of accepted tenders includes $632 million of noncompetitive tenders and $11,871 million of competitive tenders from the public.

In addition, $700 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $230 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

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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 24, 1997

Contact: Jon Murchinson
(202) 622-2960

TREASURY DEPARTMENT RECEIVES 26 HAMMER AWARDS FROM NPR

The Treasury Department and ten of its bureaus today received 26 Hammer Awards from the National Performance Review in recognition of efforts to make government work better for less by putting customers first, cutting red tape, empowering employees and getting back to basics

"Reinventing government is not an abstract exercise," Treasury Secretary Robert E. Rubin said. "It goes to the heart and soul of doing our mission more effectively at Treasury -- and it goes to the heart and soul of using government to make a difference in people's lives, by achieving results that get guns off our streets, catch drug smugglers and make our country and our economy stronger."

Present to honor awardees were Secretary Rubin, National Performance Review Director Bob Stone and other senior Treasury and bureau officials. 26 reinvention teams representing the efforts of more than 500 Treasury employees received Hammer awards. A description of each of the award winning teams is attached.

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RR-1463

DEPARTMENT OF THE TREASURY BUREAUS RECEIVING HAMMER AWARDS

U.S. CUSTOMS SERVICE

DRAWBACK REGULATIONS TEAM - What Customs, Treasury, and industry representatives could not resolve over a three and one-half year period (since 1992) was accomplished in about six months using interest-based problem-solving to reach a consensus on the recommended changes; their proposal has been presented to trade groups around the country to gain support for the regulatory package.

Contact: Janine Jones, 202-927-0398, Washington, D.C.

OFFICE OF INVESTIGATIONS - This office has reinvented every aspect of the way it does business over the past three years, resulting in arrests increasing by 26.3%, indictments by 18.8%, convictions by 22.8%, overall seizures by 41.8%, narcotic seizures by 33.7%, and financial seizures (money laundering) by an astounding 73.9% (totaling $586 million).

Contact: Janine Jones, 202-927-0398, Washington, D.C.

INTERNAL REVENUE SERVICE

NOTICES REENGINEERING TEAM - Identified ways to reduce taxpayer burden by eliminating non-value-added notices. The team recommended the elimination of 50 different notices that will result in a direct cost savings of approximately $20.5 million when fully implemented.

Contact: Frank Keith, 202-622-4010, Washington, D.C.

INDIANA DISTRICT'S RESOURCE CENTER FOR SMALL BUSINESS & NON-PROFIT ASSISTANCE - IRS and the Quality for Indiana Taxpayers, Inc., established the Resource Center for Business and Non-Profit Assistance. The Center is a public/private partnership that gives new business owners a one-stop service for answers and referrals on business concerns. This idea is a model of efficiency and cost savings that can be replicated nationwide.

Contact: Carolyn Stumps, 317-226-6034, Indianapolis, Indiana.

COLLECTION NOTICE REDESIGN PROJECT TEAM - Six collection notices were redesigned into a single page format which cut costs by $1.75 million, reduced taxpayer burden, and improved customer service.

Contact: Gerri Servalli, 215-516-2483, Philadelphia, Pennsylvania.

FINANCIAL MANAGEMENT SERVICE

ELIMINATION OF IMPREST FUNDS IN THE FEDERAL GOVERNMENT THROUGH THE USE OF ELECTRONIC COMMERCE - A Reinvention Lab was developed to "Eliminate Imprest Funds through Electronic Commerce" in the Federal government. The recommendation of the lab was that most Imprest Funds in the Federal Government could be closed, saving the government over $300 million in operating cost while improving operations and reducing employee "hassle" in getting reimbursed.

Contact: Sherman Eisner, 202-874-8354, Washington, D.C.

ASAP TEAM -This team provided the Federal government with an improved automated technological process for collection of financial information. With few resources, the team forged ahead to complete the project within its time frame and under budget.

Contact: Bill Lehmuth, 202-874-7115, Washington, D.C.

UTF IMPLEMENTATION TEAM - This team implemented the new UHF accounting system on schedule and within budget. Federal and state governments will be able to process data more effectively with reduced resource levels, thereby realizing future savings.

Contact: Ken Semler, 202-874-9624, Washington, D.C.

DEBT MANAGEMENT SERVICES - The Federal government's delinquent, non-tax debt is over $51 billion. The Department of the Treasury and Federal program agencies, the Debt Management Services staff ed the effort to "reinvent" debt collection Government -wide. The end result of their effort was legislation that: 1) centralizes debt collection functions; 2) establishes procedures to withhold Government payments to collect on delinquent debts; and 3) provides agencies access to additional tools to make their debt collection efforts a success.

Contact: Vicki McDowell, 202-874-6660, Washington, D.C.

MANDATORY ELECTRONIC FUNDS TRANSFER - The U. S Treasury makes over 800 million payments annually. Approximately 53% of these payments are made by electronic funds transfer(EFT) while the remainder are made by check. With full conversion to EFT for all payments, the Government would achieve over $450 million in savings and achieve better service for its recipients.

Contact: Bettsy Lane, 202-874-6530, Washington, D.C.

AUSTIN REGIONAL FINANCE CENTER - ARFC has moved towards an integrated approach to business. The customer service, operations, and administrative functions are matrixed for a complete solution to customers' needs.

Contact: Gordon Highams, 512-342-7200, Austin, Texas.

"A" TEAM - Through reduction of work steps, transition to mainframe property management systems, and innovative uses of electronic commerce, the "A" Team has tallied a total reduction in staff of 19.6%, and over $66,000.00 in salary expenditures.

Contact: John Adams, 913-236-3305, Kansas City, Kansas.

ELECTRONIC DATA INTERCHANGE PROCUREMENT PILOT TEAM -
The Financial Management Service developed and implemented pilot EC system for small purchases. In addition, FMS personnel were trained to assist other agencies implementing EC into their small purchases process.

Contact: Frank Kesterman, 202-874-6650, Washington, D.C.

FACTS TEAM - The Federal Agencies' Centralized Trial Balance System (FACTS) team developed and implemented a streamlined method for Federal agencies to submit their financial data to Treasury electronically, which simplifies the financial reporting process while complying with uniform reporting standards.

Contact: Holden Hogue, 202-874-8987, Washington, D.C.

U.S. MINT

OLYMPIC TASK FORCE - To date sales of U.S. Commemorative Coins have generated $103 million in revenues for the Treasury; $25 million of the monies generated at no cost to the taxpayer will go to the United States Olympic Committee and the United States Olympic Team.

Contact: Lynn Parish, 202-874-6345, Washington, D.C.

U.S. MINT INTERNATIONAL DIVISION - Reinvented the process of International distribution and marketing of the U.S. Mint commemorative coins and other products, which increased sales by 200 percent over the previous international commemorative coin program in 1994.

Contact: Lynn Parish, 202-874-6345, Washington, D.C.

OFFICE OF COMPTROLLER OF THE CURRENCY

OMBUDSMAN'S APPEAL PROCESS TEAM - OCC appointed an Ombudsman to provide national banks an additional approach to appeal OCC decisions. Since inception, the Ombudsman has decided 51 formal appeals, upholding banks in 60 percent of the cases. Additionally, OCC has handled 146 inquiries through alternative dispute resolution. As a direct result of the OCC's Ombudsman appeals process, Congress has mandated that all federal financial regulatory agencies establish an Ombudsman function.

Samuel Golden, 713-650-0475, Houston, Texas.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

CEASEFIRE PROGRAM TEAM - In concert with a national enforcement strategy to help state and local law enforcement solve firearms related violent crimes, this program has significantly improved the effectiveness of law enforcement without increasing the expense of personnel.

Robin Dessler, 202-927-8654, Washington, D.C.

OUT OF BUSINESS RECORDS MANAGEMENT TEAM - Converted 60 million paper documents to microfilm records within 18 months at a cost of only $4.2 million after receiving estimates from private contractors that the work would take 28 years to complete at a cost of $50 million.
Contact: Robin Dessler, 202-927-8654, Washington, D.C.

PARTNERSHIP FORMULA APPROVAL PROCESS TEAM - A joint government/industry effort developed procedures and software that significantly reduced costs and processing time for both the government and industry, eliminating major and time-consuming steps from the ATF approval process.
Contact: Robin Dessler, 202-927-8654, Washington, D.C.

PROJECT LEAD TEAM - In partnership with Northeastern University in Boston, Massachusetts, developed a computer process to analyze traced gun crime data that identifies criminal firearm traffickers and associates. In the first six months of field use, ATF recommended 977 defendants for prosecution. The defendants were responsible for having trafficked more than 21,655 firearms, of which more than 1,800 had traced through the National Tracing Center and recovered after use in a crime.
Contact: Robin Dessler, 202-927-8654, Washington, D.C.

OFFICE OF THRIFT SUPERVISION

REGULATORY REVIEW TEAM - Reviewed, revised, and updated all OTS regulations governing the thrift industry. The Team's work resulted in revisions that strike a balance between increasing the flexibility of thrift institutions to compete in an ever-changing marketplace and maintaining adequate safety and soundness guidance to protect depositors and taxpayers.
Contact: John Price, 202-906-6000, Washington, D.C.

APPLICATION PROCESSING TEAM - Security First Network Bank, FSB notified the Office of Thrift Supervision of its intent to file an application to offer comprehensive banking services via the Internet. An OTS team of both Headquarters and Regional staff worked diligently with Security First's management to overcome the many new and unexplored regulatory, technical, accounting, and legal obstacles. Their efforts resulted in the chartering of the first "on-line" bank in the U.S.
Contact: Diana Garmus, 202-906-6000, Washington, D.C.

UNITED STATES SECRET SERVICE

FORENSIC SERVICES DIVISION - FSD established a partnership with the Center for Missing and Exploited Children in 1995. This partnership has increased the arrests of or exoneration of many individuals, created a state of the art pedophile handwriting database for investigative use, and provided age progression drawings of missing children from as far away as Moscow, Russia.
Contact: Terry Samway, 202-435-5708, Washington, D.C.

BUREAU OF ENGRAVING AND PRINTING

MUTILATED CURRENCY TEAM - In 1996 processed 20,000 cases of currency mutilated by natural disasters, fire, water or other elements that resulted in redemption checks of more than $70 million for U.S. citizens. A partnership with FEMA provided information to thousands of natural disaster victims and let them know how they could redeem damaged currency.

Contact: Lorraine Robinson, 202-874-2532, Washington, D.C.

DEPARTMENT OF THE TREASURY & BUREAU OF PUBLIC DEBT

REENGINEERING STATE AND LOCAL GOVERNMENT SERIES PROGRAM - The $100 billion SLUGS investment program was reinvented. The redesign of the products and processes of this major financing program affecting thousands of government entities, cut red tape, reduced costs, and improved customer service,

Contact: Pete Hollenbach, 202-219-3302, Washington, D.C.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
January 24, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $19,250 million of 52-week Treasury bills to be issued February 6, 1997. This offering will provide about $350 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $18,900 million. In addition to the maturing 52-week bills, there are $27,320 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $13,208 million of bills for their own accounts in the maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $5,278 million of the 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 none 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, as amended) 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.

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RR-1464

Attachment

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED FEBRUARY 6, 1997

January 24, 1997

Offering Amount	$19,250 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 4R 2
Auction date	January 30, 1997
Issue date	February 6, 1997
Maturity date	February 5, 1998
Original issue date	February 6, 1997
Maturing amount.	$18,900 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 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 27, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,558 million of 13-week bills to be issued January 30, 1997 and to mature May 1, 1997 were accepted today (CUSIP: 9127942P8).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.05%	5.19%	98.723
High	5.07%	5.21%	98.718
Average	5.06%	5.20%	98.721

$1,275,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 5%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$54,598,988	$11,557,777
Type		
Competitive	$47,383,892	$4,342,681
Noncompetitive	1,392,981	1,392,981
Subtotal, Public	$48,776,873	$5,735,662
Federal Reserve	4,142,815	4,142,815
Foreign Official Institutions	1,679,300	1,679,300
TOTALS	$54,598,988	$11,557,777

5.03 - 98.729

RR-1465

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 27, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,606 million of 26-week bills to be issued January 30, 1997 and to mature July 31, 1997 were accepted today (CUSIP: 912794SG5).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.10%	5.31%	97.422
High	5.12%	5.33%	97.412
Average	5.12%	5.33%	97.412

Tenders at the high discount rate were allotted 18%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$42,318,632	$11,605,505
Type		
Competitive	$33,828,225	$3,115,098
Noncompetitive	1,261,407	1,261,407
Subtotal, Public	$35,089,632	$4,376,505
Federal Reserve	2,815,000	2,815,000
Foreign Official Institutions	4,414,000	4,414,000
TOTALS	$42,318,632	$11,605,505

5.11 - 97.417

RR-1466

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
January 28, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $25,000 million, to be issued February 6, 1997. This offering will result in a paydown for the Treasury of about $2,325 million, as the maturing 13-week and 26-week bills are outstanding in the amount of $27,320 million. In addition to the maturing 13-week and 26-week bills, there are $18,900 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $13,208 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 $5,213 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 the entire $5,213 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, as amended) 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-1467

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED FEBRUARY 6, 1997

January 28, 1997

Offering Amount	$12,500 million	$12,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4H 4	912794 5H 3
Auction date	February 3, 1997	February 3, 1997
Issue date	February 6, 1997	February 6, 1997
Maturity date	May 8, 1997	August 7, 1997
Original issue date	November 7, 1996	February 6, 1997
Currently outstanding	$14,288 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 29, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR INFLATION-INDEXED NOTES

Tenders for $7,003 million of 10-year inflation-indexed notes, Series A-2007, to be issued February 6, 1997, and to mature January 15, 2007, were accepted today (CUSIP: 9128272M3).

The interest rate on the notes will be 3 3/8%. All competitive tenders at yields lower than 3.449% were accepted in full. Tenders at 3.449% were allotted 75%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 3.449%, with an equivalent adjusted price of 99.482. The median yield was 3.400%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 3.200%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

Adjusted accrued interest of $2.05323 per $1,000 must be paid for the period January 15, 1997, to February 6, 1997.

An index ratio of 1.00104 has been applied to the unadjusted price of 99.379 and the unadjusted accrued interest of $2.05110 per $1,000.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$37,219,400	$7,003,017

The $7,003 million of accepted tenders includes $157 million of noncompetitive tenders and $6,846 million of competitive tenders from the public.

In addition, $350 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is $1,600,000. Larger amounts must be in multiples of that amount.

RR-1468

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 30, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $19,349 million of 52-week bills to be issued February 6, 1997 and to mature February 5, 1998 were accepted today (CUSIP: 9127944R2).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.32%	5.62%	94.621
High	5.35%	5.65%	94.591
Average	5.34%	5.64%	94.601

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

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$52,000,534	$19,348,644
Type		
Competitive	$45,178,962	$12,527,072
Noncompetitive	1,211,572	1,211,572
Subtotal, Public	$46,390,534	$13,738,644
Federal Reserve	5,610,000	5,610,000
Foreign Official Institutions	0	0
TOTALS	$52,000,534	$19,348,644

An additional $1,610,000 thousand of bills will be issued to foreign official institutions for new cash.

5.33 -- 94.611

RR-1471

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
January 31, 1997

CONTACT: Office of Financing
(202) 219-3350

CALCULATION OF SETTLEMENT AMOUNT FOR THE 10-YEAR INFLATION-INDEXED NOTE

The settlement amounts (including accrued interest) for various par amounts for the 10-year inflation-indexed note (CUSIP No. 9128272M3) auctioned on January 29, 1997, to be issued February 6, 1997, and to mature January 15, 2007, are shown in the following table, based on the announced adjusted price per 100 of 99.482 and the adjusted accrued interest per thousand of 2.05323:

Par Amount	Adjusted Price	Adjusted Accrued Interest	Settlement Amount
$1,000	$994.82	$2.05323	$996.87
$10,000	$9,948.20	$20.5323	$9,968.73
$100,000	$99,482.00	$205.323	$99,687.32
$1,000,000	$994,820.00	$2,053.23	$996,873.23
$10,000,000	$9,948,200.00	$20,532.30	$9,968,732.30
$100,000,000	$99,482,000.00	$205,323.00	$99,687,323.00

These calculations use the formulas (shown below) that are provided in Appendix B, Section III of amendments to the Uniform Offering Circular (31 CFR Part 356) that were published on January 6, 1997 (62 FR 846).

(Continued on next page)

Definitions:

C = real annual coupon, payable semiannually = 3.375

i = real yield = 0.03449

n = number of full semiannual periods from issue date to maturity date = 19

r = number of days from settlement date to next coupon date = 159 (February 6, 1997, to July 15, 1997)

s = number of days in current semiannual period = 181 (January 15, 1997, to July 15, 1997)

$\text{Ref CPI}_{\text{January 15, 1997 (dated date)}} = 158.43548$

$\text{Ref CPI}_{\text{February 6, 1997}} = 158.60000$

SA = Settlement Amount

Resolution:

$\text{Index Ratio}_{\text{February 6, 1997}} = \text{Ref CPI}_{\text{February 6, 1997}} / \text{Ref CPI}_{\text{January 15, 1997}} = 158.60000/158.43548 = 1.00104$

$v^n = 1 / (1 + i/2)^n = 1 / (1 + 0.03449/2)^{19} = 0.72262717$

$a_{\overline{n}|} = (1 - v^n) / (i/2) = (1 - 0.72262717) / (0.03449/2) = 16.08424645$

$$P = \frac{(C/2) + (C/2)a_{\overline{n}|} + 100v^n}{1 + (r/s)(i/2)} - [(s-r) / s] (C/2)$$

$$P = \frac{(3.375/2) + (3.375/2)(16.08424645) + 100\,(0.72262717)}{1 + (159/181)(0.03449/2)} - [(181-159)/181]\,(3.375/2)$$

$P = 99.378686$

$P = 99.379$

$P_{adj} = P \times \text{Index Ratio}_{\text{February 6, 1997}}$

$P_{adj} = 99.379 \times 1.00104 = 99.482354$

$P_{adj} = 99.482$

$A = (181\text{-}159/181) \times 3.375/2 = 0.205110$

$A_{adj} = A \times \text{Index Ratio}_{\text{February 6, 1997}}$

$A_{adj} = 0.205110 \times 1.00104 = 0.205323$

$SA = P_{adj} + A_{adj} = 99.482 + 0.205323$

$SA = 99.687323$

Note that, for the real price (P) and the inflation-adjusted price (P_{adj}), Treasury has rounded to three places. For accrued interest (A) and adjusted accrued interest (A_{adj}), Treasury has rounded to six places. These amounts are based on 100 par value.

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

January 31,1997 **FEDERAL FINANCING BANK**

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of December 1996.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $58.2 billion on December 31, 1996, posting a decrease of $749.5 million from the level on November 30, 1996. This net change was the result of a decrease in holdings of agency debt of $637.7 million, and in agency guaranteed loans of $111.8 million. FFB made 14 disbursements during the month of December, and 104 RUS-guaranteed loans were extended. FFB also received 18 prepayments in December.

Attached to this release are tables presenting FFB December loan activity and FFB holdings as of December 31, 1996.

RR-1473

FEDERAL FINANCING BANK
DECEMBER 1996 ACTIVITY

ORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GENCY DEBT				
J.S. Postal Service	12/2	$150,000,000.00	12/4/96	5.256% S/A
OVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
lemphis IRS Service Cent.	12/6	$673,687.87	1/2/25	6.612% S/A
ICFA Headquarters	12/13	$2,212.93	7/1/25	6.760% S/A
'oley Square Courthouse	12/20	$109,931.00	7/31/25	6.716% S/A
'oley Square Office Bldg.	12/20	$811,759.00	7/31/25	6.716% S/A
SA/PADC				
CTC Building	12/17	$9,140,064.67	11/2/26	6.747% S/A
URAL UTILITIES SERVICE				
ineland Telephone #403	12/18	$1,031,000.00	1/2/24	6.719% Qtr.
ri-State #439	12/23	$10,545,000.00	6/30/97	5.368% Qtr.
ri-State #440	12/23	$13,501,000.00	6/30/97	5.368% Qtr.
razos Electric #437	12/24	$4,500,000.00	6/30/97	5.392% Qtr.
olcano Tele. #441	12/24	$1,000,000.00	12/31/29	6.646% Qtr.
rizona Electric #427	12/26	$4,888,000.00	12/31/20	6.502% Qtr.
razos Electric #437	12/27	$4,500,000.00	6/30/97	5.370% Qtr.
razos Electric #437	12/30	$4,463,000.00	6/30/97	5.377% Qtr.
llegheny Electric #908	12/31	$2,968,394.13	12/31/97	5.437% Qtr.
llegheny Electric #908	12/31	$4,269,449.20	12/31/97	5.437% Qtr.
razos Electric #917	12/31	$3,393,576.34	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$2,596,535.13	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$2,116,406.99	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$1,546,959.67	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$2,047,408.21	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$262,788.55	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$2,351,410.04	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$2,198,844.69	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$550,308.09	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$1,120,745.39	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$17,744.55	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$469,194.13	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$440,120.40	3/31/97	5.207% Qtr.

A is a Semi-annual rate: Qtr. is a Quarterly rate.
aturity extension or interest rate reset

FEDERAL FINANCING BANK
DECEMBER 1996 ACTIVITY

)RROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
)VERNMENT - GUARANTEED LOANS				
ɩURAL UTILITIES SERVICE				
ɩrazos Electric #917	12/31	$4,078,540.95	3/31/97	5.207% Qtr.
ɩrazos Electric #917	12/31	$3,810,860.64	3/31/97	5.207% Qtr.
ɩrazos Electric #917	12/31	$976,241.89	3/31/97	5.207% Qtr.
ɩrazos Electric #917	12/31	$1,071,515.64	3/31/97	5.207% Qtr.
ɩrazos Electric #917	12/31	$1,375,618.61	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$1,692,623.58	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$415,760.81	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$958,977.68	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$1,252,127.76	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$833,838.32	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$479,412.18	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$458,935.72	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$896,299.98	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$283,988.56	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$1,067,607.17	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$2,101,577.53	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$344,270.01	3/31/97	5.207% Qtr.
:azos Electric #917	12/31	$102,052.87	3/31/97	5.207% Qtr.
:azos Electric #917	12/31	$249,857.61	3/31/97	5.207% Qtr.
:azos Electric #917	12/31	$2,305,716.78	3/31/97	5.207% Qtr.
:azos Electric #917	12/31	$2,619,373.13	3/31/97	5.207% Qtr.
:azos Electric #917	12/31	$952,658.98	3/31/97	5.207% Qtr.
'azos Electric #917	12/31	$771,407.58	3/31/97	5.207% Qtr.
'azos Electric #917	12/31	$321,515.24	3/31/97	5.207% Qtr.
'azos Electric #917	12/31	$3,425,235.72	3/31/97	5.207% Qtr.
'azos Electric #917	12/31	$1,875,737.62	3/31/97	5.207% Qtr.
'azos Electric #917	12/31	$1,095,119.22	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$392,447.01	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$59,781.67	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$741,377.50	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$914,911.46	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$2,487,644.19	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$497,261.23	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$5,062,729.87	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$1,163,445.26	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$2,331,518.55	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$23,410,981.73	3/31/97	5.207% Qtr.
azos Electric #917	12/31	$686,689.59	3/31/97	5.207% Qtr.
ızos Electric #917	12/31	$469,793.20	3/31/97	5.207% Qtr.
ızos Electric #917	12/31	$2,156,175.78	3/31/97	5.207% Qtr.
ızos Electric #917	12/31	$1,260,460.50	3/31/97	5.207% Qtr.

is a Quarterly rate.
turity extension or interest rate reset

FEDERAL FINANCING BANK
DECEMBER 1996 ACTIVITY

ORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
OVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE				
Brazos Electric #917	12/31	$1,637,751.65	3/31/97	5.207% Qtr.
Brazos Electric #917	12/31	$2,692,546.73	3/31/97	5.207% Qtr.
Brazos Electric #917	12/31	$2,882,076.05	3/31/97	5.207% Qtr.
Brazos Electric #917	12/31	$567,380.58	3/31/97	5.207% Qtr.
Brazos Electric #917	12/31	$18,358.60	3/31/97	5.207% Qtr.
Brazos Electric #917	12/31	$1,879,121.95	3/31/97	5.207% Qtr.
Brazos Electric #917	12/31	$967,967.73	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$2,605,995.70	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$827,927.12	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$3,171,194.91	3/31/97	5.207% Qtr.
razos Electric #917	12/31	$2,481,078.76	6/30/97	5.383% Qtr.
ead Laker Electric #372	12/31	$195,701.38	1/2/07	6.368% Qtr.
ohnson County Elec. #428	12/31	$3,547,000.00	6/30/97	5.383% Qtr.
orthwest Iowa Power #907	12/31	$7,337,503.11	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$5,871,299.28	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$9,832,075.98	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$7,090,848.42	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$7,214,570.92	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$5,752,670.68	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$2,988,938.41	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$892,708.91	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$1,608,788.72	3/31/97	5.207% Qtr.
lains Elec. #918	12/31	$571,255.40	3/31/97	5.207% Qtr.
aluda River Elec. #903	12/31	$6,180,931.40	3/31/97	5.207% Qtr.
aluda River Elec. #903	12/31	$1,583,765.40	3/31/97	5.207% Qtr.
aluda River Elec. #903	12/31	$2,562,049.80	3/31/97	5.207% Qtr.
aluda River Elec. #903	12/31	$7,593,367.54	3/31/97	5.207% Qtr.
aluda River Elec. #903	12/31	$2,081,042.07	3/31/97	5.207% Qtr.
luda River Elec. #903	12/31	$3,867,196.32	3/31/97	5.207% Qtr.
luda River Elec. #903	12/31	$7,881,549.39	3/31/97	5.207% Qtr.
luda River Elec. #903	12/31	$1,989,709.48	3/31/97	5.207% Qtr.
n Miguel Electric #919	12/31	$9,802,507.05	3/31/97	5.207% Qtr.
n Miguel Electric #919	12/31	$10,292,747.04	3/31/97	5.207% Qtr.
o-Me Power #382	12/31	$1,207,709.68	12/31/25	6.605% Qtr.
o-Me Power #913	12/31	$432,327.99	12/31/97	5.436% Qtr.
ited Farmers Tele. #392	12/31	$95,463.59	1/2/07	6.349% Qtr.
ited Power Assoc. #911	12/31	$899,240.92	3/31/97	5.207% Qtr.
ited Power Assoc. #911	12/31	$10,790,890.12	3/31/97	5.207% Qtr.
ited Power Assoc. #911	12/31	$3,488,983.41	3/31/97	5.207% Qtr.
ited Power Assoc. #911	12/31	$2,939,885.51	3/31/97	5.207% Qtr.
ited Power Assoc. #911	12/31	$3,490,053.71	3/31/97	5.207% Qtr.

:. is a Quarterly rate.
aturity extension or interest rate reset

FEDERAL FINANCING BANK
DECEMBER 1996 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SER ICE				
United Power Assoc. #911	12/31	$3,715,520.25	3/31/97	5.207% Qtr.
United Power Assoc. #911	12/31	$4,118,234.46	3/31/97	5.207% Qtr.
United Power Assoc. #911	12/31	$1,154,823.73	3/31/97	5.207% Qtr.
United Power Assoc. #911	12/31	$878,891.42	3/31/97	5.207% Qtr.
United Power Assoc. #911	12/31	$544,414.95	3/31/97	5.207% Qtr.
United Power Assoc. #911	12/31	$1,099,578.58	3/31/97	5.207% Qtr.
Volverine Power #349	12/31	$731,733.36	12/31/24	6.603% Qtr.

tr. is a Quarterly rate.
maturity extension or interest rate reset

FEDERAL FINANCING BANK
(in millions)

Program	December 31, 1996	November 30, 1996	Net Change 12/1/96-12/31/96	FY '97 Net Change 10/1/96-12/31/96
Agency Debt:				
Export-Import Bank	$ 1,431.5	$ 1,821.8	$ -390.3	$ -390.3
Resolution Trust Corporation	4,557.0	4,804.2	-247.4	-1,439.1
U.S. Postal Service	0.0	0.0	0.0	-1,500.0
sub-total*	5,988.5	6,626.2	-637.7	-3,329.4
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	18,325.0	18,325.0	0.0	-375.0
DHHS-Health Maintenance Org.	5.5	5.5	0.0	0.0
DHHS-Medical Facilities	18.8	18.8	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.1	0.1	0.0	0.0
sub-total*	26,623.3	26,623.3	0.0	-375.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,200.4	3,231.8	-31.4	-46.8
DoEd-HBCU	0.2	0.2	0.0	0.0
DHUD-Community Dev. Block Grant	37.7	37.8	-0.1	-1.4
DHUD-Public Housing Notes	1,561.4	1,561.4	0.0	-65.4
General Services Administration +	2,335.3	2,341.6	-6.3	3.0
DOI-Virgin Islands	19.9	19.9	0.0	0.0
DON-Ship Lease Financing	1,382.8	1,382.8	0.0	0.0
Rural Utilities Service	16,702.0	16,772.2	-70.2	-48.7
SBA-State/Local Development Cos.	308.3	312.0	-3.7	-10.0
DOT-Section 511	12.3	12.3	0.0	-0.4
sub-total*	25,560.2	25,672.0	-111.8	-169.8
	=========	=========	=========	=========
grand-total*	$ 58,172.0	$ 58,921.5	$ -749.5	$ -3,874.2

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

SUMMARY OF TAX CUTS IN THE PRESIDENT'S FISCAL YEAR 1998 BUDGET*

The President's 1998 budget provides about **$100 billion of tax cuts** ($99.88 billion) through FY 2002: a child credit for middle-income families, tax cuts to encourage education and training, expanded IRAs, exclusion of gain on the sale of a home, and tax incentives to boost investment in distressed areas and promote hiring of the economically disadvantaged.

I. MIDDLE-CLASS TAX CUTS

These proposals will help middle-class families pay the bills, raise their children, send them to college, upgrade their skills, and save for retirement.

- Tax Credit for Dependent Children ($46.7 billion)
  Provide a phased-in $500 tax credit for dependent children, phased out for taxpayers with adjusted gross income between $60,000 and $75,000.

- Education and Training Tax Incentive ($38.6 billion)
  - Provide **HOPE Scholarship tax credits** of up to $1,500 per year, available for the first two years of post-secondary education, phased out for taxpayers with adjusted gross incomes between $50,000 and $70,000 ($80,000 and $100,000 joint). ($18.6 billion)
  - Provide a phased-in **$10,000 tax deduction** for post-secondary education and training, available to all families for tuition and fees for any college, graduate school or qualified lifelong learning, with the same phase-out ranges as for HOPE Scholarships. ($17.6 billion)
  - Provide income **exclusion for forgiveness of certain student loans**, including loans extended by educational institutions to their students where loan forgiveness is contingent on the student's working for a certain period of time in certain professions or for a broad class of employers. ($.03 billion)
  - Extend the **exclusion for employer-provided educational assistance** through December 31, 2000 (currently expires mid-1997), reinstate exclusion for **graduate courses**, and provide **small businesses a ten percent income tax credit** for payments for education of employees. ($2.4 billion)

- Expand Individual Retirement Accounts (IRAs) ($5.5 billion)
  Double, over time, the income limits on deductible IRAs, increasing them to $70,000 ($100,000 joint); expand penalty-free withdrawals to cover post-secondary education, unemployment expenses, and first-time home purchases; and add new "special" back-loaded IRAs.

- Exclusion of Gain on Sale of a Home ($1.5 billion)
  Allow exclusion of $500,000 ($250,000 singles) of capital gains from selling a principal residence. The exclusion could be used every two years and would replace the current-law one-time exclusion of $125,000 and the deferral of capital gains when buying a more expensive home. This change would exempt over 99 percent of home sales from capital gains taxes and would dramatically simplify taxes and record-keeping for over 60 million homeowners.

II. TAX INCENTIVES FOR DISTRESSED AREAS ($2.4 billion)

- **"Brownfields" Initiative**
  Allow immediate expensing of qualified environmental remediation costs, to encourage companies to clean up abandoned, contaminated industrial properties, known as "brownfields," in economically distressed rural and urban areas.

- **Incentives to Empower Communities**
  To help stimulate revitalization of economically distressed urban and rural communities, authorize the designation of 20 additional Empowerment Zones and 80 additional Enterprise Communities, with new tax incentives, including the brownfields initiative, additional small business expensing, and new private activity bonds.

- **Community Development Financial Institution (CDFI) Tax Credit**
  Provide $100 million of credits to be allocated among equity investors in community development banks. The credit can be as much as 25 percent of the amount invested.

III. WELFARE-TO-WORK INITIATIVE ($0.5 billion)

To encourage hiring of long-term welfare recipients, provide a new welfare-to-work credit through September 30, 2000. It would allow employers a **50 percent credit on the first $10,000 of annual wages** that they pay to long-term welfare recipients for up to two years. Also expand the Work Opportunity Tax Credit to include able-bodied adults, ages 18-50, who are subject to the time limits for Food Stamps under the Administration's legislative proposal to amend last year's welfare reform law.

IV. SMALL BUSINESS AND FARM ESTATE TAX RELIEF ($0.7 billion)

To address cash-flow problems that may arise upon the death of a farmer or small business owner, increase the amount of property eligible for a favorable interest rate on deferred estate tax from $1 million to $2.5 million, and eliminate distinctions based on form of ownership.

V. OTHER INITIATIVES

- Extend for one year expiring tax provisions (R&E credit, Work Opportunity Tax Credit, contributions of appreciated stock to private foundations, and orphan drug tax credit) ($2.7 billion)
- Ensure that disabled persons are fairly treated when filing for tax refunds by modifying the statutes of limitations ($0.05 billion)
- Provide District of Columbia tax incentives to encourage employment of D.C. residents and to revitalize distressed areas ($0.26 billion)
- Provide a more efficient and effective tax incentive for the economic development of Puerto Rico ($0.417 billion)
- Allow FSC software benefits for computer software licenses ($0.560 billion)

*All estimates are OMB estimates for the period FY 1997-2002.

February 1, 1997

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10 A.M. EST
Text as Prepared for Delivery
February 3, 1997

STATEMENT OF ROBERT E. RUBIN
SECRETARY OF THE TREASURY
HOUSE JUDICIARY COMMITTEE

Good morning. Chairman Hyde, Congressman Conyers and other distinguished members of the committee. I am grateful for this opportunity to testify regarding the Balanced Budget Amendment. I spent 26 years on Wall Street before joining the Administration four years ago and, during that time, I developed a deep and abiding belief in the profound importance of fiscal responsibility to our national economy. I have now spent four more years of my life working to implement this conviction, and I know this is a conviction that many members of this committee deeply share.

I have an equally strong conviction that a balanced budget amendment is a threat to our economic health, will expose our economy to unacceptable risks and should not be adopted.
Like the eleven Nobel prize winning economists and 1000 other economists who signed a letter last Thursday saying they "condemn" the amendment, I believe it is strongly against our national interest. I also believe that such an amendment is not necessary to achieve the critical objective of balancing our budget.

Throughout our history, with the exception of wartime, budget deficits -- when they existed at all -- were generally small. In the 1970's and 1980's, they began to rise and the federal debt grew sharply, quadrupling between 1980 and 1992. But after experiencing this period of fiscal indiscipline, I believe the atmosphere in Washington has changed.

RR-1475

This process of change began in 1990 with the passage of the Omnibus Budget Reconciliation Act signed into law by President Bush. We then took an enormous step forward with the deficit reduction program enacted in 1993, which has led to a reduction in the size of the deficit from 4.7% to 1.4% of GDP. Last year, both the Administration and the Congress proposed budgets that would eliminate the deficit by 2002 and both are expected to do so again this year. Not only has the atmosphere in Washington changed, but there is also a new enforcing factor at work which is the emergence of global markets that are highly sensitive to a nation's degree of fiscal responsibility. A nation that does not address fiscal matters will be severely punished by markets with high interest rates that could impair or even severely impair its economy.

The sum total is that politically, historically and economically, the forces are in place to balance the budget. We are not far apart. Now we need to get the job done.

However, there is a distinction between balancing the budget and passing a constitutional amendment. When we contemplate an action as significant as amending the Constitution to require a balanced budget, we owe it to the American people to understand exactly what the consequences would be. And those consequence are serious. I believe the balanced budget amendment proposal would subject the nation to unacceptable economic risks in perpetuity.

- First, a balanced budget amendment could turn slowdowns into recessions and recessions into more severe recessions or even depressions.
- Second, it could prevent us from dealing expeditiously with emergencies such as natural disasters or military threats.
- Third, it would seriously increase the risk of default on our national debt.
- Fourth, the escape clauses it provides at best are likely to be far from fully effective. Under the amendment, the unpredictability of economic conditions means that, at best, there would often be a significant time lag from when an economic problem developed until we recognized it and reached a consensus on how to solve it. The escape clauses would also enable a minority in either the House or Senate to use its leverage to subject the nation to unacceptable economic risks; and
- Fifth, the amendment poses immense enforcement problems that might well lead to the involvement of the courts in budget decisions, unprecedented impoundment powers for the

President or the temporary cessation of all federal payments. Any of these options could disrupt Social Security and Medicare payments. Alternatively, the balanced budget amendment might be unenforceable and therefore have no effect at all, contributing to cynicism about the process of government.

For these and other reasons, I would like to expand on why I believe a balanced budget amendment would create unacceptable risks for our economy.

I. More Severe Recessions

As Secretary of the Treasury, I am deeply concerned that a balanced budget amendment could turn slowdowns into recessions, mild recessions into worse ones and bad recessions into depressions. A balanced budget requirement in the Constitution would make recessions longer and more painful, first, by eliminating automatic stabilizers that operate during a downturn and, second, by instead requiring measures to increase taxes or cut spending during slowdowns and recessions when the economy is already suffering from lack of demand.

Since World War II, we have made immense progress in reducing the toll of the boom and bust cycle through the introduction of automatic fiscal stabilizers and effective use of counter-cyclical fiscal policy. Under current law, for example, if unemployment rises, unemployment insurance payments rise as well, moderating the slowdown or recession.

Mr. Chairman, the extremes of the business cycle have declined sharply over the post-war period compared with the pre-war era. A balanced budget amendment in some fair measure would undo this progress by turning off these stabilizers and requiring measures that would exacerbate a recession.

To take just one example, without automatic stabilizers, Treasury has estimated that unemployment in 1992 resulting from the 1991 recession, might have hit 9 percent instead of 7.7 percent, in excess of one million more jobs lost. Even were a 3/5 vote to waive the provisions of an amendment obtainable, slowdowns and recessions are hard to recognize or anticipate, and congressional action would almost surely be at the very least months late, by which time critical damage to the economy would already have been done.

II. Inability to Cope with Crises

A balanced budget amendment would also prevent us from dealing quickly and effectively with crises, from a second S&L crisis to a second Hurricane Hugo to an escalating military threat.

For example, in September of 1989, Hurricane Hugo struck the Carolinas, causing billions of dollars of damage. After President Bush declared a major disaster, Congress took action by appropriating $2.7 billion in emergency supplemental assistance to help the area rebuild. Under the Balanced Budget Amendment, if the budget were otherwise in balance, none of these could have been dealt with until after a vote of 60% in both houses if agreement could be reached on offsets.

III. Increased Risk of Default

As Secretary of the Treasury, I am also highly concerned that the balanced budget amendment would increase the risk of default on the federal debt. Our creditworthiness is an invaluable national asset that should not be subject to question. Default on payment of our debt would undermine our credibility with respect to meeting financial commitments, and that in turn would have adverse effects for decades to come, especially when our reputation is most important, that is, when the national economy is not healthy. Moreover, a failure to pay interest on our debt could raise the cost of borrowing not only for government, but for private borrowers from companies to homeowners making payments on an adjustable mortgage.

Furthermore, if we are not able to meet our obligations, members of our armed forces, retirees receiving Social Security, those who depend on Medicare and many others, could suffer as well. The risk of this happening must not be increased.

The history of debt limits shows that raising the statutory debt limit is never an easy process. We all remember the enormous difficulties that surrounded this issue in 1995 and 1996. A requirement for a supermajority vote in both houses could make it far harder.

IV. Potential for Gridlock from the Supermajority Requirement

Proponents of the balanced budget amendment argue that, when necessary, Congress will waive the balanced budget amendment's provisions by obtaining a three-fifths majority vote.

This is a risky assumption. In fact, the history of Congress shows that it can be extremely difficult to obtain a three fifths majority. I believe it will be especially difficult to obtain a supermajority to waive the Constitution of the United States which is an awesome act.

It is true that 60 votes are usually required in the Senate because of its special rules and that, even more fundamentally, the Senate has long honored the rights of a minority to express its views and influence legislation. Nevertheless, recognizing that certain essential matters should not be held up by a minority, Senate rules permit what is known as a reconciliation to adopt a budget or increase the debt limit, to be passed by a simple majority. In contrast, this amendment would require a 3/5 majority to increase the debt limit or obtain a waiver from balanced budget provisions and would extend this supermajority requirement to both houses.

Thus, for example, 41 Senators or 175 Congressmen could throw the government into default; 41 Senators could stop Social Security checks from going out or could advance a special agenda. In effect, a minority in either house could put the economic health of our Nation at risk by refusing to waive the balanced budget requirement or refusing to increase the debt limit unless that minority's agenda was satisfied, and that agenda could be budget related or related to social policy or any other matter.

Let me add that a balanced budget amendment would also limit our ability to deal with national economic downturns in which only some regions were suffering, because many members would not be experiencing the economic problems making a 60% waiver more difficult to obtain.

Finally, we cannot predict the political environment, ten, twenty or thirty years from today, and we should not create enormous minority leverage in the face of uncertainty about future political conditions.

V. Enforcement Difficulties

A balanced budget amendment may well be unenforceable. There is no way to compel Congress and the President to enact legislation to balance the budget. Yet there is also no way to compel enactment of legislation to waive the provisions of the amendment. It is not hard to imagine a situation in which a 2/5 minority of Congress opposes tax increases, a different 2/5 minority opposes spending cuts, and another 2/5 minority opposes a waiver of the balanced budget amendment to raise the debt limit. The amendment provides no method for resolving such an impasse.

Some proponents have suggested that under these circumstances, the President would stop issuing all checks, including those for Social Security benefits. Alternatively, judges might become deeply involved in determining whether Social Security or Medicare checks would be stopped. The President might also impound funds of his choosing. Or, the amendment might just prove to be unenforceable and therefore a nullity, reducing respect for the Constitution. All of these potential outcomes are extremely undesirable.

VI. Additional Problems

Let me mention, finally, two other problems. First, by requiring that a majority of the whole Congress approve a revenue increase as opposed to just those voting, the amendment would make it more difficult to close special interest loopholes and eliminate obsolescent deductions and credits. Over time, this would reduce the fairness and efficacy of our tax code.

Second, unforeseen events could lead to a large end-of-the-year shortfall that could only be met in a very short period of time. Such shortfalls happen in many years. In FY 199O, for example, CBO re-estimated the deficit upward by $60 billion in the last nine months of the fiscal year. In such a case, huge cuts would be needed in those programs that happen to have payments late in the year, or where cuts can be made quickly regardless of the consequences.

Conclusion

Let me conclude by saying that we have no idea what economic conditions will be like in 10, 20, 30 or 40 years, and creating policy inflexibility in the face of that uncertainty is extremely unwise.

For example, there has been a great deal of debate about whether the Federal government should move to a capital budget. The 35 states that have balanced budget constitutional requirements all have separate capital and operating budgets or count the proceeds from borrowing as receipts. Proponents of a capital budget argue that the absence of a capital budget has reduced investments in infrastructure and other capital improvements that would add to future growth. I don't believe we should move to a capital budget but under different circumstances in the future, others might want to do so. The balanced budget amendment before you now would prevent us from moving to a separate capital budget, even if we wanted to.

Mr. Chairman, as I said at the beginning of my testimony, I have a deep commitment to the importance of deficit reduction and fiscal discipline to our nation's economic health, and I believe that we can put in place balanced budget legislation this year. But I have an equally strong conviction that a balanced budget amendment poses real risks and dangers for our nation's economic future and, for this reason, must not be adopted.

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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 3:00PM
FEBRUARY 3, 1997

CONTACT: Jon Murchinson
(202)622-2960

TREASURY ANNOUNCES MARKET BORROWING ESTIMATES

The Treasury Department announced on Monday that its net market borrowing for the January - March 1997 quarter is estimated to be $50 billion, with a cash balance of $20 billion on March 31. The Treasury also announced that its net market borrowing for the April - June 1997 quarter is estimated to be a pay down in the range of $10 billion to $15 billion, with a cash balance of $35 billion on June 30, 1997.

In the quarterly announcement of its borrowing needs on October 28, 1996, the Treasury estimated net market borrowing for the January - March quarter to be in a range of $50 billion to $55 billion, assuming a $20 billion cash balance on March 31.

Actual net market borrowing in the October - December 1996 quarter was $41.3 billion, while the end-of-quarter cash balance was $32.8 billion. On October 28, the Treasury estimated net market borrowing for the October - December quarter to be $48 billion, with a $30 billion cash balance on December 31. The combined $9.5 billion improvement was the result of higher than estimated receipts and lower than estimated outlays.

The regular quarterly Press Conference will be held at 1:00PM on Wednesday, February 5, 1997.

RR-1477

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 3, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,519 million of 13-week bills to be issued February 6, 1997 and to mature May 8, 1997 were accepted today (CUSIP: 9127944H4).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.00%	5.13%	98.736
High	5.00%	5.13%	98.736
Average	5.00%	5.13%	98.736

Tenders at the high discount rate were allotted 67%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$64,686,225	$12,519,480
Type		
Competitive	$58,995,752	$6,829,007
Noncompetitive	1,581,863	1,581,863
Subtotal, Public	$60,577,615	$8,410,870
Federal Reserve	3,603,010	3,603,010
Foreign Official Institutions	505,600	505,600
TOTALS	$64,686,225	$12,519,480

RR-1478

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 3, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,536 million of 26-week bills to be issued February 6, 1997 and to mature August 7, 1997 were accepted today (CUSIP: 9127945H3).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.06%	5.26%	97.442
High	5.08%	5.29%	97.432
Average	5.08%	5.29%	97.432

Tenders at the high discount rate were allotted 66%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$42,433,766	$12,536,274
Type		
Competitive	$34,514,695	$4,617,203
Noncompetitive	1,350,271	1,350,271
Subtotal, Public	$35,864,966	$5,967,474
Federal Reserve	3,645,000	3,645,000
Foreign Official Institutions	2,923,800	2,923,800
TOTALS	$42,433,766	$12,536,274

5.07 - 97.437

RR-1479

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

For Release Upon Delivery
Expected at 9:45 a.m.
February 4, 1997

STATEMENT OF DONALD C. LUBICK
ACTING ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Committee:

I am pleased to present the views of the Treasury Department on the measures necessary to assure the continued solvency of the Airport and Airway Trust Fund (Trust Fund). Your invitation asked us to focus our testimony on the Trust Fund excise taxes, including their structure, the revenue raised from the taxes, the administrative problems with the taxes, and proposals to modify the domestic passenger ticket tax or substitute an alternative funding system. I will address these matters, but first I would like to bring to your attention a much more pressing issue.

As you know, when Congress extended the aviation excise taxes through December 31, 1996, it similarly extended our authority to transfer to the Trust Fund only those taxes that were actually received by the IRS by the end of 1996. Thus, we are not permitted to transfer to the Trust Fund taxes that are received in 1997, even if those taxes relate to air transportation that occurred in 1996.

This lack of extended authority is greatly exacerbated by the recent revelation that the airlines did not deposit until 1997 the vast majority of the taxes imposed in 1996. As a consequence, we have concluded that approximately $1.2 billion transferred to the Trust Fund based on initial estimates should have remained in the General Fund and thus must be withdrawn. Given that the level of funding for the Trust Fund was already of serious concern, this adjustment to the Trust Fund forces us to focus immediately on ways to ensure the continued high standards for aviation safety. For the reasons I will discuss briefly below, the Administration urges an immediate extension of the Treasury Department's authority to transfer to the Trust Fund all of the revenues collected from these taxes, regardless of when they are received, together with an immediate reinstatement, through late September 1997, of the taxes dedicated to the Trust Fund.

The excess transfers to the Trust Fund occurred because the Treasury office responsible for authorizing transfers to the Trust Fund did not know that the airlines (relying on IRS advice)

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were not making anticipated deposits.[1] Thus, our estimates, and our transfers to the Trust Fund, were much higher than actual deposits.

We have concluded that it is necessary to correct this error by transferring the $1.2 billion excess back to the General Fund. But now that the actual tax payments by the airlines have been or are about to be made, we lack authority to transfer the monies from the General Fund to the Trust Fund.

Parenthetically, you may wonder why the airlines did not make full deposits in 1996 of taxes collected in that year. In large part it was because of reliance on the administrative procedure set up in the regulation governing deposits, which allowed payment under a safe harbor measured by the taxpayer's liabilities in the second previous quarter. IRS attorneys in the excise tax branch agreed with the airline industry's position that the regulation should be construed to permit current deposits based upon zero actual liability for the second previous quarter when the tax had lapsed. They were not aware of the inability to transfer post year-end receipts to the Trust Fund, since that was not an IRS function. Had top officials of the IRS and the Treasury been advised that the airlines were largely deferring payment of tax collections, we might have been able to alter that outcome, including, if necessary, by revising the deposit regulation quickly to require earlier deposit of much, but not all, of the 1996 tax liabilities.[2]

The second aspect of the problem is the urgency of extension of the lapsed taxes. Even with the renewal of authority to transfer after-collected taxes, some Federal aviation capital programs will, absent a reinstatement of these aviation excise taxes, run out of money in the near future. Such programs include the replacement of antiquated radar systems and airport grants. Although the ability to continue such programs will end in March 1997, or a few months later if the technical correction described above is made, earlier notices to contractors, in many cases almost immediately, will be necessary to avoid liability on projects where funds will run out without extension of the lapsed taxes. The FAA will be able to explain to you their exact financial situation.

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[1]Initial information regarding excise tax collections is available only in aggregate form. No information is available with respect to liability or collections for a particular excise tax source until quarterly returns are filed and completely processed by IRS, usually 6 to 9 months after a taxable quarter has closed. During October-November 1996, total excise tax collections, which were in excess of $13 billion, were below forecast level by an amount that was well within the range of normal and acceptable forecasting error. It would appear that, in aggregate, deposits of all other excise taxes exceeded Treasury estimates, thus offsetting and masking the $1.2 billion shortfall in Airport and Airway Trust Fund taxes.

[2]The Treasury Department intends to modify the regulatory safe-harbor provision on which the airlines relied to provide that when a new tax is imposed, or an expired tax is reinstated, taxpayers must deposit liabilities attributable to the new or reinstated tax on a current basis.

We therefore urge, in addition to the technical modification to the Treasury Department's authority to make transfers of aviation excise taxes to the Trust Fund, the immediate short-term reinstatement of those taxes through late September of this year, while the Administration works with Congress to devise a long-term solution.

Structure of Taxes

The Airport and Airway Trust Fund was created in 1970 to finance Federal aviation programs, including services provided by the FAA and grants for airport improvement. Since its creation, the Trust Fund has been supported, in large part, by Federal excise taxes on commercial air passenger and air freight transportation and on noncommercial aviation fuel. These taxes expired on December 31, 1995. The Small Business Job Protection Act of 1996 reinstated the taxes beginning on August 27, 1996, but the taxes expired again on December 31, 1996.

Before the expiration of these taxes at the end of last year, the tax on domestic air passenger transportation was 10 percent of the amount paid for the transportation, the tax on international air passenger departures was $6 per person, and the tax on domestic air freight transportation was 6.25 percent of the amount paid for the transportation. The tax on noncommercial aviation fuel, to the extent dedicated to the Trust Fund, was 15 cents per gallon in the case of gasoline and 17.5 cents per gallon in the case of fuel other than gasoline.[3]

Revenues from Taxes

The table below shows total liabilities and the composition of those liabilities for the taxes that fund the Airport and Airway Trust Fund for FY 1993 through FY 1996.[4] The table shows that liabilities from the aviation excise taxes increased from $4.9 billion in FY 1993 to $5.7 billion in FY 1995, and then decreased to $1.8 billion in FY 1996. The reduction in liabilities reflects the lapse in the aviation excise taxes from January 1, 1996 through August 26, 1996.

The table also shows that the tax on domestic air transportation accounts for most of the liabilities from the aviation excise taxes (87.5 percent). The other aviation excise taxes account for 12.5 percent of total liabilities, as follows: the tax on domestic air freight transportation (5.8

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[3]The Omnibus Budget Reconciliation Act of 1993 imposed an additional tax of 4.3 cents per gallon on both commercial and noncommercial aviation fuel. Revenues from this tax, which remains in effect and is not scheduled to expire, are retained in the General Fund.

[4]Liabilities incurred for a given year may differ from net receipts to the Trust Fund, due to adjustments made during that year which relate to prior periods.

percent), international air passenger departures (4.5 percent), aviation fuels other than gasoline (2.0 percent), and gasoline (0.2 percent).[5]

Liabilities from excise taxes that finance the Airport and Airways Trust Fund: FY 1993-1996 ($ millions)				
	FY 1993	FY 1994	FY 1995	FY 1996
Domestic air transportation	4,316	4,747	4,928	1,557
Domestic air freight	238	330	335	126
International air passenger departures	224	225	256	87
Aviation fuels (other than gasoline)[6]	101	118	139	5
Gasoline[7]	6	21	8	1
Total	4,885	5,441	5,666	1,776

<u>Administrative Problems with Taxes</u>

The IRS has identified various administrative problems with the current tax. Some of these problems are attributable to the fact that the taxes on air transportation are imposed on the person purchasing the transportation rather than the transportation provider. Although the transportation provider is required to collect the tax and remit the amounts collected to the Treasury, the IRS may have no effective remedy when the transportation provider does not collect and remit the tax. In those cases, the IRS must either establish that the transportation provider's failure was willful or attempt to collect a small amount of tax from each of the persons to whom transportation was provided. Additional difficulties arise when the tax expires or is reinstated. For example, the expiration of the tax at the end of 1995 resulted in numerous small refund claims from individual passengers who purchased tickets in 1995 for travel during 1996.

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[5]Net receipts from the additional 4.3-cents-per-gallon tax on commercial and noncommercial aviation fuels were $28 million in FY 1993, $38 million in FY 1994, $41 million in FY 1995, and $568 million in FY 1996. Deposits received relating to these taxes remain in the General Fund. The application of the 4.3-cents-per-gallon rate to fuel used in commercial aviation began in FY 1996.

[6,7]These liabilities are net of refunds for exempt uses and certain adjustments.

The differing tax treatment of commercial and noncommercial aviation is also a source of difficulty. When the same aircraft is used to transport passengers or property for hire and to transport employees or property of the owner (or the affiliated group to which the owner belongs), the tax that applies is determined on a flight-by-flight basis. In the case of flights that transport passengers or property for hire, tax is imposed on the amount paid for the transportation, but the fuel used is exempt from tax (other than the 4.3 cent general fund tax). Dual-use aircraft, however, are likely to use fuel that has already been taxed at the full rate, necessitating a claim for refund. In addition to the administrative burden of filing and processing refund claims, the rules relating to dual-use aircraft can result in inappropriate revenue losses because a flight is treated as commercial aviation (and not subject to the Trust Fund fuel tax) if it carries a single fare-paying passenger. In other words, a substantial fuel tax can be avoided by paying a relatively small tax on a single passenger's fare.

The administrative problems discussed above do not result in significant revenue losses. We would, nevertheless, be pleased to work with Congress to develop legislation that would address the IRS concerns.

We also note that the air transportation taxes may lead to allocation disputes. This occurs because express delivery services generally involve a combination of air transportation and ground services. In such cases, only the amount paid for the air transportation is subject to tax, and it is therefore necessary to determine the extent to which the total amount paid is allocable to air transportation. The IRS believes that some taxpayers are taking advantage of these rules by allocating an inflated amount to ground services to avoid the tax. This problem is inherent in a tax imposed on amounts paid for taxable services that are commonly bundled with other services. The IRS believes, however, that its concerns can be minimized by appropriate changes to its regulations and is currently studying this issue.

Proposals to Modify Taxes or Substitute an Alternative Funding System

The Administration is also represented at this hearing by Louise Frankel Stoll of the Department of Transportation. Her testimony will discuss in greater detail the allocation and funding issues as they affect the FAA's programs and operations. As you know, Congress has directed further study of the issues relating to FAA financing. The Federal Aviation Reauthorization Act of 1996 (P.L. 104-264) requires an assessment by an independent contractor of FAA's funding needs and the costs imposed by each segment of the aviation industry on the airport and airway system. This assessment, which is due later this month, should provide a useful starting point for efforts to develop a secure funding source for Federal aviation programs. The Reauthorization Act also creates a National Civil Aviation Review Commission to study how best to finance the FAA in light of this assessment of funding needs and system costs. The Commission is scheduled to report its findings and conclusions to the Secretary of Transportation by August 1997. In addition, by October 1997, the Secretary of Transportation, after consultation with the Treasury Department, is required to provide Congress with the Administration's recommendations for funding the needs of the aviation system through 2002.

We believe it would be inappropriate to propose a specific system of new fees or taxes without the benefit of the Commission's recommendations. The Administration will, of course, be pleased to work with this Committee to develop a long-term financing solution when the study is complete and the Secretary of Transportation has reported his recommendations to Congress.

Mr. Chairman, this concludes my written testimony. I will be pleased to answer any questions you or other members of the Committee may have.

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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
Text as Prepared for Delivery
February 4, 1997

REMARKS TO THE TREASURY BORROWING ADVISORY COMMITTEE OF THE PUBLIC SECURITIES ASSOCIATION BY DIRECTOR OF THE OFFICE OF FINANCIAL ANALYSIS JOHN H. AUTEN

The current picture, as we see it, is one of an economy moving along a path of moderate growth with inflation well under control. The cyclical imbalances and inflationary distortions that might have been expected after nearly six years of economic expansion are notable by their absence. At the present time, there are virtually no signs of demand inflation in product markets and only scattered indications of rising cost pressures, despite labor markets that are frequently characterized as tight.

Real growth has recently provided some surprises and there has been a change of pace since you were here three months ago.

- Three months ago, the economy was coming off a 2 percent third quarter and most of that growth had been due to inventory accumulation. Consumer spending, which had been growing strongly, flattened out rather abruptly. Economists, some of whom are always looking for trouble, began to feel that they had located it on the downside.

- Now, three months later, the economy has moved up temporarily near a 4-3/4 percent annual rate of growth with no help from inventories. Consumer spending has resumed a healthy rate of advance, consumer confidence is high and warnings of downside risk haven't been heard much recently. Inventory-sales ratios are low, production is rising and the economy seems poised for further growth.

-MORE-

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That has been the pattern during the current expansion. The economy has averaged about 2-1/2 percent real growth per year for nearly six years, never stringing together enough strong or weak quarters in a row so as to get very far off path. In turn, that sustained expansion at cruising speed has carried the economy close to capacity operation without generating much inflationary pressure. The chain-type price index for Gross Domestic Product --our broadest measure of inflation --has also averaged about a 2-1/2 percent annual rate of advance for nearly six years and has been running closer to 2 percent recently --actually under in the fourth quarter. Other measures of inflation, particularly in the consumer area, are of course somewhat higher.

Our statistics tell us where we have been --and then not always very accurately --certainly not where we are going. But two key reports released last week, the employment cost index and the advance estimate of fourth quarter GDP, seemed to carry a fairly clear message. No marked departure from the six-year, self-stabilizing pattern of the current expansion seems likely in the near future. That may not be a very exciting conclusion but it certainly would be a very desirable outcome.

Let us take the inflation side of the equation first. The employment cost index, prepared by the Bureau of Labor Statistics, is the preferred measure of the change in the cost of labor. Total compensation includes wages and salaries plus employer costs for benefits. Unfortunately, the index is only available at three-month intervals and its quarterly changes are sometimes volatile, thereby reducing its value somewhat. But it is the best such measure that we have and the latest reading, released last week, showed little increase in cost pressures.

- Wages and salaries rose 3.3 percent in nominal terms last year while benefit costs rose only 2.0 percent, yielding a total compensation increase of 2.9 percent. During 1995, total compensation rose by 2.7 percent. The employment cost index appears to have bottomed out and it is drifting up a little, but still in terms of just a few decimal points.

- Increases in total compensation have been held down by slow growth in benefit costs in recent years. This reflects the containment of medical costs by employers through a shift to managed-care plans. There is some question whether benefit costs will behave as favorably in the future

- Increases in total compensation costs do not map directly into prices but are offset in part by increases in productivity. Over time, output prices tend to grow at about the same rate as unit labor costs (compensation per unit of output). Assuming in round numbers, that productivity were to grow at its two-decade trend of about 1 percent a year, a 3 percent rate of increase in total compensation would translate into about a 2 percent increase in unit labor costs. That is, in fact, near the current rate of advance in the GDP chain-weighted price index. Whether or not such a moving equilibium with trend productivity gains and stable inflation can be maintained is an open question. But clearly there is that possibility and last week's employment cost results did little to rule it out.

The other major statistical release last week was the advance estimate of fourth-quarter GDP with its 4.7 percent annual rate of real growth and amazingly low rates of inflation: near 1-1/2 percent for the implicit price deflator and below 2 percent on the chain-weighted measure. For those who follow the data closely, it had been clear for quite a while that something like a doubling of the third quarter's 2.1 percent real growth was in prospect. But, very few would have coupled that with such low rates of inflation.

Fourth quarter real growth was boosted statistically by a sizable swing in the net export component, apparently reflecting difficulties of seasonal adjustment, and by special factors elsewhere in the national accounts. There is very little in the fourth-quarter results which suggests to us that safe speed limits are being exceeded. Gross domestic purchases (total U.S. spending on goods and services) rose in real terms at only a 2.6 percent annual rate in the fourth quarter, the lowest quarterly advance of the year, and less than the average advance in the entire expansion, while inflation has remained stable. On balance, there was little indication from last week's two key releases that either demand or cost presssures had intensified meaningfully by the end of the year.

That is a summary of how we see the domestic economic situation at the present time.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
February 4, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,000 million, to be issued February 13, 1997. This offering will result in a paydown for the Treasury of about $600 million, as the maturing weekly bills are outstanding in the amount of $26,592 million.

Federal Reserve Banks hold $6,825 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 $4,840 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, as amended) 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-1484

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED FEBRUARY 13, 1997

February 4, 1997

Offering Amount	$13 000 million	$13,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4J 0	912794 5J 9
Auction date	February 10, 1997	February 10, 1997
Issue date	February 13, 1997	February 13, 1997
Maturity date	May 15, 1997	August 14, 1997
Original issue date	November 14, 1996	February 13, 1997
Currently outstanding	$14,094 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 5, 1997

REMARKS BY ROGER L. ANDERSON
DEPUTY ASSISTANT SECRETARY FOR FEDERAL FINANCE
FEBRUARY 1997 TREASURY QUARTERLY REFUNDING
PRESS CONFERENCE

Good afternoon. I will begin with today's refunding announcement and the terms of the regular Treasury February quarterly 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 1997 quarter. I will then discuss certain other debt management issues.

1. We are offering $39.75 billion of notes and bonds to refund $18.0 billion of privately held notes maturing on February 15 and to raise approximately $21.75 billion of cash.

The three securities are:

-- First, a 3-year note in the amount of $17.75 billion, maturing on February 15, 2000. This note is scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on February 11

-- Second, a 10-year note in the amount of $12.0 billion, maturing on February 15, 2007 This note is scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Wednesday, February 12.

-- Third, a 30-year bond in the amount of $10.0 billion, maturing on February 15, 2027. This bond is scheduled to be auctioned on a yield basis at 1:00 p.m. Eastern time on Thursday, February 13

-MORE-

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2. As announced on Monday, February 3, we estimate a net market borrowing need of $50.0 billion for the January-March quarter. The estimate assumes a $20 billion cash balance at the end of March. Including the securities in this refunding, we have raised $9.7 billion of cash from sales of marketable securities. See the attachment for details.

3. The Treasury will need to raise $40.3 billion in market borrowing during the rest of the January-March quarter. This financing can be accomplished through regular sales of 13-, 26-, and 52-week bills in February and March and 2-and 5-year notes in February and March. Cash management bills may be needed to cover the low points in the cash balance in March.

The tentative auction calendars for February, March and April are included in the chart package which was distributed today.

4. We estimate Treasury market borrowing to result in a pay down in the range of $10 to $15 billion for the April-June quarter, assuming a $35 billion cash balance on June 30.

5. On January 29, Treasury successfully auctioned its first inflation-indexed notes. We are very pleased with the reception of this new form of financing. This is a good start to what will become a substantial part of Treasury's issuance program. The next auction will be in April.

6. At last quarter's press conference, we described the major changes we had made to the SLGS program. On January 24, the Vice President's office recognized the efforts of our staff, along with staff from Public Debt, Tax Policy, and General Counsel's office with a Hammer Award for redesigning the SLGS program to make SLGS more attractive and easier for state and local government entities to use.

7. Last quarter, we announced that we intend to change the way Treasury bill auctions are announced. The change will exclude from the announced offering amount of each bill auction any amounts that will be purchased by the Federal Reserve's System Open Market Account. The amount announced will be awarded to the public and to foreign official accounts to replace maturing bills. Awards to the Federal Reserve for the System Open Market Account to replace maturing bills will be treated as additions to the announced size of the auctions. We will be making this change in order to provide more complete information to market participants. We are currently completing the testing of modifications to one of our computer systems to incorporate this change, and we expect to announce the effective date of this change within the next few weeks.

8. In February 1995, Treasury began requiring bids in note and bond auctions to be expressed in three decimal places. At the time, Treasury did not extend three decimal bidding to bill auctions because three-decimal bidding with .001 percent minimum increments provides unique prices only for bills with maturities greater than 360 days. We

asked the Borrowing Advisory Committee yesterday for their views on instituting three decimal bidding with minimum increments of .005 percent, in effect half-decimal bidding, for regular Treasury bill auctions. The Committee unanimously recommended that we make such a change. Accordingly, we anticipate seeking public comment on this suggestion shortly.

9. We also asked the Borrowing Advisory Committee for their views on certain recent bill auctions that have been somewhat smaller in size than has been the case in the past years. The Committee did not feel that such small sizes had caused problems for the market, but did express some concern for Treasury's ability to enforce the 35% rule in such auctions. Accordingly, the Committee recommended that we reduce the $2 billion net long position reporting limit to $1 billion for bill auctions only. We anticipate seeking public comment on this suggestion shortly also.

10. The May quarterly refunding press conference is scheduled to be held on Wednesday, April 30.

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ATTACHMENT

CASH RAISED

Including the securities announced in this refunding, we have raised $9.7 billion of cash from sales of marketable securities.

This was accomplished as follows:

- -- raised $0.5 billion from the 2-year notes issued January 31;
- -- raised $3.9 billion from the 5-year notes issued January 31;
- -- raised $3.8 billion from the 52-week bills;
- -- paid down $7.9 in the 7-year notes maturing January 15;
- -- raised $7.0 billion from the sale of the new 10-year indexed note to be issued tomorrow, February 6 and dated January 15;
- -- paid down $19.4 billion in cash in the regular weekly bills, including those announced yesterday;
- -- raised $21.75 billion from the notes and bonds announced today.

MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE PUBLIC SECURITIES ASSOCIATION
February 4 and 5, 1997

February 4

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 Ms. Kenworthy and Messrs. DeRegt, Kessenich, Lodge, Lyski, Napoli, and Wardlaw. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Roger Anderson welcomed the Committee and the public to the meeting. John Auten, Director, Office of Financial Analysis, summarized the current state of the U.S. economy. Deputy Assistant Secretary Anderson presented the chart show, which had been released to the public on February 3, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 11:55 a.m.

February refunding

The Committee reconvened in closed session at the Madison Hotel at 2:15 p.m. The members were present who had attended the public briefing. Deputy Assistant Secretary Anderson gave the Committee its Charge, which is also attached.

The Committee began by considering the attached proforma financing plan for the January-March quarter that had been prepared in advance by one of the members, using the market borrowing estimates that were released by the Treasury on February 3. The committee voted to recommend that the Treasury issue $17.75 billion 3-year notes, $12.0 billion 10-year notes, and $10.0 billion 30-year bonds. This recommendation represents a $0.75 billion reduction in the 3-year note size and a $2.0 billion increase in the 10-year note size relative to the November refunding. In the Committee's view, a slightly larger 10-year note may add needed liquidity to this sector since an additional conventional 10-year note will not be offered until May. The reduction in the size of the 3-year note offering would partially offset the increase in the 10-year offering and the new cash raised by the recent 10-year inflation-indexed note auction.

The Committee also voted to recommend that Treasury reopen the November 30-year bond to add to the strippable supply of the security. Although the Committee did not see a need to issue a cash management bill (CMB) as part of the February refunding, it does foresee a need for a CMB in early March, with a maturity shortly after the April 15 tax date.

The Committee consensus was that the current sizes of the 2- and 5-year note auctions, as well as the recommended sizes of the refunding issues, should be maintained in the April-June period. However, taking into account the April offering of inflation-indexed securities, and due to the anticipated net paydown in the April-June period, the Treasury should maintain flexibility in the size of coupon issues, with modest downward adjustments possible.

Half-basis point auction bidding for Treasury bills

The Committee saw no disadvantages to the Treasury requiring auction bidding in minimum increments of one-half basis point for Treasury bills and voted unanimously to recommend that Treasury implement the proposal. The Committee believes that half-basis point bidding will promote more efficient and aggressive bidding and is likely to lead to marginally higher auction revenues for the Treasury. In addition, the Committee believes that market participants would need very little lead time to begin half-basis point auction bidding since most market participants already trade the securities in minimum increments of one-half or even one-quarter basis points.

Net long position reporting threshold

The relatively small amount of Treasury bills available for the public in certain recent weekly bill auctions has decreased the Treasury's ability to enforce the 35 percent bidding rule when bidders' net long positions are less than the $2 billion reporting threshold. The Committee voted to recommend that the Treasury reduce the net long position reporting threshold to $1 billion for Treasury bill auctions, while maintaining the $2 billion threshold for note and bond auctions.

The meeting adjourned at 3:45 p.m.

February 5

The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Ms. Kenworthy and Messrs. DeRegt, Kessenich, Lodge, Lyski, Napoli, Pike, and Wardlaw. The Chairman presented the Committee report (copy attached) to Under Secretary Hawke and Deputy Assistant Secretary Anderson. A brief discussion ensued concerning the net long position reporting threshold.

The meeting adjourned at 8:50 a.m.

Sean T. Flynn
Sean T. Flynn
Financial Economist
Office of Market Finance
Domestic Finance
February 5, 1997

Attachments

Certified by: Richard Kelly
Richard Kelly, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
February 5, 1997

Surface Transportation Board

[STB Ex Parte No. 619]

Petition of Fieldston Co., Inc. To Establish Procedures Regarding Ex Parte Communications in Railroad Merger Proceedings

AGENCY: Surface Transportation Board.

ACTION: Statement of policy.

SUMMARY: The ICC Termination Act of 1995, Public Law 104–88, 109 Stat. 803 (ICCTA), at 49 U.S.C. 11324(f), permits, but does not require, ex parte communications in certain circumstances involving the consolidation, merger, or acquisition of control of railroads in a transaction that involves at least one Class I railroad. The Board announces that it will not entertain ex parte communications in railroad merger proceedings.

EFFECTIVE DATE: January 8, 1997.

FOR FURTHER INFORMATION CONTACT: Joseph H. Dettmar, (202) 927–5660. [TDD for the hearing impaired: (202) 927–5721.]

SUPPLEMENTARY INFORMATION: In response to a petition filed by Fieldston Co., Inc., the Board has announced that it will not entertain ex parte communications in railroad merger proceedings. While a change in the law permits ex parte communications in railroad merger proceedings under certain conditions, the Board has decided not to entertain ex parte communications in these proceedings because entertainment of ex parte communications would impede efficiency, fairness, and public confidence in the Board's railroad merger review procedures.

Additional information is contained in the Board's decision. To purchase a copy of the full decision, write to, call, or pick up in person from: DC News & Data, Inc., Room 2229, 1201 Constitution Ave., N.W., Washington, DC 20423. Telephone: (202) 289–4357/4359. [Assistance for the hearing impaired is available through TDD services (202) 927–5721.]

Decided: December 31, 1996.

By the Board, Chairman Morgan, Vice Chairman Simmons, and Commissioner Owen.

Vernon A. Williams,

Secretary.

[FR Doc. 97–410 Filed 1–7–97; 8:45 am]

BILLING CODE 4915–00–P

DEPARTMENT OF THE TREASURY

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 February 4 and 5, 1997, 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 February 4, 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 5, 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 February 4 and will be open to the public. The remaining sessions on February 4 and the committee's reporting session on February 5 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 2, 1997.

John D. Hawke, Jr.,

Under Secretary (Domestic Finance).

[FR Doc. 97–364 Filed 1–7–97; 8:45 am]

BILLING CODE 4810–25–M

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of the
Public Securities Association

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February 4, 1997

COMMITTEE CHARGE

The Treasury would like the Committee's specific advice on the following:

Treasury financing

-- the composition of a financing to refund $18.0 billion of privately held notes maturing on February 15 and to raise approximately $19.75 billion to $21.75 billion of cash in 3-, 10-, and 30-year notes and bonds;

-- reopening the October 10-year note in the refunding;

-- the composition of Treasury marketable financing for the remainder of the January-March quarter and the April-June quarter.

Three-decimal auction bidding for Treasury bills

In February 1995, Treasury began requiring bids in note and bond auctions to be expressed in three decimal places. At the time, Treasury did not extend three decimal bidding to bill auctions because three-decimal bidding with .001 percent minimum increments for Treasury securities provides unique prices only for bills with maturities greater than 360 days. It has been suggested that Treasury institute three decimal bidding with minimum increments of .005 percent, in effect half-decimal bidding, for 13-26- and 52-week bill auctions. Half-decimal bidding provides unique prices for bills with maturities of more than 72 days.

-- We would like the Committee's views on half-decimal auction bidding for 13-, 26- and 52-week Treasury bills.

Net long position reporting threshold

In certain recent auctions of weekly Treasury bills, the amount of bills available for purchase by the public has been somewhat smaller than has been the case in the past few years.

-- We would like the Committee's views on the sizes of such auctions.

Other topics

-- We would welcome any comments that the Committee might wish to make on related matters.

SUMMARY OF JANUARY-MARCH 1997
ESTIMATED NET TREASURY MARKETABLE BORROWING
(in billions of dollars)

Net new money raised or announced (as of February 3, 1997)	
Regular weekly bills	-18.9
52-week bills	3.6
Cash mgt. bills	0.0
2-year notes (includes $1.6 bil. foreign add-ons)	0.5
5-year notes (includes $0.7 bil. foreign add-ons)	3.9
7-year notes	-7.9
10-year notes TIPS	7.0
Subtotal	-11.7
Net new money to be raised:	
Refunding (includes $2.5 bil foreign add-ons)	22.5
Regular weekly bills	10.0
52-week bills	0.5
Cash mgt. bills	20.0
2- and 5-year notes #	8.6
Subtotal	61.6
Total net marketable borrowing in quarter:	50.0

Note: Assumes an end of quarter cash balance of $20 billion.

SUMMARY OF APRIL-JUNE 1997
ESTIMATED NET TREASURY MARKETABLE BORROWING
(in billions of dollars)

Regular weekly bills	-6.9
52-week bills	-0.3
Cash mgt. bills * *	-20.0
2 and 5-year notes ##	10.3
Refunding ###	2.4
7-year notes redemption	-7.1
Inflation-indexed notes	7.0
Total net marketable borrowing in quarter:	-14.5

Note: Assumes an end of quarter cash balance of $30 billion.

* The cash mgt. bill to be issued March 3 to mature on April 24.

Includes anticipated foreign add-ons of $5.0 bil.

Includes anticipated foreign add-ons totalling $5.2 bil.

** Intraquarter cash management bills will be required to cover cash low points during the quarter. The 1st CMB will be $10 bil., settle on 5/15 and mature on 6/19, and the 2nd will be $20 bil., settle on 6/3, and mature on 6/17.

Includes anticipated foreign add-ons totalling $2.3 bil.

ESTIMATED TREASURY MARKETABLE BORROWING
(in billions of dollars)

Total estimated marketable borrowing	50.0
Total net marketable borowing issued or announced through February 3, 1997	-11.7
Total remaining net marketable borrowing	61.7
Cash balance at end of quater	20.0

Treasury bills	Amount maturing	Amount offered	Foreign add-ons	Cash raised	Cumulative cash raised
3& 6 mo bills					
Jan. 2	28.6	27.1		-1.5	
Jan. 9	27.8	25.2		-2.6	
Jan. 16	27.6	23.3		-4.3	
Jan. 23	27.2	23.2		-4.0	
Jan. 30	27.4	23.2		-4.2	
Feb. 6	27.3	25.1		-2.3	
Feb. 13	26.6	27.0		0.4	
Feb. 20	27.2	27.0		-0.2	
Feb. 27	26.1	27.0		0.9	
Mar. 6	26.2	27.0		0.8	
Mar. 13	24.2	27.0		2.8	
Mar. 20	24.1	27.0		2.9	
Mar. 27	24.6	27.0		2.4	-8.9
52-week bills					
Jan. 9	18.9	19.3	1.3	0.3	
Feb. 6	18.9	19.3	1.6	0.4	
Mar. 6	18.8	19.3		0.5	1.2
Cash mgt. bills Mar. 3 (April 24 maturity)		20.0		20.0	20.0
Total bills	401.4	413.8	2.9	12.4	15.3
Coupons					
Jan. 7-year	7.9			-7.9	
Inflation 10-year		7.0		7.0	
Jan. 2-year	18.6	17.5	1.7	-1.1	0.6
Jan. 5-year	9.3	12.5	0.9	3.2	4.1
Feb. 3-year		18.0	1.6		
Feb. 10-year		10.0	0.9		
Feb. 30-year		10.0	0.0		
Subtotal	18.0	38.0	2.5	20.0	22.5
Feb. 2-year	18.2	17.5	1.7	-0.7	1.0
Feb. 5-year	9.5	12.5	0.9	3.0	3.9
Mar. 2-year	18.3	17.5	1.7	-0.8	0.9
Mar.5-year	10.8	12.5	0.9	1 7	2.6
Total coupons	110.6	135.0	10.3	24.4	34.7
Total borrowing	512.0	548.8	13.2	36 8	50.0

ESTIMATED TREASURY MARKETABLE BORROWING
(in billions of dollars)

Total estimated marketable borrowing	-14.5
Total net marketable borowing issued or announced through February 3, 1997	-10.0 to -15.0
Total remaining net marketable borrowing	-14.5
Cash balance at end of quater	35.0

Treasury bills	Amount maturing	Amount offered	Foreign add-ons	Cash raised	Cumulative cash raised
3& 6 mo bills					
Apr. 3	27.2	27.0	-	-0.2	
Apr. 10	25.8	27.0	-	1.2	
Apr. 17	24.7	23.0	-	-1.7	
Apr. 24	24.8	22.0	-	-2.8	
May 1	25.6	27.0	-	1.4	
May 8	26.8	29.0	-	2.2	
May 15	27.6	29.0	-	1.4	
May 22	27.6	27.0	-	-0.6	
May 29	27.6	27.0	-	-0.6	
Jun. 5	27.6	27.0	-	-0.6	
Jun.12	26.6	27.0	-	0.4	
Jun. 19	26.5	23.0	-	-3.5	
Jun. 26	26.6	23.0	-	-3.6	-6.9
52-week bills					
Apr. 3	18.9	19.3	-	0.3	
May 1	19.5	19.3	-	-0.2	
May 29	19.3	19.3	-	-0.1	
Jun. 26	19.6	19.3	-	-0.3	-0.3
Cash mgt. bills					
Apr. 24 maturity	20.0			-20.0	
May 15 (June 19 maturity)		10.0	-	10.0	
Jun. 3 (June 17 maturity)		20.0	-	20.0	
Jun. 19	10.0		-	-10.0	
Jun. 17	20.0		-	-20.0	-20.0
Total bills	472.3	445.0		-27.3	-27.3
Coupons					
Apr. 7-year	7.1			-7.1	
Inflation 10-year		7.0		7.0	
Apr. 2-year	18.0	17.5	1.6	-0.5	1.1
Apr. 5-year	10.5	12.5	0.7	2.0	2.7
May 3-year		17.5	1.4		
May 10-year		10.0	0.9		
Subtotal	27.4	27.5		0.1	2.4
May 2-year	18.2	17.5	1.6	-0.7	0.9
May 5-year	10.6	12.5	0.7	1.9	2.6
Jun. 2-year	18.6	17.5	1.6	-1.1	0.5
Jun. 5-year	10.6	12.5	0.7	1.9	2.6
Total coupons	121.0	124.5	9.2	3.5	12.7
Total borrowing	593.2	569.5	9.2	-23.7	-14.5

REPORT TO THE SECRETARY OF THE TREASURY
FROM THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE
PUBLIC SECURITIES ASSOCIATION

February 5, 1997

Dear Mr. Secretary:

Since the Committee's last meeting on October 30, 1996, the pace of economic activity has been brisk. The mid-year slowdown in consumer spending proved temporary, as robust gains in employment and income led to renewed vigor. Significant improvement in net exports, although somewhat exaggerated, also contributed to the fourth quarter rebound. Despite above-trend growth, and aside from energy prices, inflation has remained remarkably well behaved. On a more cautious note, wage and salary gains are trending higher and may well rise further amid persistent labor market tightness.

Interest rates on Treasury securities are currently little changed from the levels which prevailed at our last meeting. Monetary policy has remained unchanged since January of last year, while market expectations presently seem tilted in the direction of somewhat tighter credit in the coming months. Foreign demand for Treasury securities continues to be supportive of the market, reflecting strength in the dollar as well as relatively attractive U.S. yield levels.

Within this context, to refund the $18.0 billion of privately-held notes maturing on February 15, 1997 and to raise $21.75 billion of cash, the Committee recommends that the Treasury auction $39.75 billion of the following securities:

- $17.75 billion 3-year notes due February 15, 2000;
- $12.0 billion 10-year notes due February 15, 2007;
- $10.0 billion re-opened 6 1/2 percent bonds due November 15, 2026.

The Committee unanimously supported a modest reduction in the size of the 3-year note to $17.75 billion from the $18.5 billion level in the prior refunding. This recommendation is consistent with the Treasury's recent tendency to modestly reduce offering amounts of shorter-term coupon issues, in connection with more frequent offerings of longer-term securities. The Committee also took into account the new cash raised through the Treasury's initial offering of inflation-indexed securities. In that context, this recommendation further contributes to recent efforts to reduce reliance on short-term financing.

Eleven of the thirteen members present voted to recommend that the Treasury issue $12.0 billion 10-year notes, up from the $10.0 billion level in the prior refunding. Two of the members favored a size of $14.0 billion, consistent with 10-year issue sizes before the shift to more frequent offerings. In formulating this recommendation, the Committee was mindful of the need for large, liquid issues in this important benchmark maturity. The Committee also considered the interval between this auction and the next 10-year note auction in the May refunding. It was felt that the larger sized offering would reduce the potential for an undue scarcity to develop in the repurchase agreement market. It is also consistent with the Committee's recommendation in its report of May 1, 1996 that it would be preferable to target a minimum size of $12.0 billion for the 10-year note auctions in February and May.

Another factor in the Committee's consideration of the size of the 10-year note was its unanimous vote not to re-open the 61/2 percent notes due October 15, 2006. This security, first issued on October 15, 1996, was re-opened in last year's November refunding. An additional re-opening would result in a particularly large issue which, on the margin, would be somewhat more difficult for the Treasury to efficiently refund upon maturity. Also, there was no evidence of a shortage of this issue in the repurchase agreement market, and it was felt that the market was likely to place a premium on a new large 10-year benchmark issue.

In terms of the bond in its refunding recommendation, the Committee unanimously supported $10.0 billion as the appropriate size. The Committee also voted by 11-2 to recommend a re-opening of the 6 1/2 percent bonds due November 15, 2026. The majority felt that a further increase in the strippable product with May 15 and November 15 maturities was desirable. It was also noted that a large issue would reduce the potential for a shortage to develop in the repurchase agreement market during the six-month period before the issuance of the next 30-year bond.

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 $12.5 billion each, to raise $4.7 billion of new cash;

- Two 2-year notes totaling $17.5 billion each, to pay down $1.5 billion of cash;

- One 1-year bill totaling $19.25 billion, to raise $0.5 billion of new cash;

- Weekly issuance of 3- and 6-month bills through the remainder of the quarter, to raise $9.1 billion of new cash; and

- A cash management bill totaling $20.0 billion to mature on April 24 to meet the seasonal cash need in early March.

Including the $21.75 billion raised in the mid-quarter refunding, as well as anticipated foreign add-ons of $7.0 billion, the proposed financing schedule will raise a net amount of $61.6 billion. This amount, after subtracting the net paydown of $11.6 billion to date in the quarter, will accomplish the total net market borrowing requirement of $50.0 billion.

For the April-June quarter, the Treasury estimates a net paydown in the range of $10-15 billion with a cash balance of $35 billion at the end of June. To accomplish the anticipated net paydown, the Committee recommends the provisional financing schedule attached to this report.

In its deliberations concerning this financing schedule, the Committee assumed that the next offering of inflation-indexed securities in April would be maintained at $7.0 billion. Given this assumption, and in view of the size of the planned net paydown, the Committee recognizes the Treasury's need for flexibility in terms of possible modest reductions in the size of coupon auctions.

In response to the Treasury's request for its views, the Committee considered the question of whether to introduce half-decimal bidding for 13-, 26- and 52-week bill auctions. As noted by Treasury staff, half-decimal bidding would provide unique prices for bills with maturities of more than 72 days. The Committee's view on half-decimal bidding was unanimous in favor of this change.

As noted in its report of August 3, 1994, when the committee considered the question of 3-decimal yield bidding for note and bond auctions, the Committee feels that smaller bidding increments would, on the margin, induce some market participants to bid somewhat more aggressively, with potential for modest savings to the Treasury. The Committee also feels that such a change would be relatively easy to introduce, as it is consistent with existing secondary market practices and generally in line with the changes introduced by the Treasury in February 1995 for note and bond auction bidding.

The Committee also considered possible complications which might arise, in terms of monitoring Treasury's auction bidding rules, as a result of reductions in the amount of certain bill offerings available for purchase by the public. In particular, it was noted that, after taking account of auction allotments to central banks and other official institutions, the remaining size of some bill offerings was such that a potential maximum 35 percent award could be smaller than the Treasury's current $2 billion net long position auction reporting threshold. Such reporting requirement is used to facilitate enforcement of the Treasury's policy concerning maximum amounts of securities awarded to any one bidder in all auctions of Treasury securities.

In order to help avoid inadvertent violations of that policy in cases involving auctions of small sizes of Treasury bills, the Committee considered a number of possible reporting practice changes. This included adjusting the size of the reporting threshold on an auction-by-auction basis, when Treasury is aware that the available size of a bill offering would entail a maximum potential single bidder award below $2 billion. Alternatively, the Committee considered a reduction in the reporting threshold for auctions of Treasury bills to $1 billion – an amount judged sufficient to ensure proper monitoring of the single bidder award policy.

With one abstention, the Committee members strongly preferred lowering the current net long position reporting threshold for Treasury bill auctions to $1 billion, while retaining the current $2 billion threshold for note and bond auctions The Committee felt this approach would lessen the risks of unintended errors which might arise from frequent auction-to-auction changes in reporting thresholds. It would also limit the additional complexities, and related compliance costs, associated with adhering to the Treasury's rules and procedures for auction bidding. In this regard, it was noted that those complexities inevitably add costs to participants in the process, and particularly for those investors who are only occasional direct participants in Treasury auctions.

Mr Secretary, that concludes the Committee's report. We welcome any comments or questions

Respectfully submitted,

Richard M. Kelly
Chairman

Estimated Treasury Marketable Borrowing
(billions of dollars)
April - June, 1997

	Amount Maturing	Amount Offered	Foreign Add-ons	Cash Raised
Treasury bills*				
Regular weekly bills	$344.5	$337.3	--	$-7.2
52-week bills				
April 3	18.9	19.25	--	0.35
May 1	19.5	19.25	--	-0.25
May 29	19.3	19.25	--	-0.05
June 26	19.6	19.25	--	-0.35
Cash management bills*	20.0	--	--	-20.0
Total bills	441.8	414.3	--	-27.5
Treasury coupons				
April 7-year	7.1	--	--	-7.1
Inflation-indexed notes	--	7.0	--	7.0
April 2-year	18.0	17.5	1.6	1.1
April 5 -year	10.5	12.5	0.7	2.7
May 3-year		17.75		
May 10-year		12.0		
Refunding subtotal	27.4	29.75	2.3	4.65
May 2-year	18.2	17.5	1.6	0.9
May 5-year	10.6	12.5	0.7	2.6
June 2-year	18.6	17.5	1.6	0.5
June 5-year	10.6	12.5	0.7	2.6
tal coupons	121.0	126.75	9.2	15.0
tal borrowing	562.8	541.1	9.2	-12.5

ssumes that $20 billion of cash management bills will be issued in early March and mature in April. Also, intra-quarter cash management bills will be needed to cover cash low points ing the quarter.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
February 5, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will auction $17,750 million of 3-year notes, $12,000 million of 10-year notes, and $10,000 million of 30-year bonds to refund $18,037 million of publicly-held securities maturing February 15, 1997, and to raise about $21,725 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $1,795 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 $1,654 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 10-year note and the 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, as amended) 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-1486

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
FEBRUARY 1997 QUARTERLY FINANCING

February 5, 1997

Offering Amount	$17,750 million	$12,000 million	$10,000 million
Description of Offering:			
Term and type of security	3-year notes	10-year notes	30-year bonds
Series	U-2000	B-2007	Bonds of February 2027
CUSIP number	912827 2H 4	912827 2J 0	912810 EZ 7
Auction date	February 11, 1997	February 12, 1997	February 13, 1997
Issue date	February 18, 1997	February 18, 1997	February 18, 1997
Dated date	February 18, 1997	February 15, 1997	February 15, 1997
Maturity date	February 15, 2000	February 15, 2007	February 15, 2027
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	Determined at auction	Determined at auction
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 BW 6	912803 BK 8
Due dates and CUSIP numbers for additional TINTs	Not applicable	Not applicable	February 15, 2027 --- 912833 PC 8

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 three decimals, e.g., 7.123%.
(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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Text as Prepared for Delivery
February 5, 1997

America's Role in Global Economic Integration
Lawrence H. Summers
Deputy Secretary of the Treasury
Banker's Association for Foreign Trade
Washington, D.C.

Good evening. It is a pleasure to be here tonight among a group that has done so much to expand trade and further the cause of global economic integration. As President Clinton said last night, American leadership in expanding trade and economic integration has been central to our prosperity.

It is, in many ways, a critical moment in our nations' history. Americans are weary after a long period of conflict. Increasingly, they are preoccupied by problems at home, not abroad, and wish to withdraw from foreign entanglements.

Our elected leaders vow to shrink government. Companies are increasingly successful, but workers are fearful for security. Tariffs are thrown up. Concerns rise about immigration. There is talk in some quarters of keeping America "pure." Quotas and new laws reduce the flow of immigrants. It is the best of times for some, and the worst of times for others.

I suppose I could be describing 1997 I am actually describing 1927. America is on the brink of a series of catastrophic economic and foreign policy errors that will send the shuttling toward what are perhaps the darkest years in human history.

History does not repeat itself. Any historical analogy between the world of today and the world of the 1920s is surely imperfect

Nevertheless, the experience of the 1920s offers important lessons--about the perils of international retreat and the need to internationally engage. President Clinton has made his commitment clear. But a growing chorus of voices would renounce our international commitments and withdraw from the global stage.
RR-1487

-MORE-

In many ways, this debate echoes one we have been having in America since the signing of the Constitution. During the early part of the 19th Century as America began to look outward, President Monroe proposed the Monroe Doctrine. President Wilson proposed the League of Nations after World War I, but Congress then refused to permit the United States to join.

No one can say whether Mussolini's aggressions could have been reversed by a US decision to join the League of Nations, whether Hitler's rise to power could have been averted by a less onerous reparations package for Germany or whether the Great Depression would have been less severe without passage of the Smoot Hawley Tariff. Nevertheless, it is clear that the policies of the 1920s must bear some responsibility for the 1930s.

In stark contrast to the isolation that followed World War I, after World War II, American leaders shaped the global vision of an America committed to create an ever-widening circle of ever more prosperous, ever more international economies as the centerpiece of America's foreign and economic policy.

Then as now there was opposition to spending money on overseas countries. However then as now, America had a President committed to leading internationally. And then as now, some courageous legislators put principle ahead of party to help rebuild countries in need and strengthen the economies of our trading partners.

- Through the courage of legislators such as Senator Arthur Vandenberg, Congress passed the Marshall Plan, for example.
- In due course, the United States helped established the United Nations, the World Bank and the IMF.

This idea of growth at home through prosperity abroad was central to America's post-war prosperity Today, it lies at the center of President Clinton's economic policy.

After World War II, the primary concern was with the economic development of a war-ravaged Europe and Japan. Today our challenge is to integrate the 5 billion people of the developing world into a truly global economy. But the stakes--future peace and security--are the same.

The Argument of Separatists

And yet despite the force of these arguments and the convictions of probably most of you here tonight, American internationalism is under siege.

The critics of the internationalist vision I have described form a wide and growing school of what might be called separatists. I choose this term because it conveys their desire to have America go-it-alone, separately from others.

The Separatists' argument has three principle elements.

First, Separatists suggest that economic integration impoverishes most Americans who must compete with low wage labor for the benefit of a small number of international businesses. In a nutshell, this is the thesis of Bill Greider's recent book and is manifest in much of the opposition to NAFTA and other trade agreements.

It is a serious argument that needs to be taken seriously. But it is a wrong one.

First, American trade barriers are already very small. We give up very little when we enter into trade agreements and others give up much more. NAFTA, for example, brought trade barriers in Mexico down by five times as much as it reduced American trade barriers. Second, countries' wage rates reflect their productivity.

Moreover, while imports replace jobs, exports create them. And jobs in the export sector have been found to pay 15% higher than jobs on average.

The second argument that Separatists make is that market-oriented policies abroad will work only for a few, not the many.

While it is our view that abroad as in America, growth must be inclusive if it is to be enduring, the historical record refutes this argument.

- Income equality in the newly industrialized countries such as Japan, Korea and Singapore is significantly lower than in earlier feudal societies or, indeed, in many countries that have not pursued serious reforms.
- Moreover, the very organizations working to promote international integration such as the UN and the World Bank also promote education and fight against poverty.

The third main argument of those who oppose the Bretton Woods Washington consensus that they are something we can no longer afford. I strongly disagree.

George Bush was never more wrong than when he said we have more will than wallet. In fact, the real question is if we can afford not to engage in the defense of our interests by promoting prosperity and integration around the world.

One variant of this argument now rings particularly hollow, namely that America can no longer bear the burden of leadership since Germany and Japan won the Cold War. In fact, America's economy has never been stronger.

A policy of engagement has led to export growth of 7.2 percent yearly since 1992, three times GDP growth

- U.S. firms now export more than $800 billion in nominal terms, enough to support more than 10 million U.S. jobs.

Indeed, the experience of the 1990s has shown that the four decades-old story of convergence has ended. The United States began the 1990s as the richest country in the world and is pulling away.

II. The US Agenda

In the second portion of my remarks, I would like to address the principal elements of our agenda of international engagement. There are three crucial priorities for the US in the international economic sphere:

- first, promoting open markets
- second, fostering global economic growth; and
- third, strengthening financial markets.

All are needed. Let me address each in turn.

Promoting Open Markets

This is not the forum for a detailed articulation of our trade strategy. But our approach to opening markets has two main pillars.

First, we must continue efforts to sustain progress towards further economic integration.

I don't have to tell this audience how since taking office, President Clinton has signed over 200 trade agreements from NAFTA to the GATT to the Framework with Japan.

These agreements have paid off in more exports and more jobs.

- In the case of the Framework with Japan, for example, since the beginning of 1993, growth in all US exports to Japan has been nearly three times that of growth in exports to other industrial economies. To pick just one sector, US exports of medical instruments to Japan have grown over 40%.

Of particular interest to this group, however, may be our progress in the area of financial services.

- The U.S.-Japan Agreement on Financial Services, for example, has opened markets in the areas of asset management, securities sales and underwriting and cross-border provision of financial services.
  - US fund management companies may now participate in the management of the $200 billion public pension fund market, the $260 billion mutual aid association market and the $360 billion private pension fund market.
    - As of 1999, this will give US firms access to markets totaling some $660 billion.

Japan is not the only market where we are making progress. Korea, for example, has stepped up financial services liberalization, as part of the OECD accession process.

Perhaps the Administration's most significant trade liberalizing achievement is the creation of the WTO. Having created it, we are now working to bring in as many countries as possible, including China and Russia, if they can meet its conditions.

- And we will deepen the WTO's effectiveness by expanding its reach as we take up such issues such as financial services.
    - Last month, our negotiators returned to the table to hammer out a final agreement on country liberalization of telecommunications services which currently accounts for $2.8 billion in US exports; and, in April, we will resume talks on financial services where we export $7.5 billion annually.
- In the multilateral sphere, we will also work with the OECD to continue to reduce tied aid as we have already to reach a multilateral investment agreement.
- We have also laid the groundwork through APEC, in the aftermath of the Summit of the Americas and in the transatlantic dialog for regional trade agreements.

The second pillar of our strategy to further integration is to continue working to level the playing field for American firms. Before his tragic death, former Secretary of Commerce, Ron Brown worked tirelessly on behalf of US firms and against unfair foreign official assistance and that work continues. The Commerce Department is also eliminating outdated regulations that had restricted US exports.

In this context, let me add that it is vitally important that we continue funding the Export-Import Bank as well as the Overseas Private Investment Corporation. While the Clinton Administration takes a back seat to no one in its drive to eliminate wasteful or market distorting programs, we must not unilaterally disarm.

Promoting Global Growth

The second crucial priority of our international strategy is to promote global growth. When other countries grow more rapidly, they buy more of our products, produce better goods for us to buy and cooperate on global objectives. Promoting growth is also important because it creates the conditions for peace and political stability.

We promote growth around the world in a whole range of ways.

An important but rarely discussed means is through our example and knowledge. U.S. foreign technical assistance efforts have made an enormous difference in promoting financial stability and privatization through the formerly Communist world.

- In Poland, for example, the US provided $200 million to the $415 million Polish Bank Privatization Fund. Three Treasury advisors on the ground are making sure that progress is working smoothly.

The International Financial Institutions including the World Bank and the IMF also play a vital role in promoting growth and stability.

Through these multilateral means, the US can bring far more resources to bear on a problem than it could by acting alone. In strict numerical terms, MDB resources dwarf US bilateral programs. Overall MDB lending is over $45 billion per year. But it costs the US only about $1.2 billion per year in scheduled payments. In contrast, US bilateral development lending, where we bear the entire cost, is about $7 billion.

Since we enjoy influence over the IFIs which support our values and policy goals, they provide a powerful way for us to leverage our resources.

To provide only a few examples...

- Nearly $2 billion in average annual World Bank and IDA support for India since 1991 has fostered a revolution in economic policy, bringing tariffs down from 87% to 27%. That's more tariff reduction than we won in the GATT.
- Some 75 countries received $35 billion in World Bank loans between 1981 and 1993 conditioned on trade and investment liberalization. US exports to those countries rose an average of 11.8% yearly, creating an extra 850,000 jobs for Americans. These are jobs we would never have seen had these countries not taken a path of market reform.

Moreover, the growth that the IFIs promote also addresses the scourges of poverty, drug trafficking and disease around the world, problems that can be contagious. Addressing these problems serves a humanitarian goal. But it also reduces the chance that these problems and the instability they often cause will spread to other countries.

<u>Strengthening Financial Markets</u>

Our third crucial priority is to strengthen global financial markets. As Secretary Rubin has said, we need a global financial infrastructure as modern at as the marketplace. Beginning in Naples and continuing on through Halifax to Denver and beyond, we have been working with our G-7 partners to improve our financial architecture.

- That's what improving disclosure and supervisory standards is all about.
- That's what the New Arrangements to Borrow are all about; and
- That's what the efforts of the IMF, the World Bank and others to create a broad set of supervisory standards are all about

Here as with fostering growth the International Financial Institutions, lie at the heart of our efforts As we move forward on all of these goals, there are three principles that must govern our approach to the IFIs:

- First, we must recognize that great countries honor their commitments.
- Second, we must deliver meaningful reform as a condition for assistance.

- And third, we must recognize that, ultimately we must pay to play.

Let me say a word about each.

We can and must honor our commitments to the IFIs. It is unconscionable for the wealthiest and most powerful country on earth to fail to meet its commitments. We should move quickly to pay off arrearages and restore our good name.

Yet in a world of shrinking resources, we must also insure that US taxpayers receive value for their commitments. Accordingly, we have led a process of reform.

- Over the last two years, the World Bank has cut its administrative budget 10% and has eliminated first class travel. Headquarters staff will be cut 6% between 1995 and 1999.
- At the IDB, the administrative budget has declined 5% in real terms since 1995. And staffing is down 12% from its peak in 1988.
- To fight corruption, the African Development Bank has subjected senior officials to term limits. Staff has been cut by 15% and 70% of managers have been replaced.
- At the EBRD, net cumulative commitments have grown 150% over the last 3 years with no real growth in administrative expenses.

Are these reforms sufficient? No. Are the real yes. And we are working hard to insure that the process of reform continues.

Finally, while we are negotiating our commitment to the IFIs downwards to obtain greater value for the US taxpayers, ultimately, we must stay engaged financially in these institutions if we are to stay engaged in their management.

While we must continue to search for ways to cut costs, we must also be ready to meet the commitments that remain if we are to play a role in shaping policy.

Conclusion

In conclusion, the United States' economic policy is and will be based on the idea that promoting integration and prosperity around the world is enormously in our national interest.

The great challenge we face is to maintain broad support for this idea. As the President said last night, our greatest enemy is inaction. Let me be clear: the stakes are huge: an ever widening circle of prosperity and security if we continue to engage; the serious risk of retrenchment diminished trade and reduced security if we give into the ideas of the Separatists.

All Americans have a stake in global engagement. You in the business community may have the greatest stake of all in our foreign assistance efforts. But to win we must resist efforts to dismantle our agenda piece by piece. Ultimately, all of us have a bigger stake in the whole than in the parts and more strength together, than we can ever have acting alone.

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PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
February 6, 1997

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JANUARY 1997

Treasury's Bureau of the Public Debt announced activity figures for the month of January 1997, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$928,139,654
Held in Unstripped Form	$703,845,646
Held in Stripped Form	$224,294,008
Reconstituted in January	$9,196,982

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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RR-1488

TABLE VI – HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JANUARY 31, 1991
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month #1
8-1/2% Note A-1997	05/15/97	9,921,237	7,382,437	2,538,800	96,400
8-5/8% Note B-1997	08/15/97	9,362,836	6,378,836	2,984,000	8,000
8-7/8% Note C-1997	11/15/97	9,808,329	6,096,329	3,712,000	46,400
8-1/8% Note A-1998	02/15/98	9,159,068	6,742,748	2,416,320	0
9% Note B-1998	05/15/98	9,165,387	6,573,187	2,592,200	169,600
9-1/4% Note C-1998	08/15/98	11,342,646	8,105,846	3,236,800	23,200
8-7/8% Note D-1998	11/15/98	9,902,875	6,365,275	3,537,600	11,200
8-7/8% Note A-1999	02/15/99	9,719,623	7,980,423	1,739,200	24,000
9-1/8% Note B-1999	05/15/99	10,047,103	6,877,503	3,169,600	0
8% Note C-1999	08/15/99	10,163,644	7,259,269	2,904,375	5,000
7-7/8% Note D-1999	11/15/99	10,773,960	7,236,360	3,537,600	44,800
8-1/2% Note A-2000	02/15/00	10,673,033	8,075,433	2,597,600	179,200
8-7/8% Note B-2000	05/15/00	10,496,230	5,731,430	4,764,800	6,400
8-3/4% Note C-2000	08/15/00	11,080,646	7,151,686	3,928,960	29,120
8-1/2% Note D-2000	11/15/00	11,519,682	7,284,882	4,234,800	83,200
7-3/4% Note A-2001	02/15/01	11,312,802	8,027,202	3,285,600	0
8% Note B-2001	05/15/01	12,398,083	8,646,108	3,751,975	53,600
7-7/8% Note C-2001	08/15/01	12,339,185	8,716,785	3,622,400	0
7-1/2% Note D-2001	11/15/01	24,226,102	20,751,302	3,474,800	27,200
7-1/2% Note A-2002	05/15/02	11,714,397	10,035,517	1,678,880	27,040
6-3/8% Note B-2002	08/15/02	23,859,015	22,635,015	1,224,000	232,000
6-1/4% Note A-2003	02/15/03	23,562,691	23,198,435	364,256	0
5-3/4% Note B-2003	08/15/03	28,011,028	27,749,428	261,600	39,200
5-7/8% Note A-2004	02/15/04	12,955,077	12,950,277	4,800	35,200
7-1/4% Note B-2004	05/15/04	14,440,372	14,434,772	5,600	0
7-1/4% Note C-2004	08/15/04	13,346,467	13,302,467	44,000	0
7-7/8% Note D-2004	11/15/04	14,373,760	14,373,760	0	0
7-1/2% Note A-2005	02/15/05	13,834,754	13,834,754	0	0
6-1/2% Note B-2005	05/15/05	14,739,504	14,739,504	0	0
6-1/2% Note C-2005	08/15/05	15,002,580	15,002,580	0	0
5-7/8% Note D-2005	11/15/05	15,209,920	15,209,920	0	0
5-5/8% Note A-2006	02/15/06	15,513,587	15,513,587	0	0
6-7/8% Note B-2006	05/15/06	16,015,475	16,015,475	0	0
7% Note C-2006	07/15/06	22,740,446	22,740,446	0	0
6-1/2% Note D-2006	10/15/06	22,459,675	22,459,675	0	0
11-5/8% Bond 2004	11/15/04	8,301,806	4,108,206	4,193,600	9,600
12% Bond 2005	05/15/05	4,260,758	1,672,208	2,588,550	163,000
10-3/4% Bond 2005	08/15/05	9,269,713	7,359,313	1,910,400	191,200
9-3/8% Bond 2006	02/15/06	4,755,916	4,729,164	26,752	0
11-3/4% Bond 2009-14	11/15/14	6,005,584	1,900,784	4,104,800	19,200
11-1/4% Bond 2015	02/15/15	12,667,799	10,574,519	2,093,280	359,360
10-5/8% Bond 2015	08/15/15	7,149,916	4,955,036	2,194,880	497,920
9-7/8% Bond 2015	11/15/15	6,899,859	4,938,259	1,961,600	320,000
9-1/4% Bond 2016	02/15/16	7,266,854	6,755,654	511,200	479,200
7-1/4% Bond 2016	05/15/16	18,823,551	18,574,751	248,800	86,400
7-1/2% Bond 2016	11/15/16	18,864,448	18,189,248	675,200	202,160
8-3/4% Bond 2017	05/15/17	18,194,169	11,346,009	6,848,160	805,600
8-7/8% Bond 2017	08/15/17	14,016,858	8,256,858	5,760,000	619,200
9-1/8% Bond 2018	05/15/18	8,708,639	3,451,039	5,257,600	3,200
9% Bond 2018	11/15/18	9,032,870	3,307,270	5,725,600	55,000
8-7/8% Bond 2019	02/15/19	19,250,798	5,631,598	13,619,200	673,600
8-1/8% Bond 2019	08/15/19	20,213,832	18,113,352	2,100,480	238,080
8-1/2% Bond 2020	02/15/20	10,228,868	6,083,268	4,145,600	308,800
8-3/4% Bond 2020	05/15/20	10,158,883	3,464,643	6,694,240	191,840
8-3/4% Bond 2020	08/15/20	21,418,606	5,879,246	15,539,360	399,200
7-7/8% Bond 2021	02/15/21	11,113,373	9,964,573	1,148,800	334,400
8-1/8% Bond 2021	05/15/21	11,958,888	5,530,088	6,428,800	304,320
8-1/8% Bond 2021	08/15/21	12,163,482	5,178,522	6,984,960	156,400
8% Bond 2021	11/15/21	32,798,394	6,239,494	26,558,900	582,450
7-1/4% Bond 2022	08/15/22	10,352,790	8,445,590	1,907,200	97,600
7-5/8% Bond 2022	11/15/22	10,699,626	2,944,426	7,755,200	78,400
7-1/8% Bond 2023	02/15/23	18,374,361	13,815,961	4,558,400	336,000
6-1/4% Bond 2023	08/15/23	22,909,044	20,298,164	2,610,880	79,232
7-1/2% Bond 2024	11/15/24	11,469,662	3,991,422	7,478,240	45,040
7-5/8% Bond 2025	02/15/25	11,725,170	5,240,370	6,484,800	249,600
6-7/8% Bond 2025	08/15/25	12,602,007	12,218,647	383,360	178,840
6% Bond 2026	02/15/26	12,904,916	12,806,316	98,600	15,300
6-3/4% Bond 2026	08/15/26	10,893,818	10,822,618	71,200	0
6-1/2% Bond 2026	11/15/26	11,493,177	11,480,377	12,800	0
Total		928,139,654	703,845,646	224,294,008	9,198,982

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

Note: On the 4th workday of each month Table VI will be available after 3:00 p.m. 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.

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
February 4, 1997

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(202) 622-2960

TREASURY DIRTY-MONEY CRACKDOWN NETS $30 MILLION

Treasury Under Secretary for Enforcement Raymond W. Kelly said Thursday the Treasury has renewed an anti-money laundering initiative in the New York metropolitan area that already has resulted in $30 million in currency seizures, 15 search warrants, three arrests and one conviction.

Kelly said the geographical targeting order, known as a GTO, aimed at certain money remitters has been renewed for 60 more days. It had been scheduled to expire on February 2.

The anti-money laundering initiative was instituted in August 1996 against money remitters involved in specified transactions with Colombia and has disrupted movement of illicit proceeds to that country. About 3,500 money remitter agents in the New York metropolitan area have been subject to reporting requirements under the GTO.

Investigative activity indicates that structuring of transactions by certain agents of the targeted remitters is continuing, in an apparent effort to avoid reporting suspect transactions. (Structuring involves breaking down a large transaction into several smaller transactions which then fall below the reporting requirement.) Investigations of this structuring are ongoing and are a reason for the extension of the order. Additional search warrants are also expected shortly.

Issued under the authority of the Bank Secrecy Act (BSA), a key anti-money laundering law, a GTO is used to impose stricter reporting and record keeping requirements on specified financial service providers in a certain geographical area for a limited time period. The New York GTO requires the remitters in question to obtain and report identifying information about the parties to all remittances of cash to Colombia of $750 or more. The renewal means the order will remain in place until April 3, 1997.

The GTO was requested by U.S. Attorneys for the Eastern District of New York, the Southern District of New York and the District of New Jersey, along with senior enforcement officials of the U.S. Customs Service and Internal Revenue Service. It is designed to assist the El Dorado Task Force, a multi-agency anti-money laundering task force comprising federal, state and local law enforcement authorities. The request for the GTO was made to the Treasury's Financial Crimes Enforcement Network (FinCEN), which administers the BSA.

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"The New York GTO continues to have a devastating effect on the ability of money remitters to launder drug proceeds," Kelly said. "The GTO has made it much more risky for criminals to structure remittances to Colombia without being detected."

Remitters are businesses which receive money from customers and remit these funds to designated recipients, often located overseas. Evidence gathered by law enforcement identified the state-licensed money remittance companies and their agents in the New York metropolitan area that were particularly vulnerable to abuse by cartel money launderers.

Much of the foundation to justify the GTO was laid during investigations of several money remitters and their agents in New York. On July 24, 1996, Vigo Remittance Corp. pleaded guilty to structuring financial transactions to avoid standard BSA reporting requirements. Earlier this month, Remesas America Oriental was indicted for activities related to money laundering. Numerous other agents and their employees have been successfully prosecuted for money laundering over the past few years.

The GTO has dramatically reduced the flow of narcotics proceeds through money remitters in New York City to Colombia. For example:

- Several of the transmitters targeted under the GTO have stopped sending funds to Colombia.
- Many others are sending significantly lower amounts than they were before the GTO.
- Currency seizures have dramatically increased. Seizures from JFK Airport during the first half of the GTO period were nine times higher than they were during the same period in 1995, and seizures have continued at rates approximately 400% higher than they were during comparable periods in past years.

"The GTO is a powerful tool that could be used in similar situations to combat money laundering," said Stanley E. Morris, Director of FinCEN. "Based on the success of the GTO and the analysis that FinCEN is conducting in cooperation with other law enforcement agencies, we are considering broader, more permanent regulatory steps to address vulnerabilities in the money remitter industry."

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TREASURY NEWS

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February 7, 1997

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of January 1997.

As indicated in this table, U.S. reserve assets amounted to $68,200 million at the end of January 1997, down from $75,089 million in December 1996.

U.S. Reserve Assets (in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/		Reserve Position in IMF 2/
				ESF	System	
1996						
December	75,089	11,048	10,312	19,112	19,182	15,435
1997						
January	68,200p	11,048p	9,793	14,826	18,161	14,372

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/ Holdings of Treasury Exchange Stabilization Fund (ESF) and Federal Reserve System. Beginning November 1978, these holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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FOR IMMEDIATE RELEASE
February 7, 1997

Contact: Michelle Smith
(202) 622-2960

U.S./RUSSIA SIGN BILATERAL DEBT ACCORD

Treasury Deputy Secretary Lawrence H. Summers and Russian Deputy Minister of Finance Michael M. Kasyanov on Thursday signed a $2.3 billion debt rescheduling agreement. This comprehensive agreement follows a series of yearly rescheduling agreements since 1993.

The agreement formally implements for the United States a debt rescheduling accord reached last April between the Paris Club of official creditors and Russia. That accord, the largest rescheduling in the Paris Club's 40 year history, removes the need for repeated reschedulings, and helps Russia achieve a sustainable debt service profile that will allow it to meet all of its external debt obligations.

"Once again, this agreement underlines our support for Russia's economic reform. It was made possible by Russia's continued commitment to stabilization under the International Monetary Fund's $10 billion medium-term Extended Fund Facility program, which was signed in early 1996." Deputy Secretary Summers said.

Deputy Secretary Summers reiterated the importance of Russia's pursuing economic reform vigorously. "If Russia is to achieve its full economic potential, it must move ahead with structural reforms in key areas, such as tax and legal reform, and in the fight against crime and corruption," he said.

This agreement stretches out Russia's payment period for up to 25 years on certain principal and interest payments falling due from 1996-99 and on certain loans due after 1999. Since 1993, the United States, acting in concert with other creditor governments in support of Russia's move to a market economy, has rescheduled a total of $4.3 billion of debt payments on Soviet-era debt.

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Post G-7 Press Statement
by
Treasury Secretary Robert E. Rubin

Let me start by thanking Theo Waigel and Hans Tietmeyer for hosting us in this great city.

Let me give you a quick summary of the highlights of our meeting this afternoon.

First, on the economic outlook, we agreed that the crucial challenge for the G-7 in the year ahead is to achieve sustained balanced expansion in the G-7 economies. It is clear that we each face different policy requirements for sustaining and strengthening expansion.

We heard an interesting presentation from our European colleagues about how they are addressing the challenges of strengthening growth, placing fiscal deficits on a sustainable path, and implementing structural reforms to reduce unemployment. We also reviewed recent developments toward European Monetary Union.

The Japanese continue to face an important challenge in maintaining the supportive macroeconomic policy stance necessary to promote a strong domestic-demand led recovery, implementing structural reforms to open the Japanese economy, and policies to strengthen the banking system. I think it's fair to say that these concerns merit a fair amount of attention going forward.

In our discussion, we briefed our G-7 colleagues about the balanced budget proposal President Clinton submitted to Congress on Thursday. This budget builds on the progress we have made thus far in reducing the federal deficit by 60 percent while focusing public and private investments on programs, like education and aiding America's inner cities, which will increase our productivity long-term. It is our belief that the President and Congress have not been this close to reaching agreement on a budget leading to a balance in nearly 30 years. We will work diligently to reach this objective.

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(more)

On the exchange markets, let me read a statement that reflects our common view:

> "The Ministers and Governors discussed developments in exchange and financial markets. We believe that major misalignments in exchange markets noted in our April 1995 communique have been corrected. We reaffirmed our views that exchange rates should reflect economic fundamentals and that excess volatility is undesirable. We agreed to monitor developments in exchange markets and to cooperate as appropriate."

And let me add what I said yesterday. A strong dollar is in the United States interest. We have had a strong dollar for some time now.

Finally, we reviewed progress on a number of initiatives now underway to strengthen the world financial system and reform the international financial institutions. In this context, I reaffirmed the President's pledge to meet our past commitments to these institutions and to provide our share of future programs. These institutions play a critical role in advancing our interest in a strong and secure global economy, and they also generate jobs and exports for the American people. Supporting these institutions is profoundly in the U.S. security and economic interests.

The next time we meet, I will be welcoming my G-7 counterparts to Washington, D.C., where we will continue our preparations for Denver. It will be our honor to see them there.

I would be happy to respond to your questions.

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DEPARTMENT OF THE TREASURY

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FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m. EDT
February 11, 1997

STATEMENT OF
J. MARK IWRY
BENEFITS TAX COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

I am pleased to present the views of the Department of the Treasury on the implementation of the portability, access, and renewability provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). This legislation, enacted on a bipartisan basis with the strong support of the Administration, provides important insurance reform that enhances health care coverage for American families. We commend this Committee for its critical efforts in achieving passage of this law. We are committed to working to implement the law in ways that protect the ability of workers and their families to maintain their health insurance when they change jobs, without imposing undue burdens on employers, plans, insurance carriers, and others providing coverage.

In the spirit of the shared responsibility for the HIPAA group market portability provisions among the Departments of the Treasury, Labor, and Health and Human Services, the three Departments have taken a coordinated approach to implementation. Consistent with this approach, portions of the testimony presented to the Committee today by the three Departments are very similar or identical.

My testimony will focus on the process of promulgating regulations relating to the HIPAA provisions that promote portability of health care coverage. At the outset, however, it is helpful to understand the legislative context and statutory structure within which the regulatory process is proceeding. Accordingly, we will first provide background on the pre-HIPAA laws relating to group health plans, including COBRA, and on the new HIPAA legislation.

BACKGROUND

Laws Relating to Group Health Plans

In General. The States generally have the primary regulatory authority over the sale of insurance. Policies offered in connection with group health plans, as well as policies sold in the individual health insurance market, are generally regulated under State insurance law. In addition, even before enactment of HIPAA, group health plans were subject to certain federal requirements under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code) and the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Internal Revenue Code provides substantial tax benefits with respect to group health plans. For example, the value of employer-provided health insurance coverage and reimbursements under self-insured accident and health plans are generally excluded from income and employment taxes.

ERISA includes requirements concerning the disclosure of information to participants and beneficiaries under group health plans and other employee welfare benefit plans, reporting of information to the Federal government, and fiduciary responsibilities regarding the management of these plans. The Department of Labor interprets and enforces these ERISA provisions.

COBRA. The health care continuation coverage rules (commonly known as COBRA) were enacted under the Consolidated Omnibus Budget Reconciliation Act of 1985 and have been subsequently amended (most recently by HIPAA). Under COBRA, a group health plan generally is required to offer employees and their dependents an opportunity to elect to continue coverage under the plan at the time of a qualifying event (such as termination of employment). The plan must permit coverage to continue for a specified period, such as 18 months in the case of termination of employment, and the coverage provided must be the same as coverage provided to similarly situated beneficiaries. A plan is permitted to charge up to 102 percent of the "applicable premium" for COBRA continuation coverage. The continuation coverage can cease upon certain events, such as nonpayment of premiums, termination of all of the group health plans of the employer, or coverage by another group health plan that does not include a preexisting condition exclusion with respect to the qualified beneficiary.

The COBRA continuation coverage provisions are part of the Internal Revenue Code, ERISA, and the Public Health Service Act. Under the Internal Revenue Code provisions, which are administered by the Internal Revenue Service, failure to meet these COBRA requirements can result in imposition of an excise tax on employers. The parallel continuation coverage requirements contained in Title I of ERISA are administered by the Department of Labor. The parallel continuation coverage requirements contained in the Public Health Service Act apply to

State and local governmental group health plans and are administered by the Department of Health and Human Services.

COBRA includes overlapping regulatory jurisdictions that may be compared with the HIPAA portability regulatory jurisdictions. However, the legislative history of COBRA allocated certain responsibilities among the Departments. Specifically, under the legislative history, the Department of the Treasury has authority to issue guidance regarding the continuation coverage that is required under COBRA, and the Department of Labor has authority to issue guidance implementing the COBRA disclosure and reporting requirements and the authority to enforce COBRA under ERISA. The Department of Health and Human Services administers the COBRA requirements imposed on governmental plans under rules conforming to those issued by the Treasury and Labor Departments.

HIPAA Portability Provisions

In General. HIPAA sets forth Federal requirements relating to portability, access, and renewability of group health plan and group health insurance coverage. (These HIPAA provisions are referred to below as the "portability" provisions.)

The HIPAA portability provisions relating to group health plans are set forth under a new subtitle K of the Internal Revenue Code (sections 9801 - 9806), a new part 7 of Subtitle B of Title I of ERISA, and a new Title XXVII, Part A of the Public Health Service Act. (These portability provisions are referred to below as the "group market" provisions.) HIPAA also added provisions governing insurance in the individual market[1] which are contained only in the Public Health Service Act, and thus are not within the regulatory jurisdiction of the Department of the Treasury (or the Department of Labor). (These portability provisions are referred to below as the "individual market" provisions.)

In general, the group market provisions create concurrent jurisdiction for the Secretaries of the Treasury, Labor, and Health and Human Services. The statute provides for the three Departments to share regulatory responsibility for most of the group market provisions, although some of these provisions are within the regulatory jurisdiction of only one Department,[2] and

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[1] These provisions are being addressed in the testimony of Dr. Bruce Vladeck, Administrator of the Health Care Financing Administration, Department of Health and Human Services.

[2] For example, HIPAA includes new provisions requiring that participants and beneficiaries receive a summary description of certain material reductions under a group health plan that are solely within the jurisdiction of the Department of Labor, and certain provisions relating to the availability and renewability of health insurance for employers that are solely within the jurisdiction of the Department of Health and Human Services.

others are within the regulatory jurisdiction of only two of the three Departments.[3] None of the group market portability requirements are solely within the regulatory jurisdiction of the Treasury Department.[4]

Limitations on Preexisting Condition Exclusions. HIPAA's portability provisions limit the ability of group health plans and group health insurance issuers to impose preexisting condition exclusions. The statute defines a preexisting condition exclusion as a limitation or exclusion of benefits relating to a condition that is based on the fact that the condition was present before the date of enrollment. Under HIPAA, a preexisting condition exclusion may be imposed only if it relates to a condition for which medical advice, diagnosis, care, or treatment was received or recommended within six months prior to the individual's "enrollment date." In addition, a preexisting condition exclusion may not be applied for more than 12 months (or 18 months in the case of late enrollment) after the enrollment date.

If the individual has previous "creditable coverage," including coverage under another group health plan, the maximum preexisting condition exclusion period must be reduced by the aggregate of the individual's periods of creditable coverage. Coverage may be disregarded if it precedes a 63-day break in coverage (unless State rules require that there have been a break that is longer than 63 days in order for coverage to be disregarded with respect to insurance issued in the State) or if the coverage consists solely of certain "excepted" benefits. In addition, special protections apply for pregnancy, and for newborn children, adopted children, and children placed for adoption.

Certification of Creditable Coverage. To enable individuals to provide evidence of, and thus receive credit for, previous coverage, HIPAA generally requires that group health plans and health insurance issuers provide certifications of the period of creditable coverage. Certifications must be provided when an individual ceases plan coverage or otherwise becomes covered under COBRA, when an individual ceases COBRA coverage, and in certain cases where a request is made. Because this certification process applies broadly to nearly all group health plans and health insurance issuers, it has been a major focus of our efforts to develop regulations, described in greater detail below.

Special Enrollment Rights. We believe that a fundamental underpinning of the portability provisions is that employees and dependents should have the ability to maintain health coverage even when they change jobs or leave the group market. To that end, HIPAA allows an employee or dependent to elect to enroll in a group health plan under certain conditions involving

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[3]For example, HIPAA includes new preemption provisions within the jurisdiction of the Departments of Labor and Health and Human Services that allow certain more stringent State insurance provisions to apply to insured plans.

[4]There are other provisions of HIPAA, outside of the portability provisions, that are within the principal jurisdiction of the Department of the Treasury.

either the loss of coverage from another group health plan or the addition of a new family dependent by marriage, birth, adoption, or placement for adoption. One of the practical implementation issues that will arise under the new law is the coordination of an individual's existing health insurance continuation and conversion rights with the new special enrollment rules. In certain cases, an individual must exhaust his or her continuation rights (which may involve the payment of premiums for extended periods of time, e.g., 18 months) in order to be eligible for special enrollment. This will present new options that can complicate the health care continuation decisions of a family with an ill member. These new enrollment rights, especially in conjunction with the new limits on preexisting condition exclusions and existing COBRA rules, will enable employees and dependents to enroll when they need coverage, provided they can afford the coverage and understand their rights.

Prohibiting Discrimination Based on Health Status. The HIPAA group market rules prohibit a group health plan or health insurance issuer in the group market from establishing rules for an individual's eligibility to enroll in a plan based on an individual's medical history, evidence of insurability, or other health status-related factors. The legislative history indicates that these include factors relating to personal activities, such as skiing or riding horses. Similarly, a group health plan or health insurance issuer in the group market cannot require an individual to pay greater premiums or contributions based on any health status-related factor. An exception is provided for discounts, rebates, or modifications to copayments or deductibles in return for adherence to "programs of health promotion and disease prevention" (sometimes referred to as "wellness" programs). The need to interpret and apply these new legal concepts (health status-related factors and wellness programs) will be among the issues making implementation of HIPAA more challenging.

Effective Dates. HIPAA includes a number of effective date provisions.

- The substantive requirements of the HIPAA group market rules, such as the limitations on preexisting condition exclusions and the prohibitions on discrimination based on health status-related factors, are generally effective for plan years beginning after June 30, 1997. For example, in the case of any plan that is maintained on the basis of a calendar plan year, these provisions generally will be effective on January 1, 1998.

- Special effective date rules require individuals to receive a certification of their coverage in certain cases before the general effective date of the substantive HIPAA group market rules. Specifically, the requirement that a group health plan and a health insurance issuer in the group market deliver to individuals certifications of their creditable coverage upon certain events (e.g., loss of coverage) applies to events occurring after June 30, 1996. However, no certification is required to be provided before June 1, 1997. Certifications are not required to reflect coverage before July 1, 1996, and certifications for events before October 1, 1996 need be provided only upon written request.

Under HIPAA, the Departments are instructed to "first issue by not later than April 1, 1997, such regulations as may be necessary to carry out" the group market portability provisions. At the same time, HIPAA provides that no enforcement action may be taken, pursuant to the group market portability provisions, against a group health plan or health insurance issuer with respect to a violation of a requirement imposed by those provisions before January 1, 1998 (or in the unexpected event that regulations are delayed, the date of issuance of the regulations), if the plan or issuer has sought to comply in good faith with those requirements.

These effective date provisions delineate a coordinated implementation time line: April 1, 1997 (for issuance of the regulations); June 1, 1997 (for issuance of certain certifications); July 1, 1997 (earliest effective date for non-calendar year plans); and January 1, 1998 (general effective date for calendar year plans and expected end of the good faith period).

IMPLEMENTATION OF HIPAA PORTABILITY PROVISIONS

The three Departments have been working in concert, as described below, to implement the HIPAA portability rules, including our continuing efforts to take into account comments from the public.

Regulation Process

A guiding principle in the process of developing regulations has been to implement HIPAA's provisions in a manner that is faithful to the protections provided for workers and their families, while remaining sensitive to the burdens imposed on employers, plans, insurance carriers, and others. During this process we have taken into account, and will continue to take into account, the comments we receive concerning the portability guidance.

Interagency Meetings and Drafting of Regulations. In enacting HIPAA, Congress established a compressed timetable to govern implementation of the portability provisions. As indicated above, the portability rules generally apply with respect to plan years beginning after June 30, 1997, and HIPAA directs the three Departments to first issue, by April 1, 1997, such regulations as may be necessary to carry out these rules. Further, in adding very similar group market provisions in three separate statutes, Congress created a structure under which the Departments must coordinate their efforts. Accordingly, HIPAA provides that the Departments are to execute an interagency memorandum of understanding (MOU) under which departmental regulations, rulings, and interpretations relating to the shared provisions are to be administered so as to have the same effect at all times and enforcement policies are to be coordinated in a manner that avoids duplication of efforts and assigns enforcement priorities.

Personnel from the three Departments met directly after HIPAA's enactment and quickly developed a working arrangement for the development of regulations to be issued by the statutory goal of April 1, 1997. Under this working arrangement, staff from each Department have been assigned to a number of interagency working groups that take responsibility for relevant portions of the regulations. After collective analysis of the issues, personnel were designated to develop an initial draft for each relevant provision. Following circulation of the initial drafts, members of the working groups have been working collaboratively to resolve outstanding issues. The working groups meet on an almost daily basis. In addition, a larger interagency group will be involved in reviewing the drafts produced by the working groups and is coordinating the overall regulatory project. The draft regulations will be reviewed by each Department and submitted to the Office of Management and Budget (OMB) for Exec. Order (EO) No. 12866 review before publication.

The development of HIPAA regulations by three Departments on a collaborative basis is neither an easy nor a simple task. The process has led us to appreciate better the difficult challenge that your Committee, and the other Congressional committees of jurisdiction, confronted in crafting the legislation. However, we believe that this process of developing the regulations is proceeding well. The interagency teams are working in a spirit of cooperation and open mindedness, and are actively taking into account the information and views received from the public. We have made substantial progress in developing regulations on the shared provisions, and believe that we are on track to meet the April 1 goal.

At the same time, we have initiated a process for development of an MOU. As the first component, the operational understanding among the Departments is to have personnel from all three Departments work together to draft group market regulations dealing with the shared provisions. However, we believe that the most critical aspects of any MOU will be those that create a framework for the future administration of the HIPAA rules after the regulations are issued, i.e., for how the Departments will interpret and enforce the law after it goes into effect. The regulatory process is providing us with insights as to the most appropriate roles for each agency and potential methods for allocation of interpretative authority and enforcement priority . Consequently, after the process of drafting the regulations has been completed, the Departments will be in a better position to develop a formal MOU specifying the allocation of future administrative guidance and enforcement responsibilities. Accordingly, the Departments intend to complete and execute the MOU after promulgation of the initial regulations.

Comments From Interested Parties. Personnel from the Treasury Department have held meetings regarding the portability provisions with representatives of the National Association of Insurance Commissioners (NAIC) and with plan administrators. The Departments of Labor and Health and Human Services have also been meeting with outside groups and, as indicated in Dr. Vladeck's testimony, the Health Care Financing Administration has been working closely with the States as part of its unique role in the process. Personnel from all three Departments, including the Internal Revenue Service, have attended and spoken at conferences, both to educate others about HIPAA and to be educated about concerns and issues raised by those affected by the new requirements. We, of course, also have received and responded to correspondence and telephone inquiries from the public regarding HIPAA.

In addition, last December, the Departments published in the Federal Register a public solicitation of comments on the HIPAA portability provisions. The Departments indicated that they had received comments from the public on a number of issues arising under these provisions. They announced that further comments from the public on all issues under the portability provisions were welcome in order that comments could be taken into account, to the extent practicable, for purposes of developing the regulations before April 1, 1997. We believe that consideration of public comments, both on behalf of employees, dependents, and others seeking health care coverage, and on behalf of employers, plan administrators, and insurance issuers, is, and will continue to be, an essential component of our implementation efforts.

The solicitation of comments also noted that, in response to questions already received, the Departments were considering whether to include in the regulations a model certification that could be used to certify an individual's period of creditable coverage. The Departments indicated that such a model certification might include information identifying the parties involved, whether the individual had at least 18 months of coverage under the plan without a 63-day break, and, if not, the start and end dates of coverage periods (and any related waiting period), but not information concerning the particular benefits provided under the plan. Under this possible approach, information concerning the particular benefits provided under a plan would be required to be furnished only if another plan or issuer, after receiving the model certification, requested additional information in accordance with the statute.

The solicitation of comments specifically requested input on whether a model certification would be useful. The Departments are considering whether a model certification could significantly reduce the potential burdens on employers and insurance carriers, while also making the certification process more effective for employees and dependents. The Departments are considering whether and how a model could facilitate the transmission of coverage information by standardizing the information that employees and dependents receive and deliver to their next group health plan or use to evidence their eligibility for coverage in the individual market. Such a model certification approach could minimize the information collection burden and could become the commonly-used standard. Thus far, the idea of a model certification has been well received, and some suggestions have been submitted regarding appropriate formats for a model.

This open comment process has provided the Departments with valuable information to consider during our work implementing the HIPAA provisions. Public comments will also be received and taken into account as part of the review of the implementation of HIPAA's provisions that will be made by OMB under EO 12866. We also intend, of course, to make the public record of this hearing a part of the record of our rulemaking process.

Other Interim Guidance with Respect to Group Market Provisions

As noted, the Treasury Department has been collaborating with the Departments of Labor and Health and Human Services to implement the statutory provisions. For example, HIPAA required that each group health plan notify, by November 1, 1996, every one of its qualified beneficiaries in the United States who was on COBRA continuation coverage about certain changes to COBRA that were enacted under HIPAA. To that end, all three Departments were actively involved in developing a technical bulletin, issued by the Department of Labor in October of 1996, that not only described the new COBRA provisions, but also functioned as a model notice that could be used to satisfy the notification requirement. We have received favorable comments on the usefulness of this bulletin, and are pleased that it has facilitated the implementation of HIPAA.

CONCLUSION

The HIPAA portability reforms will help employees move more freely from job to job, which should benefit the economy. People will have new health insurance rights that will enable them to obtain coverage even if they have preexisting conditions, to enroll promptly when they lose other coverage or have new dependents, and to participate in group health plans without discrimination based on factors relating to their individual health status.

These are important reforms that we are working hard to implement in a way that will balance the protections they provide to individuals with the burdens on entities that offer health care coverage. Our goal is to issue the necessary regulations by the April 1, 1997 statutory date. After the regulations have been issued, we will continue to take into account public comments as we consider whether changes should be made to the regulations or whether additional guidance should be issued.

Until the regulations are issued, and thereafter, we will continue our efforts to listen to what the public and other affected parties are telling us, both with respect to the need for health insurance portability and with respect to the administrative burdens and requirements imposed on employers, insurance carriers, and plans. Moreover, we hope that Congress will continue the bipartisan effort to improve the availability of health care in the United States, including further steps toward the goal of health insurance coverage for all Americans.

The Treasury Department appreciates the opportunity to testify before this Committee concerning the implementation of HIPAA's portability provisions.

Mr. Chairman, this concludes my formal statement. I will be pleased to answer any questions you or other Members may wish to ask.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 10, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,087 million of 13-week bills to be issued February 13, 1997 and to mature May 15, 1997 were accepted today (CUSIP: 9127944J0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.99%	5.12%	98.739
High	5.02%	5.16%	98.731
Average	5.02%	5.16%	98.731

Tenders at the high discount rate were allotted 23%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$60,487,775	$13,087,295
Type		
Competitive	$55,192,317	$7,791,837
Noncompetitive	1,423,573	1,423,573
Subtotal, Public	$56,615,890	$9,215,410
Federal Reserve	3,445,485	3,445,485
Foreign Official Institutions	426,400	426,400
TOTALS	$60,487,775	$13,087,295

5.00 -- 98.736   5.01 -- 98.734

RR-1494

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 10, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,204 million of 26-week bills to be issued February 13, 1997 and to mature August 14, 1997 were accepted today (CUSIP: 9127945J9).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.06%	5.26%	97.442
High	5.08%	5.29%	97.432
Average	5.07%	5.28%	97.437

Tenders at the high discount rate were allotted 9%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$50,378,027	$13,204,489
Type		
Competitive	$42,071,822	$4,898,284
Noncompetitive	1,289,505	1,289,505
Subtotal, Public	$43,361,327	$6,187,789
Federal Reserve	3,380,000	3,380,000
Foreign Official Institutions	3,636,700	3,636,700
TOTALS	$50,378,027	$13,204,489

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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**TESTIMONY OF
ROGER L. ANDERSON
DEPUTY ASSISTANT SECRETARY for FEDERAL FINANCE
DEPARTMENT OF THE TREASURY
before the
SENATE COMMITTEE on AGRICULTURE, NUTRITION, and FORESTRY
on the
TREASURY AMENDMENT
to the
COMMODITY EXCHANGE ACT
Tuesday, February 11, 1997**

I welcome this opportunity to speak to you today about the Treasury Amendment to the Commodity Exchange Act (CEA). This is an important issue for many different kinds of financial firms, their customers, and the government entities that regulate them.

The Treasury Amendment provides an exemption from the CEA for off-exchange transactions in foreign currency, government securities and certain other financial instruments. The language of the Treasury Amendment was proposed, as its name implies, by the Treasury Department. Congress incorporated this language virtually unchanged into the CEA in 1974.

Treasury's goal in proposing the amendment was to protect the immense and important foreign exchange and government securities markets from potentially burdensome or overlapping regulation.

In a letter to the Chairman of the Senate Agriculture Committee in 1974, Treasury noted that the foreign currency market in the United States consisted primarily of sophisticated players, such as banks and dealers, and that many of the participants in this market were already regulated. Therefore, Treasury argued, it would be inappropriate to impose an additional layer of CFTC regulation on what was a highly complex, and highly successful, function. Treasury noted in its letter that the foreign currency market "has proved highly efficient in serving the needs of international business in hedging the risks that stem from foreign exchange rate movements." (S. Rep. No. 1131, 93rd Cong., 2d Sess. 50, 1974)

Treasury believes that the argument for protecting the foreign currency and government securities markets from unnecessary regulation and uncertainty is, if anything, more compelling today than it was in 1974. According to the most recent triennial survey conducted by the Bank for International Settlements (BIS), the average daily turnover in the global foreign exchange markets was $1.2 trillion in April, 1995. And, I would note, these survey results include only the "traditional" foreign exchange instruments (spots, forwards and swaps), and therefore do not include data on a wide range of over-the-counter and exchange-traded derivatives in financial

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products. In recent years, the global market for just "traditional" foreign exchange instruments expanded at the rate of about 30% percent during the three-year period which ended in April, 1995.

According to the same BIS survey, United States financial centers enjoyed a 16% share of the business in these global markets for spots, outright forwards and foreign exchange swaps. This can be compared to Britain's 30% share, and Japan's 10% share. The trend in recent years has been for Britain's share to increase (up from 27% in 1989), while that of the U.S. has remained stable.

These foreign currency and government securities markets have proved extremely useful to U.S. businesses, including small and large importers and exporters.

However, the Treasury Amendment has been the focus of extensive argument in recent court cases, including matters currently before the Supreme Court in the Dunn case. The resulting legal uncertainty over the scope of the Treasury Amendment may have had the effect of inhibiting the development of new hedging products for use by small businesses.

We are not here to restate the legal arguments about the current Treasury Amendment language. Our focus is to resolve the uncertainty in a manner that addresses the extant enforcement problem -- providing the CFTC with explicit authority to prosecute those who defraud unsophisticated retail customers in foreign currency derivatives transactions -- without burdening successful, efficient markets.

The CFTC has long expressed its concern with our interpretation of the Treasury Amendment on its ability to prosecute foreign exchange bucket shops. Treasury has also long acknowledged that it may be appropriate to ensure that the CFTC has enforcement authority to prosecute bucket shops or boiler rooms in foreign currency derivative transactions. The stated goal behind the CFTC's recent enforcement cases is one Treasury endorses.

However, Treasury does not believe it is good public policy to pursue discrete enforcement actions in a way that creates new uncertainty for broad groups of market participants.

Treasury does believe that it is important to maintain the original goals of the Treasury Amendment. Treasury also believes that the scope of the changes currently being sought by the CFTC go beyond what is necessary to prosecute those who perpetrate fraud against small investors. These changes would create unnecessary and overlapping layers of regulation in segments of the financial markets where large institutional investors are the only participants, and in market segments where no fraud has been proven.

Treasury and the CFTC began negotiating in December 1995, to try to reach agreement on what the Treasury Amendment should cover. As the basis of our negotiations, we put aside our disagreements over how to interpret the existing language of the Treasury Amendment, including matters currently before the Supreme Court in the Dunn case.

We appreciate the efforts of former CFTC Chair Mary Shapiro, for starting the discussions, and of Commissioner John Tull, who, when he was Acting Chair of the CFTC, pushed the discussions. Current CFTC Chair Brooksley Born has also been very supportive in continuing the discussions.

While our discussions with the CFTC did not result in a legislative package on which both agencies can agree, the process was very useful. Treasury and the CFTC learned a great deal about each other's concerns.

Treasury and the CFTC staff also managed to reach agreement on several issues, some of which are reflected in the legislative proposals prepared by Treasury and the CFTC. The areas of common ground are the following:

o Futures and options should be treated the same for Treasury Amendment purposes.
o The when-issued market for government securities is not subject to CFTC jurisdiction.
o The OTC foreign exchange derivatives market is a valuable asset to this country and contributes to its economic health. Its presence in this country should not be discouraged.
o Foreign currency bucket shops should not be allowed to escape federal anti-fraud enforcement.
o There should be federal recourse for retail customers defrauded in foreign exchange derivatives transactions.
o In the foreign exchange derivatives area, the CFTC is an appropriate entity to pursue retail fraud committed by entities that are not otherwise subject to federal regulation.
o Other problems or uncertainties shouldn't be created in the course of fixing existing problems.

But while there is some common ground between Treasury and the CFTC, there are still many areas of disagreement. As the discussions between Treasury and the CFTC progressed, some basic differences in approach and philosophy concerning the Treasury Amendment became clear. In particular, two basic differences made it very difficult to reach agreement on a comprehensive legislative package.

First, Treasury and the CFTC came to the discussions with different starting points, based on our different interpretations of the current language of the Treasury Amendment. Treasury interprets the Treasury Amendment as a broad exemption from CFTC regulation of all transactions in the financial instruments listed in the Amendment (including futures and options), regardless of the nature or identities of the parties engaged in the transactions. Given this starting point, Treasury views its legislative proposal as granting explicit authority to the CFTC in a way which will enable it to pursue fraud actions against those who prey on retail customers in foreign exchange derivatives transactions. By contrast, the CFTC views the current Treasury Amendment as inapplicable to transactions involving retail customers. It therefore views the very specific language contained in the Treasury proposal as a limitation on existing CFTC authority. As a result, when Treasury and the CFTC came together to discuss the scope of the CFTC's authority, the CFTC asked why what it perceives as its existing authority should be cut back, and the Treasury questioned why the CFTC needs more authority than necessary to address the problems of fraud in the retail market for foreign currency derivative instruments.

Second, the CFTC approaches Treasury Amendment issues as a regulatory and enforcement agency responsible for protecting "retail investors," whereas Treasury approaches these same issues from the standpoint of a policy agency focussed on promoting market efficiency, liquidity, depth and economic growth. Thus, the CFTC has sought varying degrees of enforcement authority in broad market segments, even where no problems have been demonstrated to exist. The Treasury looks at the issues from the perspective of the market participants, which to date are largely institutions that have abided by, and want to keep abiding by, the rules of fair play. Treasury is trying to ensure that participants in U.S. financial markets aren't adversely affected by unclear, overlapping or duplicative regulation.

The Treasury is sympathetic to the CFTC's enforcement concerns. That is why we have made our proposal. Nevertheless, Treasury does not see a need for overbroad legislation.

In the past few weeks, the CFTC and Treasury have delivered to this Committee separate legislative proposals to amend the Treasury Amendment. Chairman Lugar and Senators Harkin and Leahy have introduced S. 257 to amend portions of the Commodity Exchange Act, including the Treasury Amendment. I understand that various trade associations may also present legislative proposals.

The proposal submitted by the Treasury Department addresses the problem of retail fraud in the foreign exchange derivatives markets in a clear and direct manner, without creating new ambiguities, imposing burdens on markets where no problems have been shown to exist, or unnecessarily increasing the regulatory burden of entities that are already subject to Federal regulation. Treasury believes that the CFTC's legislative proposal would increase, not reduce, the current environment of legal uncertainty that surrounds derivatives transactions in foreign currency and government securities.

I will not go into the details of Treasury's proposal, but I would like to highlight the major concerns Treasury has with the CFTC's proposal. There are four.

First, Treasury sees no need whatsoever for the CFTC to regulate government securities transactions other than on organized futures exchanges. This market is already adequately regulated under the securities laws by the SEC and Treasury. Increased regulation or increased legal uncertainty could increase market participants' costs, which would result in higher interest costs for the government and the taxpayers. Indeed, when it enacted the Government Securities Act of 1986, Congress recognized that unnecessary or inflexible regulation could increase the government's borrowing costs, and it acknowledged the need to preserve both the efficiency and the integrity of that market.

The second key difference between Treasury and the CFTC concerns the treatment of the over-the-counter institutional market for foreign exchange derivatives. In principle, the CFTC has acknowledged that it agrees with Treasury that the "interbank market [should] remain exempt from regulation under the CEA." These markets function well; no problems have been shown to exist; and the participants are well equipped to assert their own rights if wronged. Under the current Treasury Amendment, this market is entirely exempt from the CEA.

However, the CFTC's draft legislation does not provide an unambiguous exemption for this market. Rather, the CFTC's exemption depends on a judgment call, presumably to be made by the CFTC, that other Federal regulatory schemes do not adequately address fraud and price manipulation. The CFTC's proposed legislation, if enacted, would likely result in continued uncertainty concerning the scope of exempted activities, and in more litigation. Such uncertainty could harm these important markets and could cause an increasing share to move overseas.

Treasury's proposal specifically gives the CFTC the authority to pursue those who commit fraud on retail customers in foreign currency futures and options transactions, if they are not otherwise federally regulated. By contrast, the CFTC's proposal would allow it to prohibit all off-exchange foreign currency transactions conducted with retail customers, even if sold by a bank.

Our third major concern is that we see no need for the CFTC to prohibit all these transactions. There are legitimate reasons for such over-the-counter transactions. For example, a small cheese importer that wants to hedge its exposure to Danish kroner cannot find that protection in an exchange-traded instrument, because currently there are no Danish kroner contracts.

Our fourth major concern is that we see no need for the CFTC to have jurisdiction over the retail activities of banks, broker-dealers, and investment companies. There is no evidence that the existing federal regulation of such institutions is inadequate.

The CFTC's proposal strongly favors exchange trading. Undoubtedly, various financial futures and options have thrived in that environment. A significant share of the business of the Chicago Board of Trade is represented by government securities contracts, and Eurodollar contracts represent a significant share of business on the Chicago Mercantile Exchange. However, there is a fundamental question as to whether exchange trading is appropriate for all transactions involving financial instruments that, in the view of the CFTC, may constitute futures contracts or options. One answer to this question can be found in the actions of the financial markets themselves: the notional amount of foreign exchange transactions traded over-the-counter is several orders of magnitude greater than that traded on exchanges. There are competitive reasons why that business is done off the exchanges. Similarly, there are competitive reasons why the business that is done on the exchanges is done there.

Our discussions with the CFTC continue, notwithstanding our recent legislative proposals. We look forward to working with this Committee, as well as with the CFTC, the banking agencies, the SEC, and market participants on these issues.

The CFTC has stated that its principal concern over our interpretation of the Treasury Amendment is with retail fraud. Retail fraud in foreign exchange derivatives has been the basis for several enforcement actions that the CFTC has recently brought. The Treasury Department has long acknowledged that the CFTC should have enforcement authority over those who are not otherwise adequately regulated and who defraud unsophisticated investors in foreign exchange transactions. We should remain focussed on that concern. There are those who have questioned whether Treasury's proposal covers all potential wrongdoings. Retail fraud in foreign exchange derivative transactions is the only enforcement problem that has been shown to exist. Treasury believes that a narrowly crafted solution to that problem is appropriate.

EMBARGOED UNTIL 1 P.M. EST
Text as Prepared for Delivery
February 11, 1997

Treasury Secretary Robert E. Rubin
Statement before the
House Ways and Means Committee

Mr. Chairman, I appreciate this opportunity to appear today to discuss the President's budget proposal for fiscal year 1998.

This weekend I was in Berlin for a meeting of our G-7 economic partners. It wasn't so long ago when the other industrial nations roundly criticized the United States at G-7 meetings for not attending to its economic affairs and we were viewed as yesterday's economy. That situation is now exactly the opposite. The United States is once again viewed as the world's economic leader.

They understand that the primary source of U.S. economic strength today results from having squarely faced our challenges -- in both the private and public sectors-- including dramatic progress in restoring fiscal order. In Berlin, we also discussed the issues which the President emphasized in his State of the Union: how the globalization of the economy and the information revolution has made it more important than ever to have an educated workforce; how we must initiate policies which will bring more people into the economic mainstream; and how essential it is for all nations to remain engaged in the world. Meeting these challenges will further advance U.S. economic strength going forward, and that is the right path for the rest of the world as well.

It is in this context that I want to talk about the President's budget this morning.

We are in strong economic shape today and within striking distance of balancing the budget. This would not have happened without the deficit reduction program enacted in 1993, which has reduced the size of the deficit from 4.7% to 1.4% of GDP. That deficit reduction, in turn, inspired broad business confidence and drove down interest rates, which then drove and sustained the economic recovery. In fact, the United States now has the best economic conditions among all of the developed major industrial nations. Our economy has created over 11 million new jobs since 1993; inflation has remained low; exports are booming; and we've experienced record levels of investment, which is critical to future productivity. And just as deficit reduction has been the critical factor in these economic conditions, so is it critical to a strong economy over the long-term.

We have an historic opportunity to work together and finish the job. There is strong support among the public for balancing the budget and there is, I believe, a change of attitude in Washington about the importance of fiscal responsibility. Moreover, the global capital markets have created a powerful new incentive for fiscal order, by punishing fiscal laxity with high interest rates that are inimical to economic health. We can, should and must work together to capitalize on this moment and get the job done.

The President's budget will get us to balance by 2002. It does so using real numbers and no gimmicks while protecting our priorities and investing in our people. In prior Administrations, budgets were too often based on rosy economic scenarios-- and, when the actual deficits came in much higher than projected, the result was not only a higher deficit but increased public cynicism about the ability of the government to get its fiscal house in order. Under President Clinton, we have used prudent and realistic economic assumptions. As a result, actual deficits have come in lower than either OMB or CBO have projected in each of the last four years, which, I believe, is unprecedented. Our 1998 budget is done in the same spirit of sound policies and prudent, realistic economic and technical assumptions.

Our budget makes tough choices. It eliminates 254 programs outright for $2.9 billion in savings, combs discretionary spending, auctions broadcast spectrum, and contains a number of proposals to close corporate loopholes and improve compliance. Our proposal cuts Medicare spending by $100 billion over five years, but without adversely affecting the quality of care for beneficiaries or the amount they must pay out-of-pocket. In the absence of change, the Part A Hospital Trust Fund will become insolvent in 2001. The President's proposal extends the solvency of the Part A trust fund to 2007. At the same time, we recognize that there are obviously long term entitlement problems due to demographic trends such as the aging of the baby boomers, which we must address through a bipartisan process.

Mr. Chairman, as the President said in his State of the Union Address, balancing the budget requires votes by Congress, and the President's signature. It does not require a balanced budget amendment. Indeed, as strongly committed as the President is to a balanced budget, he has an equally strong conviction, which I firmly share, that a balanced budget amendment is a threat to our economic health and should not be adopted. Such an amendment will not make for us the tough policy choices that we ourselves must make to balance the budget, and it will subject our economy to unacceptable risks.

Within the context of moving toward a balanced budget it is extremely important that we invest in areas critical to future productivity and U.S. global leadership. There are, obviously, many specific initiatives in the budget worth mentioning, and most of them were mentioned last week by OMB Director Raines in his testimony before the Senate Budget Committee, but today I would like to focus on just a few significant ones -- the President's proposals aimed at giving middle class people the opportunity to obtain the skills they need to prosper in this economy, as well as proposals to move the residents of our inner cities and distressed rural areas into the economic mainstream.

First, the President's tax program provides targeted tax cuts for the middle class.

The Administration's program would make it easier for middle class families to raise children, save for retirement, and pay for post-secondary education. In addition, the Administration is proposing to eliminate capital gains taxes for nearly all homeowners when they sell their home.

The President is proposing tax cuts that total $100 billion over five years. I believe that amount strikes the correct balance between advancing the goals of a balanced budget, and providing tax relief. Tax cuts that are much higher than the Presidents' proposals would require us to make program reductions that would unduly harm our economy and our society. In many areas, the Congressional budget and the Presidential budget are close: not on tax cuts. I hope we can close this gap. What we should not do is engage in a "bidding war" over tax cuts.

Second, the President's budget bolsters areas critical to future productivity. The surest way to enhance productivity, and maintain our country's competitive edge in the future, is by investing in areas that have long term payoffs. To that end, the Administration proposes extending the R&D tax credit for another year; substantial additional spending on education and training; a new effort to ensure health care for children; and new initiatives to encourage businesses to hire former welfare recipients and to help states and cities locate jobs to move families from welfare to work. I mention moving families from welfare to work in the context of enhancing productivity because I believe that bringing welfare recipients into the economic mainstream and eliminating the social costs associated with welfare is critical to the future economic growth of the country and affects everyone. Welfare reform *is* an economic issue, as well as a social issue. Revitalizing our cities and moving welfare recipients to work is part of a much broader effort to bring the economically disenfranchised, many of whom are not welfare recipients, into the economic mainstream. The budget contains tax incentives to clean up environmentally contaminated land in distressed areas, known as brownfields; new empowerment zones; and increased investments in Treasury's CDFI fund. This is the right time to implement these leaner, private-sector oriented approaches toward fostering growth in the inner cities as we move to balance the budget.

The final area I wish to mention regards the importance of providing adequate resources to maintain U.S. leadership in the global economy.

The budget seeks a significant increase in overall funding to sustain our international engagement, and our role, as the President says, as the world's indispensable nation. To shape world events to advance our security and economic self-interest, we must meet our international obligations and support and lead in the United Nations and in the international financial institutions, such as the World Bank, the International Development Association and the International Monetary Fund. We should do so not for charitable reasons, but because it is in the economic self-interest and national security self-interest of the United States and our citizens. Bringing developing countries into the economic mainstream raises living standards, promotes political stability -- and it increases markets for U.S. exports.

Mr. Chairman, as I said earlier, I believe we have an historic opportunity to complete the job we started in 1993 and balance the budget; and to do so in a way that protects our priorities, both for now and the future. Let me conclude by thanking you again for this opportunity to discuss the President's budget proposal. I look forward to working with all of you this year.

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Expanded Tax-Free Treatment for Forgiveness of Student Loans. The Budget eliminates the tax liability that normally arises when debt is forgiven, if the lender is a charitable or educational institution that lends money to a student to pay for education and then forgives the loan after the student fulfills a commitment to perform community or public service at low pay for a certain period of time. The same tax-free treatment would also apply when the Federal government forgives a loan made through the direct student loan program for a student who has been making income-contingent repayments for an extended period.

Tax-Free Employer-Provided Educational Assistance. Currently, up to $5,250 of tuition paid by an employer pursuant to a qualified educational assistance program need not be included in the income of the employee. However, the exclusion for undergraduate education expires in mid-1997, and the exclusion ceased to apply to graduate-level courses after mid-1996. The budget would reinstate the exclusion for graduate-level assistance retroactive to its prior expiration, and would extend both undergraduate- and graduate-level assistance through December 31, 2000.

Ten Percent Tax Credit to Small Businesses that Provide Educational Assistance to Employees. For taxable years beginning after December 31, 1997, and before January 1, 2001, small businesses (employers with average annual gross receipts of $10 million or less for the prior three years) would be allowed a 10 percent income tax credit for payments for education of employees by third parties under an employer-provided educational assistance program.

Expansion of Individual Retirement Accounts. The Budget expands the availability of deductible individual retirement accounts (IRAs) by doubling, over time, the current income limits for deductible contributions. In 1997 through 1999, eligibility would be phased out for couples filing joint returns with AGI between $70,000 and $90,000 ($45,000 and $65,000 for single filers). Beginning in 2000, eligibility would be phased out for couples filing joint returns with AGI between $80,000 and $100,000 ($50,000 and $70,000 for single filers). The income phaseout, as well as the $2,000 annual contribution limit, would be indexed for inflation beginning in 2001. As under current law, any individual who is not an active participant and whose spouse is not an active participant in an employer-sponsored plan would be eligible for deductible IRAs without regard to their income.

In addition, beginning in 1997, taxpayers would have the option of either deducting the amount deposited in an IRA account, or foregoing an immediate deduction and be free of tax and penalties when the funds are withdrawn from a new Special IRA, provided the funds remain in the Special IRA for at least five years.

APPENDIX: SUMMARY OF TAX PROVISIONS

The President's FY 1998 budget provides much-needed tax relief for middle-income families, and tax incentives to boost investment in distressed areas and promote hiring of the economically disadvantaged. It also eliminates unwarranted corporate tax subsidies, closes tax loopholes, and improves tax compliance, and it reinstates the expired excise and other taxes that are dedicated to various trust funds.

Middle Class Bill of Rights

These tax cuts will help middle-class families pay their bills, raise their children and send them to college, upgrade their own skills, and plan for retirement.

$500 Child Tax Credit. Taxpayers would receive a $500 nonrefundable credit ($300 in 1997, 1998 and 1999) for each dependent child under the age of 13. The credit would be phased-out for taxpayers with adjusted gross income (AGI) between $60,000 and $75,000. Beginning in 2001, both the amount of the credit and the phase-out range would be indexed for inflation.

Education and Training Incentives. The Budget provides carefully targeted education and training incentives to make postsecondary education more accessible for middle-income Americans and to make 14 years of education the norm.

> ***HOPE Scholarship Tax Credits.*** Taxpayers would be able to claim a nonrefundable tax credit of up to $1,500 per year (indexed for inflation beginning in 1998) for two years, to cover tuition and fees for themselves, their spouses, or their dependents while enrolled at least half-time in the first two academic years of a degree program. To take the credit in the second year, the student must have attained the equivalent of at least a B minus grade point average in course work completed before that year. No credit is available if the student is convicted of a drug-related felony. Federal grants (but not loans or work-study payments) reduce the allowable credit. The credit is phased out for families filing a joint return with modified AGI between $80,000 and $100,000 (between $50,000 and $70,000 for single filers), indexed for inflation beginning in 2001. The credit would apply to course work beginning after June 1997.
>
> ***Education and Job Training Tax Deduction.*** As an alternative to the HOPE scholarship, taxpayers could elect to deduct up to $10,000 per year ($5,000 in 1997 and 1998) of tuition and fees for students enrolled at least half-time in a degree program or for courses to improve job skills. The deduction is taken in determining AGI, so it is available to all taxpayers whether or not they itemize. Unlike the HOPE Scholarship credit, which is calculated per-student, the deduction does not vary with the number of students in a family. The deduction is phased out at the same income levels as the HOPE Scholarship credit and would apply to course work beginning after June 1997.

Finally, penalty-free early withdrawals from either type of IRA would be expanded to include withdrawals to pay for higher education costs, first-home purchases, long-term unemployment, and catastrophic medical costs of certain family members not covered under current law.

Exclusion of Gain on Sale of a Principal Residence. The Budget provides substantial simplification and tax relief for millions of Americans by replacing the current-law tax treatment of capital gains on home sales with an exclusion of up to $500,000 of gain for married taxpayers filing joint returns ($250,000 for other taxpayers). The exclusion is available every two years, so long as the taxpayer used the house as a principal residence for at least two of the five years prior to the sale. The exclusion generally applies to sales on or after January 1, 1997.

Empowering Communities and the Economically Disadvantaged

The Budget will spur private-sector participation in revitalizing distressed communities and generate job opportunities for long-term welfare recipients.

Tax Incentives to Clean Up Blighted "Brownfields" in Distressed Areas. To encourage companies to clean up abandoned, contaminated industrial properties located in distressed communities, remediation costs incurred in connection with the abatement or control of certain environmental contaminants would be immediately deductible if incurred for a qualified site. Qualified sites include business or income-producing properties located in specified high-poverty areas where it has been certified that hazardous substances are present or potentially present in the property. The deduction would be subject to recapture as ordinary income upon a subsequent disposition of the property at a gain. The proposal would apply to expenses incurred after the date of enactment.

Additional Empowerment Zones and Enterprise Communities. 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 current empowerment zone tax incentives to these additional areas, with technical modifications. In addition, 20 additional empowerment zones and 80 additional enterprise communities, which will be subject to modified eligibility criteria, would be authorized. These additional zones would have available a different combination of tax incentives than those available to existing zones. Among the 20 zones, 15 would be in urban areas and 5 would be in rural areas. The 80 communities would be divided between 50 urban areas and 30 rural areas. Areas within Indian reservations would be eligible for designation.

Tax Credits for Community-Oriented Equity Investments. The Community Development Banking and Financial Institutions Act of 1994 created the Community Development Financial Institutions (CDFI) Fund to provide equity investments, grants, loans, and technical assistance to financial institutions that have community development as their primary mission. The Budget would make $100 million in nonrefundable tax credits available to the CDFI Fund to allocate among equity investors between 1997 and 2006. The allocation of credits is capped at 25 percent of the amount invested in any project and would be determined by the CDFI Fund using a competitive process.

Tax Credits to Facilitate the Transition from Welfare to Work. The goal of the Welfare Reform Act of 1996 (the Welfare Act) is to move individuals from welfare to work. To help achieve this goal, the Budget includes a new welfare-to-work credit that would enable employers to claim a 50-percent credit on the first $10,000 of annual wages paid to certain long-term public assistance recipients for up to two years. In addition, the Budget would expand the existing Work Opportunity Tax Credit to include able-bodied adults, ages 18-50, who have met their responsibilities under the law but are subject to the time limits for food stamps under the Administration's proposal to amend the Welfare Act. These proposals would be effective from the date of enactment through September 30, 2000.

Estate Tax Relief for Small Businesses and Farms

Under current law, estate tax attributable to certain closely held businesses may be paid in installments (interest-only for four years, followed by up to ten annual installments of principal and interest). A special four-percent interest rate is provided for the tax deferred on the first $1 million of value. Only certain types of business arrangements are eligible for the installment payment provision, and a special estate tax lien applies to property on which the tax is deferred during the installment payment period. The Budget increases the value cap on the special low interest rate from $1 million to $2.5 million, expands the availability of these rules to other comparable business arrangements, and authorizes the Secretary to accept security arrangements in lieu of the special estate tax lien. These proposals would be effective for decedents dying after 1997.

Other Tax Relief Provisions

Extension of Expiring Tax Provisions. The Budget would extend each of the following provisions for one year from their current expiration date:

- The 20-percent credit for research and experimentation expenditures (expiring May 31, 1997);
- The 35-percent Work Opportunity Tax Credit for employment of targeted hard-to-employ groups (expiring September 30, 1997);
- The 50-percent credit for qualified clinical testing of certain drugs for rare diseases or conditions (known as "orphan drugs") (expiring May 31, 1997);

and

- The fair-market-value deduction allowed for contributions of appreciated stock to private foundations (expiring May 31, 1997).

Equitable Tolling of the Statute of Limitations. To ensure that disabled persons are fairly treated when filing for tax refunds, the statute of limitations for refunds from the Internal Revenue Service would be delayed when the individual is under a sufficient medically determined disability and no other person has been authorized to act on the taxpayer's behalf in financial matters. The proposal would be effective for taxable years ending after the date of enactment.

Tax Incentives for Economic Development of the District of Columbia. To encourage employment of disadvantaged residents and to revitalize those D.C. areas where development has been inadequate, tax incentives are proposed.

Tax Credit for Economic Development of Puerto Rico. To provide a more efficient and effective tax incentive for the economic development of Puerto Rico, the Budget modifies the economic-activity credit for Puerto Rico by extending it indefinitely, opening it to newly established business operations, and removing the income cap.

Foreign Sales Corporation (FSC) Benefits for Computer Software Licenses. To reflect technological advancements, the Budget extends the current FSC export benefit to include computer software licensed for reproduction abroad, effective for licenses granted after the date of enactment.

Closing Corporate Tax Loopholes and Other Revenue Measures

The Budget includes proposals previously proposed by the Administration to eliminate unwarranted corporate tax subsidies, close tax loopholes, and improve tax compliance. Such measures include:

- Proposals focused on financial products, to maintain the distinction between debt and equity, curtail arbitrage opportunities, prevent avoidance of gain recognition on functional sales, and properly measure income;

- Proposals focused on corporate transactions, to prevent tax-free disguised sales of businesses, prevent the manipulation of the stock redemption rules to distort income, eliminate the use of inventory methods that mismeasure income, and reduce corporate subsidies such as percentage depletion on lands received from the Federal government at a bargain price;

- Proposals focused on the international tax rules, to measure export income more accurately, prevent manipulation of the foreign tax credit rules through artificial labels, and eliminate distortions resulting from the use of derivative financial instruments; and

- Proposals focused on increasing tax compliance, for example by tightening the substantial understatement penalty for very large corporations, expanding withholding on gambling winnings, and streamlining debt collection procedures for non-means tested, recurring Federal payments.

Extension of Expired Excise and Other Trust Fund Taxes. The Budget also proposes reinstatement of the excise and other trust fund taxes that have expired: the Airport and Airways Trust Fund excise taxes; the Hazardous Substance Superfund Trust Fund excise and income taxes; the Oilspill Liability Trust Fund excise taxes; and the Leaking Underground Storage Tank Trust Fund excise tax. These are not new taxes: they have been applied for years to finance specific programs, such as the provision of air traffic control services and the cleanup of certain hazardous waste sites. Each of these taxes would be extended through 2007

Tax Simplification and Taxpayers' Rights

The Administration continues to support revenue-neutral initiatives designed to promote sensible and equitable administration of the tax laws, including simplification, technical corrections, compliance, and taxpayers' rights measures. In the near future, the Administration will propose to Congress a package of such measures.

U.S. Government Statement on Microenterprise Development and Microfinance
For the Microcredit Summit, February 2-4, 1997

This statement outlines the rationale behind the Clinton Administration's strong support for microenterprise development. It lays out a vision for the role of the public sector in supporting microenterprise development and outlines actions that this Administration plans to take.

The basis for any long term solution to poverty rests in the capacity of people to raise their own incomes. In the United States and in other countries, microenterprise development has been recognized as a promising approach for helping poor people to better their lives. The Clinton Administration sees microenterprise development, and concomitant efforts to provide financial services to microentrepreneurs, as important components of its community economic development strategy here at home and a priority in its foreign assistance strategy abroad.[1]

The basic premise of microenterprise development is that the best and most plentiful resource for fighting poverty is the energy of low-income people themselves. In the past, social policy has sometimes disregarded, and thus failed to harness, this energy; all too often, anti-poverty programs have treated recipients as passive, thus reinforcing dependency. This Administration believes that giving people the tools and opportunities they need to increase their incomes themselves is the strongest approach, an approach that affirms the values of hard work and free enterprise while also helping to develop local communities.

The simple idea of bringing poor people's capacities to bear on overcoming poverty, which microenterprise demonstrates so clearly, resonates through many of President Clinton's policies: in education, training, social services, and in foreign assistance. This idea underlies the President's expansion of Head Start, his education initiatives, and expansion of the earned-income tax credit – to help families choose work over welfare, and to make work pay. By enabling poor people in the U.S. to enter the economic mainstream, we reduce the social cost of poverty, increase national productivity, and improve social conditions for all of us.

In our foreign assistance program, this idea underlies an increasing focus on incorporating the vast majority of the world's poor into economic growth strategies. By encouraging inclusive economic growth abroad, we create new markets for American exporters and investors and increase stability, thereby enhancing our national security. This simple, powerful idea, applied widely, is not only in the interest of the poor, it is in the interest of all Americans, no matter where they live or what their economic status may be.

Microenterprises are very small businesses, often owned and operated by low-income families. The term "microenterprise development" refers to policies and institutions that support the emergence and growth of such enterprises through a variety of means, ranging from finance, to training, to creating an enabling policy environment. "Microfinance" involves the provision of credit, savings and other financial products and services to low-income families, often in support of microenterprises, but also to meet other needs, such as housing or emergencies.

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Microfinance is an area in which harnessing the energies of the poor has already borne fruit. During the past decade – in countries as diverse as Bangladesh, Indonesia, and Bolivia financial innovations have emerged that allow financial services to be extended to people, particularly women, and enterprises previously regarded as "unbankable." With these techniques, it has become possible to lend to very poor people on a businesslike, even profitable, basis. In developing countries, the potential demand for microfinance is enormous and virtually untapped. Just as the creation of the 30-year mortgage transformed home-ownership in our country earlier in this century, so microfinance techniques have the potential to transform the financial systems in many developing countries – from systems that serve primarily a small elite, to systems that serve the vast majority of ordinary people.

It is important to note the key assumptions underlying the Administration's domestic and international policies towards microenterprise development. In all arenas, they build upon the same key ingredients: the need to access capital, markets, new or appropriate technologies and training in basic business and life skills. Throughout the world, there is an overarching need to promote those policy and regulatory reforms that expand and democratize linkages to the formal financial system. Such efforts will help microenterprise development become an effective means of improving the lives of the poor on a significant scale.

Microfinance in the Developing World

The challenge facing microenterprise development globally is to learn from past successes and to bring microfinance to a sustainable scale. To meet this challenge, microfinance practitioners will have to use past successes as the basis for further transformation of the field.

To date, most innovation in developing microfinance has occurred outside the traditional financial system with non-government organizations (NGOs), credit unions, and specialized financial institutions. Much of this innovation has been financed by government and international donors such as USAID, the World Bank and other multilateral development banks (MDBs), as well as private foundations. The promise of microfinance in the future, however, depends on its integration with the formal financial system. Fortunately, microfinance has the potential to make this transformation because microfinance services can be provided on a profitable basis. Profitable microfinance institutions will attract private investment, qualify to raise deposits from the public, and operate into the future without subsidies. In short, only profitable institutions will have the access to funds to enable them collectively to reach many millions of clients.

If microfinance is to make a difference to the millions of people around the world who currently lack access to financial services, it will have to move beyond the limited bounds of public funding, to full integration within the private financial market system. Three major efforts are needed to meet this challenge:

- NGOs and other specialized financial institutions should move increasingly away from donor dependence and onto commercial sources of funds, whether through linking to the financial system or, if and where qualified, through mobilizing savings.

- Commercial financial institutions such as banks and finance companies should begin serving micro-level clients directly. These institutions have the funds and the infrastructure to reach millions of clients, but until now have lacked the techniques and the interest. There are signs that this is changing, as banks in places as diverse as Chile and Sri Lanka are developing their own microfinance services.

- NGOs and specialized institutions should continue efforts to reach the poorest clients, those in remote, rural areas, and those in need of extra social or economic services. Additional efforts are needed to develop innovative methods for reaching these groups on a sustainable basis.

Profitability is key to the future of microfinance. The role of the public sector governments and international donor agencies – is to initiate and catalyze, through seed capital, technical assistance and policy changes, those changes that will make profitability possible. Public investment must be crafted to support the transition to commercial sources of funds. Several important tasks for donors and government follow from this conception of their role.

Governments, for the most part, should focus on providing the enabling environment for microfinance, through firm but supportive banking regulation and supervision and other legal and regulatory reforms, such as those to protect private property rights, which support the private sector. On the policy level, development of a microfinance industry is part of a continuum of financial sector reforms intended to facilitate economic growth – of micro- and small businesses, as well as medium- and larger-scale enterprises. The goal of governments should be to create financial systems that work and that are accessible. To the extent that governments do make direct investments, it should be in the development of microfinance institutions rather than through directly providing funds for microcredit.

Donors should leverage their limited funds by investing in the most promising microfinance institutions: those with greatest potential to reach large numbers profitably, or those pushing hardest to reach disadvantaged populations. This support should be based on clear performance targets that prepare microfinance institutions for increased reliance upon commercial sources of funds. Donor agencies must particularly avoid using their funds to postpone that time when institutions become financially independent. Together, donors and governments have an important function in promoting adherence to sound financial practices emerging in the international microfinance industry. Increasingly, these practices will become the standards that will serve as the foundation for the emergence of a larger, more mature financial system that serves the poor.

Microenterprise Development in the United States

The U.S. financial system is highly developed. It serves the majority of Americans who are employed in formal jobs. Self employment has grown as Americans seek to replace lost corporate jobs, supplement incomes generated from minimum and low wage jobs and to create flexible and rewarding work environments. But even here, we are confronted with the need to continually extend the boundaries of the financial system to reach those who are more difficult to serve. Indeed, microfinance is just one example of this Administration's commitment to increasing the flow of private capital and other financial services to economically distressed areas.

- The Clinton Administration has reduced regulations and paperwork to make the Community Reinvestment Act (CRA) more effective for borrowers and less burdensome for banks.

- It launched the Treasury Department's Community Development Financial Institutions (CDFI) Fund to provide seed and expansion capital to community-based banks, community loan funds, community development credit unions, and microlenders.

- It has launched Empowerment Zones and Enterprise Communities around the country.

- It pioneered the use of the Unemployment Trust Fund as the source of self-employment allowances for individuals establishing their own businesses (as an alternative to drawing unemployment benefits while searching for employment).

Microenterprise development is a critical element of this picture. Microenterprise development programs in the United States are a grassroots response to the recognition that low-income people have the potential to build successful enterprises. It is a young, diverse field that operates with diverse types of clients who lack access to finance or business-related skills, including rural entrepreneurs, welfare recipients, dislocated or downsized workers, people with damaged credit histories, struggling entrepreneurs in distressed communities, and recent immigrants. Some need mainly access to credit, while others need help with basic education, technology, or business and life skills.

These characteristics of the microenterprise field -- its youth, its diverse mix of clients and services, its placement within a well-developed financial sector and, above all, its grassroots origins should be the factors that shape government's response. As in the international realm, the role of the federal government is that of a catalyst, helping to move the field forward towards still untested frontiers.

The federal government has an important role to play in defining how microenterprise fits into the national economy, and in ensuring that the policy environment is conducive to self-employment. In shaping support for microenterprise development, the Administration recognizes that initiative in this emerging field has and will continue to come from practitioners. Thus, support mechanisms should be as flexible as possible to allow continued methodological innovation, leading ultimately to a better understanding of what models are most effective. Creative partnerships between government and private entities will be needed.

Over the next five years, as the field of microenterprise development matures, government can assist in promoting and disseminating information about effective methods -- "best practices" and in supporting the emergence of performance standards. Fortunately, commercial banks and thrifts in the U.S., with the encouragement of the federal financial regulatory agencies and the Community Reinvestment Act, have begun to show a willingness to provide loan capital for microenterprise lending. However, government and private foundations continue to remain the chief sources of funding for institutional development and the ongoing operating costs of training, business and social development services that these programs provide.

Plan of Action in Support of Domestic Microenterprise Development

The U.S. Government is involved in several initiatives to support microenterprise development in the United States. Implemented by the Treasury's Community Development Finance Institutions (CDFI) Fund, these initiatives include:

- Direct funding of microenterprise loan funds through the CDFI Fund program. The CDFI Fund recently made financial awards to two microenterprise programs ACCION Texas and FINCA USA – and also made investments in several other CDFIs that include microlending as part of their financing programs. The Fund is launching a significant training and technical assistance initiative that will enhance the capacity of CDFIs, including microloan funds.

- Administration of the Presidential Awards for Excellence in Microenterprise Development. President Clinton recently announced the first winners of the Presidential Awards for Excellence in Microenterprise Development. Each award winner exemplifies, in a distinct manner, the dimensions of excellence in the U.S. microenterprise development field.

- Coordination of the Federal Microenterprise Initiative, an effort to promote collaboration among the various federal agencies engaged in supporting microenterprise development. Currently, federal programs housed in agencies such as the Treasury, the Small Business Administration, and the Departments of Health and Human Services, Housing and Urban Development, Labor, and Agriculture support microenterprise development efforts. Interagency collaboration affords a concerted and focused federal effort to advance the development of the microenterprise field.

Plan of Action in Support of International Microfinance

The U.S. Government supports international microfinance through three principal mechanisms: the development assistance programs carried out by USAID; our support for and guidance to the multilateral development banks (MDBs); and our international policy dialogue with other governments through bilateral channels and in multilateral fora. The Clinton Administration is committed to utilizing all three of these channels to support microenterprise development and the expansion of microfinance services around the world.

USAID has been one of the recognized leaders among international donor agencies in its level of support for and expertise in microfinance. In 1994, USAID launched a Microenterprise Initiative designed to make microfinance a more prominent part of its economic growth strategy. Last year, Administrator Atwood renewed this initiative, under which USAID will continue to support microenterprise at annual levels similar to those in recent years, primarily through its overseas missions. It will deepen microenterprise strategies within each regional bureau and in many mission programs. USAID will also maintain a strong central program responsible for funding microenterprise programs of U.S. private voluntary organizations, carrying out research, development and information exchange, and training USAID and partner organization staff. As it works towards the goals of the Microcredit Summit, USAID will:

- Select institutions that show a high potential for reaching the poor while achieving financial viability in its funding decisions about microenterprise;

- Stress linkages to the formal financial system and explore ways to involve commercial financial institutions in microfinance;

- Place special emphasis on poverty lending, and ensure that more than half of all clients served will be women and that more than three-fourths of clients receiving microfinance services from USAID-supported institutions will be poverty-lending clients; and

- Apply performance targeting in its grants, and support the development of international financial performance standards for microfinance.

In coordination with USAID and other U.S. Government agencies, the Treasury Department promotes U.S. development policy through the multilateral development banks (MDBs), including the World Bank and the various regional development banks. The Treasury does this through the Secretary of the Treasury's role on the boards of governors as well as through the U.S. Executive Directors at each of these institutions. Treasury will continue to encourage the MDBs to improve mechanisms for the support of microfinance by:

- Encouraging the MDBs to work directly with governments, as part of individual country lending strategies, to devise the policy and regulatory frameworks supportive of microenterprise and microfinance, including reforms of property rights and labor and capital markets;

- Promoting microfinance institution-building, helping to expand financial intermediation by up-grading the capacities of NGO-sponsored financial institutions and developing new technologies to promote competition for microfinance business among regulated financial institutions;

- Developing sustainable, demand-driven training programs to provide the technical services (such as accounting and bookkeeping, regulatory compliance and marketing support) that can assist microenterprises to grow into businesses within the "formal" economy;

- Developing innovative programs to channel funds, as appropriate, to entities engaged in microfinance; and

- With USAID, continuing to support the Consultative Group to Assist the Poorest (CGAP) – a multi-donor organization focused on microfinance housed in the World Bank – in its efforts to raise the quality of donor involvement in microfinance operations, mainstream microfinance programs within the Bank, exchange best practices, and develop industry standards.

The U.S. will also pursue its microenterprise development agenda in a variety of bilateral and multilateral fora. For example, at the December 1994 Summit of the Americas, President Clinton along with the Heads of State from 33 other democratic nations in this hemisphere, agreed that strengthened support for microenterprise and small business is a key component of sustainable and equitable development. This agreement laid the foundation for the Inter-American Development Bank's MICRO 2001 program which will build on the past successes with its global microcredit program and the small projects windows of the Inter-American Bank and the Multilateral Investment Fund.

At last year's meeting of the hemisphere's Finance Ministers, this commitment to microenterprise development was reiterated. The Ministers, led by Secretary Rubin, recognized that programs to improve the infrastructure and operations of financial markets are central to expanding small scale entrepreneurs' access to capital, and that microfinance institutions can facilitate the mobilization of savings to fund investment and broaden economic participation. They directed the Committee on Hemispheric Financial Issues, co-chaired by the Treasury Department, to address issues of microenterprise development as part of its broader financial market development agenda.

Through various multilateral efforts – such as the G7/G10 Emerging Markets Initiative on bank supervisory and regulatory reforms – as well as ongoing bilateral policy dialogues, the U.S. will continue to promote microenterprise development and the need to create supportive policy environments for microenterprises and microfinance.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 11, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for $17,754 million of 3-year notes, Series U-2000, to be issued February 18, 1997 and to mature February 15, 2000 were accepted today (CUSIP: 9128272H4).

The interest rate on the notes will be 5 7/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	5.990%	99.689
High	6.005%	99.649
Average	5.997%	99.670

Tenders at the high yield were allotted 23%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$39,418,126	$17,753,926

The $17,754 million of accepted tenders includes $713 million of noncompetitive tenders and $17,041 million of competitive tenders from the public.

In addition, $1,837 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $805 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
February 11, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,000 million, to be issued February 20, 1997. This offering will result in a paydown for the Treasury of about $1,175 million, as the maturing weekly bills are outstanding in the amount of $27,180 million.

Federal Reserve Banks hold $6,829 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 $3,621 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, as amended) 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-1500

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED FEBRUARY 20, 1997

February 11, 1997

Offering Amount	$13,000 million	$13,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4K 7	912794 2T 0
Auction date	February 18, 1997	February 18, 1997
Issue date	February 20, 1997	February 20, 1997
Maturity date	May 22, 1997	August 21, 1997
Original issue date	November 21, 1996	August 22, 1996
Currently outstanding	$14,139 million	$20,572 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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FOR IMMEDIATE RELEASE
February 13, 1997

Contact: Michelle Smith
(202) 622-2960

RUBIN, ALBRIGHT TO BRIEF ON INTERNATIONAL AFFAIRS BUDGET

Treasury Secretary Robert E. Rubin will join Secretary of State Madeleine Albright in a briefing on the fiscal year 1998 foreign affairs budget at 1 p.m. Friday, February 14 in the Loy Henderson Conference Room at the State Department.

The briefing is open to the press.

Several hundred business and non-governmental organization leaders interested in international affairs funding are expected to attend. Following Secretaries Rubin and Albright, Ambassador Craig Johnstone, Office of Resources, Plans and Policy Director, will provide further details on the President's budget request.

Press interested in attending should contact the State Department Bureau of Public Affairs at (202) 647-8948 for clearance.

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RR-1501

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FOR IMMEDIATE RELEASE
February 13, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 30-YEAR BONDS

Tenders for $10,004 million of 30-year bonds to be issued February 18, 1997 and to mature February 15, 2027 were accepted today (CUSIP: 912810EZ7).

The interest rate on the bonds will be 6 5/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.625%	99.998
High	6.660%	99.546
Average	6.640%	99.804

Tenders at the high yield were allotted 35%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$24,211,939	$10,003,879

The $10,004 million of accepted tenders includes $318 million of noncompetitive tenders and $9,686 million of competitive tenders from the public.

In addition, $450 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is $1,600,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of $0.54903 per $1,000 of par must be paid for the period February 15, 1997 to February 18, 1997.

RR-1502

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 18, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,143 million of 13-week bills to be issued February 20, 1997 and to mature May 22, 1997 were accepted today (CUSIP: 9127944K7).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.97%	5.10%	98.744
High	4.99%	5.12%	98.739
Average	4.98%	5.11%	98.741

Tenders at the high discount rate were allotted 16%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$55,689,045	$13,143,002
Type		
Competitive	$50,182,160	$7,636,117
Noncompetitive	1,417,390	1,417,390
Subtotal, Public	$51,599,550	$9,053,507
Federal Reserve	3,443,664	3,443,664
Foreign Official Institutions	645,831	645,831
TOTALS	$55,689,045	$13,143,002

An additional $57,169 thousand of bills will be issued to foreign official institutions for new cash.

RR-1503

AUCTION RESULTS
PUBLIC DEBT NEWS
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FOR IMMEDIATE RELEASE
February 18, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,102 million of 26-week bills to be issued February 20, 1997 and to mature August 21, 1997 were accepted today (CUSIP: 9127942T0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.01%	5.21%	97.467
High	5.03%	5.23%	97.457
Average	5.03%	5.23%	97.457

Tenders at the high discount rate were allotted 50%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$46,483,863	$13,102,169
Type		
Competitive	$39,021,741	$5,640,047
Noncompetitive	1,226,303	1,226,303
Subtotal, Public	$40,248,044	$6,866,350
Federal Reserve	3,385,000	3,385,000
Foreign Official Institutions	2,850,819	2,850,819
TOTALS	$46,483,863	$13,102,169

An additional $251,381 thousand of bills will be issued to foreign official institutions for new cash.

5.02 - 97.462

RR-1504

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EMBARGOED UNTIL 10:00 A.M. EST
Text as Prepared for Delivery
February 12, 1997

Treasury Secretary Robert E. Rubin
Statement before the
Senate Finance Committee

Mr. Chairman, I appreciate this opportunity to appear today to discuss the President's budget proposal for fiscal year 1998.

This weekend I was in Berlin for a meeting of our G-7 economic partners. It wasn't so long ago when the other industrial nations roundly criticized the United States at G-7 meetings for not attending to its economic affairs and we were viewed as yesterday's economy. That situation is now exactly the opposite. The United States is once again viewed as the world's economic leader.

They understand that the primary source of U.S. economic strength today results from having squarely faced our challenges -- in both the private and public sectors-- including dramatic progress in restoring fiscal order. In Berlin, we also discussed the issues which the President emphasized in his State of the Union: how the globalization of the economy and the information revolution has made it more important than ever to have an educated workforce; how we must initiate policies which will bring more people into the economic mainstream; and how essential it is for all nations to remain engaged in the world. Meeting these challenges will further advance U.S. economic strength going forward, and that is the right path for the rest of the world as well.

It is in this context that I want to talk about the President's budget this morning.

We are in strong economic shape today and within striking distance of balancing the budget. This would not have happened without the deficit reduction program enacted in 1993, which has reduced the size of the deficit from 4.7% to 1.4% of GDP. That deficit reduction, in turn, inspired broad business confidence and drove down interest rates, which then drove and sustained the economic recovery. In fact, the United States now has the best economic

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conditions among all of the developed major industrial nations. Our economy has created over 11 million new jobs since 1993; inflation has remained low; exports are booming; and we've experienced record levels of investment, which is critical to future productivity. And just as deficit reduction has been the critical factor in these economic conditions, so is it critical to a strong economy over the long-term.

We have an historic opportunity to work together and finish the job. There is strong support among the public for balancing the budget and there is, I believe, a change of attitude in Washington about the importance of fiscal responsibility. Moreover, the global capital markets have created a powerful new incentive for fiscal order, by punishing fiscal laxity with high interest rates that are inimical to economic health. We can, should and must work together to capitalize on this moment and get the job done.

The President's budget will get us to balance by 2002. It does so using real numbers and no gimmicks while protecting our priorities and investing in our people. In prior Administrations, budgets were too often based on rosy economic scenarios-- and, when the actual deficits came in much higher than projected, the result was not only a higher deficit but increased public cynicism about the ability of the government to get its fiscal house in order. Under President Clinton, we have used prudent and realistic economic assumptions. As a result, actual deficits have come in lower than either OMB or CBO have projected in each of the last four years, which, I believe, is unprecedented. Our 1998 budget is done in the same spirit of sound policies and prudent, realistic economic and technical assumptions.

Our budget makes tough choices. It eliminates 254 programs outright for $2.9 billion in savings, combs discretionary spending, auctions broadcast spectrum, and contains a number of proposals to close corporate loopholes and improve compliance. Our proposal cuts Medicare spending by $100 billion over five years, but without adversely affecting the quality of care for beneficiaries or the amount they must pay out-of-pocket. In the absence of change, the Part A Hospital Trust Fund will become insolvent in 2001. The President's proposal extends the solvency of the Part A trust fund to 2007. At the same time, we recognize that there are obviously long term entitlement problems due to demographic trends such as the aging of the baby boomers, which we must address through a bipartisan process.

Mr. Chairman, as the President said in his State of the Union Address, balancing the budget requires votes by Congress, and the President's signature. It does not require a balanced budget amendment. Indeed, as strongly committed as the President is to a balanced budget, he has an equally strong conviction, which I firmly share, that a balanced budget amendment is a threat to our economic health and should not be adopted. Such an amendment will not make for us the tough policy choices that we ourselves must make to balance the budget, and it will subject our economy to unacceptable risks.

Within the context of moving toward a balanced budget it is extremely important that we invest in areas critical to future productivity and U.S. global leadership. There are, obviously, many specific initiatives in the budget worth mentioning, and most of them were mentioned last week by OMB Director Raines in his testimony before the Senate Budget Committee, but today I would like to focus on just a few significant ones -- the President's proposals aimed at giving middle class people the opportunity to obtain the skills they need to prosper in this economy, as well as proposals to move the residents of our inner cities and distressed rural areas into the economic mainstream.

First, the President's tax program provides targeted tax cuts for the middle class.

The Administration's program would make it easier for middle class families to raise children, save for retirement, and pay for post-secondary education. In addition, the Administration is proposing to eliminate capital gains taxes for nearly all homeowners when they sell their home.

The President is proposing tax cuts that total $100 billion over five years. I believe that amount strikes the correct balance between advancing the goals of a balanced budget, and providing tax relief. Tax cuts that are much higher than the Presidents' proposals would require us to make program reductions that would unduly harm our economy and our society. In many areas, the Congressional budget and the Presidential budget are close: not on tax cuts. I hope we can close this gap. What we should not do is engage in a "bidding war" over tax cuts.

Second, the President's budget bolsters areas critical to future productivity. The surest way to enhance productivity, and maintain our country's competitive edge in the future, is by investing in areas that have long term payoffs. To that end, the Administration proposes extending the R&D tax credit for another year; substantial additional spending on education and training; a new effort to ensure health care for children; and new initiatives to encourage businesses to hire former welfare recipients and to help states and cities locate jobs to move families from welfare to work. I mention moving families from welfare to work in the context of enhancing productivity because I believe that bringing welfare recipients into the economic mainstream and eliminating the social costs associated with welfare is critical to the future economic growth of the country and affects everyone. Welfare reform *is* an economic issue, as well as a social issue. Revitalizing our cities and moving welfare recipients to work is part of a much broader effort to bring the economically disenfranchised, many of whom are not welfare recipients, into the economic mainstream. The budget contains tax incentives to clean up environmentally contaminated land in distressed areas, known as brownfields; new empowerment zones; and increased investments in Treasury's CDFI fund. This is the right time to implement these leaner, private-sector oriented approaches toward fostering growth in the inner cities as we move to balance the budget.

The final area I wish to mention regards the importance of providing adequate resources to maintain U.S. leadership in the global economy.

The budget seeks a significant increase in overall funding to sustain our international engagement, and our role, as the President says, as the world's indispensable nation. To shape world events to advance our security and economic self-interest, we must meet our international obligations and support and lead in the United Nations and in the international financial institutions, such as the World Bank, the International Development Association and the International Monetary Fund. We should do so not for charitable reasons, but because it is in the economic self-interest and national security self-interest of the United States and our citizens. Bringing developing countries into the economic mainstream raises living standards, promotes political stability -- and it increases markets for U.S. exports.

Mr. Chairman, as I said earlier, I believe we have an historic opportunity to complete the job we started in 1993 and balance the budget; and to do so in a way that protects our priorities, both for now and the future. Let me conclude by thanking you again for this opportunity to discuss the President's budget proposal. I look forward to working with all of you this year.

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APPENDIX: SUMMARY OF TAX PROVISIONS

The President's FY 1998 budget provides much-needed tax relief for middle-income families, and tax incentives to boost investment in distressed areas and promote hiring of the economically disadvantaged. It also eliminates unwarranted corporate tax subsidies, closes tax loopholes, and improves tax compliance, and it reinstates the expired excise and other taxes that are dedicated to various trust funds.

Middle Class Bill of Rights

These tax cuts will help middle-class families pay their bills, raise their children and send them to college, upgrade their own skills, and plan for retirement.

$500 Child Tax Credit. Taxpayers would receive a $500 nonrefundable credit ($300 in 1997, 1998 and 1999) for each dependent child under the age of 13. The credit would be phased-out for taxpayers with adjusted gross income (AGI) between $60,000 and $75,000. Beginning in 2001, both the amount of the credit and the phase-out range would be indexed for inflation.

Education and Training Incentives. The Budget provides carefully targeted education and training incentives to make postsecondary education more accessible for middle-income Americans and to make 14 years of education the norm.

> *HOPE Scholarship Tax Credits.* Taxpayers would be able to claim a nonrefundable tax credit of up to $1,500 per year (indexed for inflation beginning in 1998) for two years, to cover tuition and fees for themselves, their spouses, or their dependents while enrolled at least half-time in the first two academic years of a degree program. To take the credit in the second year, the student must have attained the equivalent of at least a B minus grade point average in course work completed before that year. No credit is available if the student is convicted of a drug-related felony. Federal grants (but not loans or work-study payments) reduce the allowable credit. The credit is phased out for families filing a joint return with modified AGI between $80,000 and $100,000 (between $50,000 and $70,000 for single filers), indexed for inflation beginning in 2001. The credit would apply to course work beginning after June 1997.
>
> *Education and Job Training Tax Deduction.* As an alternative to the HOPE scholarship, taxpayers could elect to deduct up to $10,000 per year ($5,000 in 1997 and 1998) of tuition and fees for students enrolled at least half-time in a degree program or for courses to improve job skills. The deduction is taken in determining AGI, so it is available to all taxpayers whether or not they itemize. Unlike the HOPE Scholarship credit, which is calculated per-student, the deduction does not vary with the number of students in a family. The deduction is phased out at the same income levels as the HOPE Scholarship credit and would apply to course work beginning after June 1997.

Expanded Tax-Free Treatment for Forgiveness of Student Loans. The Budget eliminates the tax liability that normally arises when debt is forgiven, if the lender is a charitable or educational institution that lends money to a student to pay for education and then forgives the loan after the student fulfills a commitment to perform community or public service at low pay for a certain period of time. The same tax-free treatment would also apply when the Federal government forgives a loan made through the direct student loan program for a student who has been making income-contingent repayments for an extended period.

Tax-Free Employer-Provided Educational Assistance. Currently, up to $5,250 of tuition paid by an employer pursuant to a qualified educational assistance program need not be included in the income of the employee. However, the exclusion for undergraduate education expires in mid-1997, and the exclusion ceased to apply to graduate-level courses after mid-1996. The budget would reinstate the exclusion for graduate-level assistance retroactive to its prior expiration, and would extend both undergraduate- and graduate-level assistance through December 31, 2000.

Ten Percent Tax Credit to Small Businesses that Provide Educational Assistance to Employees. For taxable years beginning after December 31, 1997, and before January 1, 2001, small businesses (employers with average annual gross receipts of $10 million or less for the prior three years) would be allowed a 10 percent income tax credit for payments for education of employees by third parties under an employer-provided educational assistance program.

Expansion of Individual Retirement Accounts. The Budget expands the availability of deductible individual retirement accounts (IRAs) by doubling, over time, the current income limits for deductible contributions. In 1997 through 1999, eligibility would be phased out for couples filing joint returns with AGI between $70,000 and $90,000 ($45,000 and $65,000 for single filers). Beginning in 2000, eligibility would be phased out for couples filing joint returns with AGI between $80,000 and $100,000 ($50,000 and $70,000 for single filers). The income phaseout, as well as the $2,000 annual contribution limit, would be indexed for inflation beginning in 2001. As under current law, any individual who is not an active participant and whose spouse is not an active participant in an employer-sponsored plan would be eligible for deductible IRAs without regard to their income.

In addition, beginning in 1997, taxpayers would have the option of either deducting the amount deposited in an IRA account, or foregoing an immediate deduction and be free of tax and penalties when the funds are withdrawn from a new Special IRA, provided the funds remain in the Special IRA for at least five years.

Finally, penalty-free early withdrawals from either type of IRA would be expanded to include withdrawals to pay for higher education costs, first-home purchases, long-term unemployment, and catastrophic medical costs of certain family members not covered under current law.

Exclusion of Gain on Sale of a Principal Residence. The Budget provides substantial simplification and tax relief for millions of Americans by replacing the current-law tax treatment of capital gains on home sales with an exclusion of up to $500,000 of gain for married taxpayers filing joint returns ($250,000 for other taxpayers). The exclusion is available every two years, so long as the taxpayer used the house as a principal residence for at least two of the five years prior to the sale. The exclusion generally applies to sales on or after January 1, 1997.

Empowering Communities and the Economically Disadvantaged

The Budget will spur private-sector participation in revitalizing distressed communities and generate job opportunities for long-term welfare recipients.

Tax Incentives to Clean Up Blighted "Brownfields" in Distressed Areas. To encourage companies to clean up abandoned, contaminated industrial properties located in distressed communities, remediation costs incurred in connection with the abatement or control of certain environmental contaminants would be immediately deductible if incurred for a qualified site. Qualified sites include business or income-producing properties located in specified high-poverty areas where it has been certified that hazardous substances are present or potentially present in the property. The deduction would be subject to recapture as ordinary income upon a subsequent disposition of the property at a gain. The proposal would apply to expenses incurred after the date of enactment.

Additional Empowerment Zones and Enterprise Communities. 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 current empowerment zone tax incentives to these additional areas, with technical modifications. In addition, 20 additional empowerment zones and 80 additional enterprise communities, which will be subject to modified eligibility criteria, would be authorized. These additional zones would have available a different combination of tax incentives than those available to existing zones. Among the 20 zones, 15 would be in urban areas and 5 would be in rural areas. The 80 communities would be divided between 50 urban areas and 30 rural areas. Areas within Indian reservations would be eligible for designation.

Tax Credits for Community-Oriented Equity Investments. The Community Development Banking and Financial Institutions Act of 1994 created the Community Development Financial Institutions (CDFI) Fund to provide equity investments, grants, loans, and technical assistance to financial institutions that have community development as their primary mission. The Budget would make $100 million in nonrefundable tax credits available to the CDFI Fund to allocate among equity investors between 1997 and 2006. The allocation of credits is capped at 25 percent of the amount invested in any project and would be determined by the CDFI Fund using a competitive process.

Tax Credits to Facilitate the Transition from Welfare to Work. The goal of the Welfare Reform Act of 1996 (the Welfare Act) is to move individuals from welfare to work. To help achieve this goal, the Budget includes a new welfare-to-work credit that would enable employers to claim a 50-percent credit on the first $10,000 of annual wages paid to certain long-term public assistance recipients for up to two years. In addition, the Budget would expand the existing Work Opportunity Tax Credit to include able-bodied adults, ages 18-50, who have met their responsibilities under the law but are subject to the time limits for food stamps under the Administration's proposal to amend the Welfare Act. These proposals would be effective from the date of enactment through September 30, 2000.

Estate Tax Relief for Small Businesses and Farms

Under current law, estate tax attributable to certain closely held businesses may be paid in installments (interest-only for four years, followed by up to ten annual installments of principal and interest). A special four-percent interest rate is provided for the tax deferred on the first $1 million of value. Only certain types of business arrangements are eligible for the installment payment provision, and a special estate tax lien applies to property on which the tax is deferred during the installment payment period. The Budget increases the value cap on the special low interest rate from $1 million to $2.5 million, expands the availability of these rules to other comparable business arrangements, and authorizes the Secretary to accept security arrangements in lieu of the special estate tax lien. These proposals would be effective for decedents dying after 1997.

Other Tax Relief Provisions

Extension of Expiring Tax Provisions. The Budget would extend each of the following provisions for one year from their current expiration date:

- The 20-percent credit for research and experimentation expenditures (expiring May 31, 1997);

- The 35-percent Work Opportunity Tax Credit for employment of targeted hard-to-employ groups (expiring September 30, 1997);

- The 50-percent credit for qualified clinical testing of certain drugs for rare diseases or conditions (known as "orphan drugs") (expiring May 31, 1997);

and

- The fair-market-value deduction allowed for contributions of appreciated stock to private foundations (expiring May 31, 1997).

Equitable Tolling of the Statute of Limitations. To ensure that disabled persons are fairly treated when filing for tax refunds, the statute of limitations for refunds from the Internal Revenue Service would be delayed when the individual is under a sufficient medically determined disability and no other person has been authorized to act on the taxpayer's behalf in financial matters. The proposal would be effective for taxable years ending after the date of enactment.

Tax Incentives for Economic Development of the District of Columbia. To encourage employment of disadvantaged residents and to revitalize those D.C. areas where development has been inadequate, tax incentives are proposed.

Tax Credit for Economic Development of Puerto Rico. To provide a more efficient and effective tax incentive for the economic development of Puerto Rico, the Budget modifies the economic-activity credit for Puerto Rico by extending it indefinitely, opening it to newly established business operations, and removing the income cap.

Foreign Sales Corporation (FSC) Benefits for Computer Software Licenses. To reflect technological advancements, the Budget extends the current FSC export benefit to include computer software licensed for reproduction abroad, effective for licenses granted after the date of enactment.

<u>Closing Corporate Tax Loopholes and Other Revenue Measures</u>

The Budget includes proposals previously proposed by the Administration to eliminate unwarranted corporate tax subsidies, close tax loopholes, and improve tax compliance. Such measures include:

- Proposals focused on financial products, to maintain the distinction between debt and equity, curtail arbitrage opportunities, prevent avoidance of gain recognition on functional sales, and properly measure income;

- Proposals focused on corporate transactions, to prevent tax-free disguised sales of businesses, prevent the manipulation of the stock redemption rules to distort income, eliminate the use of inventory methods that mismeasure income, and reduce corporate subsidies such as percentage depletion on lands received from the Federal government at a bargain price;

- Proposals focused on the international tax rules, to measure export income more accurately, prevent manipulation of the foreign tax credit rules through artificial labels, and eliminate distortions resulting from the use of derivative financial instruments; and

- Proposals focused on increasing tax compliance, for example by tightening the substantial understatement penalty for very large corporations, expanding withholding on gambling winnings, and streamlining debt collection procedures for non-means tested, recurring Federal payments.

Extension of Expired Excise and Other Trust Fund Taxes. The Budget also proposes reinstatement of the excise and other trust fund taxes that have expired: the Airport and Airways Trust Fund excise taxes; the Hazardous Substance Superfund Trust Fund excise and income taxes; the Oilspill Liability Trust Fund excise taxes; and the Leaking Underground Storage Tank Trust Fund excise tax. These are not new taxes: they have been applied for years to finance specific programs, such as the provision of air traffic control services and the cleanup of certain hazardous waste sites. Each of these taxes would be extended through 2007.

Tax Simplification and Taxpayers' Rights

The Administration continues to support revenue-neutral initiatives designed to promote sensible and equitable administration of the tax laws, including simplification, technical corrections, compliance, and taxpayers' rights measures. In the near future, the Administration will propose to Congress a package of such measures.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 12, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Tenders for $12,005 million of 10-year notes, Series B-2007, to be issued February 18, 1997 and to mature February 15, 2007 were accepted today (CUSIP: 9128272J0).

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

	Yield	Price
Low	6.354%	99.238
High	6.399%	98.911
Average	6.374%	99.092

Tenders at the high yield were allotted 60%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$22,764,266	$12,005,226

The $12,005 million of accepted tenders includes $424 million of noncompetitive tenders and $11,581 million of competitive tenders from the public.

In addition, $550 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $540 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 $32,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of $0.51796 per $1,000 of par must be paid for the period February 15, 1997 to February 18, 1997.

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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
February 14, 1997
Text As Prepared For Delivery

Treasury Secretary Robert Rubin
Remarks on the 150 Account

It is a pleasure to be here today to discuss the President's budget for international programs. This is, I believe, the first time that both the Secretaries of State and Treasury have appeared together to discuss the importance of these programs for maintaining U.S. leadership in the world.

Our budget calls for spending a total of $1.6 billion on international programs, of which about $300 million will be used to partially pay down arrears that last year totaled well over $1 billion. The remainder will go to our regularly scheduled payments for this year. Every day that we delay making our payments in full hurts our ability to lead and gives our allies and partners reason to raise questions about America's role in the world.

As the President has said, our foreign affairs budget request is essential to our role as the world's indispensable nation. Our engagement in -- and support for -- the United Nations, the World Bank, the regional development banks, and the International Monetary Fund -- are vital to the economic self-interest and national security self-interest of the United States and our citizens.

Bringing developing nations into the economic mainstream promotes political stability, raises living standards, increases markets for U.S. exports and create jobs here at home. For the past 50 years, the World Bank, the IMF and other multilateral development banks have been absolutely central to that effort. In 1995, for example, U.S. firms exported more than $25 billion worth of goods and services to the 79 very poor countries eligible for International Development Association funds and roughly $60 billion worth to IDA graduates. The IMF has played a critical role in creating the economic foundation for stability in countries where the United States has major strategic interests, such as Russia. With assistance from the IMF and the multilateral banks, more countries are now assuming their fair share of the responsibility for maintaining

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global economic growth and the financial stability. To further these efforts, our proposal seeks authorization to strengthen the IMF's capacity to deal with financial emergencies.

Can these multilateral institutions become more efficient? Absolutely. Indeed, this Administration has aggressively promoted reform and it is paying off: Largely because of reforms pushed by this Administration and the Congress, these institutions have become very effective promoters of growth, free markets, and private sector development. There is more to do, and we continue to pursue vigorously a reform agenda, but our leverage in these institutions will be reduced if we keep failing to meet our commitments. We cannot lead with other people's money.

These are good investments for the United States. They help us create jobs and promote good economic conditions in this country. I look forward to working with Congress to pass the President's budget, maintain our leadership in these institutions and make the American people more prosperous.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
February 18, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,000 million, to be issued February 27, 1997. This offering will result in a paydown for the Treasury of about $150 million, as the maturing weekly bills are outstanding in the amount of $26,141 million.

Federal Reserve Banks hold $7,135 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 $5,098 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, as amended) 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-1508

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED FEBRUARY 27, 1997

February 18, 1997

Offering Amount	$13,000 million	$13,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 2Q 6	912794 5K 6
Auction date	February 24, 1997	February 24, 1997
Issue date	February 27, 1997	February 27, 1997
Maturity date	May 29, 1997	August 28, 1997
Original issue date	May 30, 1996	February 27, 1997
Currently outstanding	$33,409 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

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FOR IMMEDIATE RELEASE
February 18, 1997

VICE PRESIDENT GORE SIGNS U.S.-SOUTH AFRICAN TAX CONVENTION

The Treasury Department today announced that Vice President Gore and South African Deputy President Mbeki signed an income tax convention in Cape Town. This Convention replaces the previous convention that was terminated in 1987 pursuant to the U.S. Anti-Apartheid Act, and represents and important step in Treasury's goal of expanding the U.S. tax treaty network with important trading partners. The Convention will enter into force after the countries have exchanged the instruments of ratification.

The proposed income tax Convention with South Africa generally follows the pattern of the U.S. Model treaty and the Model treaty issued by the Organization for Economic Cooperation and Development (OECD), although a major portion of the negotiations pre-dated publication of the U.S. Model. There are, however, as with all bilateral tax Conventions, some variations from these norms. In the proposed Convention, these differences reflect particular aspects of South African law and treaty policy, the interaction of U.S. and South African law, and U.S.-South African economic relations.

Taxation of Investment Income

The proposed Convention establishes maximum rates of withholding at source on investment income that are the same as those in the U.S. Model. Dividends are subject to a maximum rate of tax at source of 15 percent, except that the rate is limited to 5 percent for dividends paid by a 10-percent or more subsidiary in one country to its parent in the other. In general, interest and royalties are both exempt from tax at source, and are, therefore, subject to tax exclusively in the country of residence of the beneficial owner of the income.

The standard U.S. anti-abuse rules are provided for certain classes of investment income. Dividends paid by non-taxable conduit entities, such as U.S. RICs and REITs, are subject to

RR-1509

special rules to prevent the use of these entities to transform what is otherwise high-taxed income into lower-taxed income. Excess inclusions with respect to residual interests in REMICs are denied the benefits of the reduced rate of tax at source on interest, and contingent interest is subject to source tax at the 15 percent rate applied to portfolio dividends.

The taxation of capital gains under the proposed Convention follows the pattern of the U.S. Model. It provides that gains from real property (including a U.S. real property interest) are taxable in the situs State. Gains from the alienation of personal property that is part of a permanent establishment or fixed base may be taxed in the State where the permanent establishment or fixed base is located. All other gains, including gains from the alienation of ships, aircraft and containers operated or used in international traffic, are taxable exclusively in the State of residence of the alienator.

Taxation of Business Income

As with recent U.S. treaties and the U.S. and OECD Models, the proposed Convention provides generally for the taxation by one State of the business profits of a resident of the other only when such profits are attributable to a permanent establishment located in that other State. The proposed Convention, however, grants rights to tax business profits that are somewhat broader in one respect than those found in the U.S. and OECD Models. Under the proposed Convention, an enterprise will have a permanent establishment in a Contracting State if its employees or other personnel provide services within that State for 183 days or more within a 12-month period in connection with the same or a connected project.

The proposed Convention preserves the right of both States to impose a branch tax on local branches of corporations of the other State. The proposed Convention will also accommodate a provision of the 1986 Tax Reform Act that attributes to a permanent establishment income that is earned during the life of the permanent establishment, but is deferred, and not received until after the permanent establishment no longer exists.

The proposed Convention, consistent with current U.S. treaty policy, provides exclusive residence-country taxation of profits from international carriage by ship or aircraft. This reciprocal exemption also extends to income from the rental of ships, aircraft and containers.

Taxation of Personal Services Income

As with the treatment of business profits, personal service income, for both dependent and independent services, is subject to rules that essentially follow the U.S. Model rules. The 183-day personal service rule in the definition of permanent establishment is, appropriately, also present in the definition of fixed base. In the proposed Convention, the dollar threshold for host-country taxation of income of entertainers and sportsmen is currently $7,500, rather than $20,000. The proposed Convention, however, contains a rule allowing the Contracting States to increase the amount through an exchange of diplomatic notes. This provision requires diplomatic notes to be exchanged to increase the threshold, rather than the competent authority agreement found in many U.S. treaties. The treatment of directors, social security recipients, Government employees and students follows the pattern of the U.S. Model. The treatment of pensions differs from that in the U.S. Model. Pensions will be subject to limited source-country tax. The residence country may also tax, subject to a foreign tax credit, if the source country has taxed. Like the U.S. Model, an individual employed in one country who belongs to a pension plan in the other, may, subject to certain conditions, be allowed in his country of employment to deduct contributions to his plan in the other country.

As in the U.S. Model, the proposed Convention provides that income of a resident of a Contracting State not dealt with in the other articles of the Convention is taxable only in the country of residence of the recipient.

Anti-Treaty-Shopping Provisions

The proposed Convention contains significant rules designed to restrict the benefits of the Convention to persons that are not engaged in "treaty shopping." The provisions are similar to those found in the U.S. Model and in all recent U.S. treaties.

Exchange of Information

The information exchange provisions make clear that South Africa is obligated to provide U.S. tax officials such information, including bank information, as is necessary to carry out the provisions of the Convention. Consistent with U.S. policy, South African information will be available to U.S. authorities whether or not South Africa has a tax interest in the information.

The proposed Convention allows the General Accounting Office and the tax writing Committees of Congress to obtain access to certain tax information exchanged under the Convention for use in their oversight of the administration of U.S. tax laws and treaties.

General Provisions

The proposed Convention provides a U.S. foreign tax credit for the South African income taxes covered by the Convention, including the normal tax and the secondary tax on companies, and for a South African foreign tax credit for the U.S. income taxes covered by the Convention. The U.S. foreign tax credit is subject to normal limitations of U.S. law, including limitations relating to the amount of foreign source income of the U.S. taxpayer and denial of the credit for non-compulsory payments.

In addition, the proposed Convention provides for non-discriminatory treatment (i.e., national treatment) by one country to residents and nationals of the other. Also included in the proposed Convention are rules necessary for administering the Convention, including rules for the resolution of disputes under the Convention.

Entry Into Force

The proposed Convention is subject to ratification. It will enter into force 30 days after each State has notified the other that its ratification procedures have been completed. It will have effect, with respect to taxes withheld at the source, for amounts paid or credited on or after the first day of January following entry into force. In other cases the Convention will have effect with respect to taxable periods beginning on or after the first day of January following the date on which the Convention enters into force.

The Convention will remain in force indefinitely unless terminated by one of the Contracting States. Either State will be able to terminate the Convention after 5 years from the date on which the Convention enters into force by giving prior notice of at least six months through diplomatic channels.

Copies of the new Convention are available from the Office of Public Affairs, Treasury Department, Room 2315, Washington, D.C. 20220. For additional information regarding the treaty please call 622-2960.

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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 19, 1997

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED NOTES
MARCH REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of March for the 10-Year Treasury inflation-indexed notes issued February 6, 1997. This information is based on the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the U.S Department of Labor.

In addition to the publication of the reference CPIs (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period. Public Debt intends to announce the reference CPI numbers and the related index ratio monthly for at least one year.

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 1510. The information is also available on the Internet at Public Debt's home page: (http://www.publicdebt.treas.gov).

The information for April is expected to be released on March 19, 1997

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RR-1510

Contact: Office of Financing 202-219-3350

TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES:	A-2007
CUSIP:	9128272M3
AUCTION DATE:	January 29, 1997
ORIGINAL ISSUE DATED DATE:	January 15, 1997
ORIGINAL ISSUE DATE:	February 6, 1997
MATURITY DATE:	January 15, 2007
Ref CPI on DATED DATE:	158.43548
TABLE FOR MONTH OF:	March, 1997
NUMBER OF DAYS IN MONTH:	31

CPI-U (NSA) Nov. '96	158.6
CPI-U (NSA) Dec. '96	158.6
CPI-U (NSA) Jan '97	159.1

Ref CPI and Index Ratios for March 1997

Calendar day			Ref CPI	Index Ratio
March	1	1997	158.60000	1.00104
March	2	1997	158.61613	1.00114
March	3	1997	158.63226	1.00124
March	4	1997	158.64839	1.00134
March	5	1997	158.66452	1.00145
March	6	1997	158.68065	1.00155
March	7	1997	158.69677	1.00165
March	8	1997	158.71290	1.00175
March	9	1997	158.72903	1.00185
March	10	1997	158.74516	1.00195
March	11	1997	158.76129	1.00206
March	12	1997	158.77742	1.00216
March	13	1997	158.79355	1.00226
March	14	1997	158.80968	1.00236
March	15	1997	158.82581	1.00246
March	16	1997	158.84194	1.00257
March	17	1997	158.85806	1.00267
March	18	1997	158.87419	1.00277
March	19	1997	158.89032	1.00287
March	20	1997	158.90645	1.00297
March	21	1997	158.92258	1.00307
March	22	1997	158.93871	1.00318
March	23	1997	158.95484	1.00328
March	24	1997	158.97097	1.00338
March	25	1997	158.98710	1.00348
March	26	1997	159.00323	1.00358
March	27	1997	159.01935	1.00369
March	28	1997	159.03548	1.00379
March	29	1997	159.05161	1.00389
March	30	1997	159.06774	1.00399
March	31	1997	159.08387	1.00409

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
February 19, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $30,000 MILLION

The Treasury will auction $17,500 million of 2-year notes and $12,500 million of 5-year notes to refund $27,695 million of publicly-held securities maturing February 28, 1997, and to raise about $2,300 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $1,069 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 $1,573 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, as amended) 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-1511

February 19, 1997

Offering Amount	$17,500 million	$12,500 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AC-1999	D-2002
CUSIP number	912827 2K 7	912827 2L 5
Auction date	February 25, 1997	February 26, 1997
Issue date	February 28, 1997	February 28, 1997
Dated date	February 28, 1997	February 28, 1997
Maturity date	February 28, 1999	February 28, 2002
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	The last calendar day of August and February through February 28, 1999	The last calendar day of August and February through February 28, 2002
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 three decimals, e.g., 7.123%
	(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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 4 P.M.
February 21, 1997

Contact: Michelle Smith
(202) 622-2960

TREASURY RELEASES ANNUAL FOREIGN EXCHANGE RATE REPORT

The Treasury Department on Friday released the ninth Annual Report to Congress on International Economic and Exchange Rate Policy, which reviews developments in the major economies and exchange markets, and assesses the foreign exchange systems of a number of our major trading partners.

The report, which is provided under the Omnibus Trade and Competitiveness Act of 1988, covers the period from April 1, 1996, through October 31, 1996. It does not cover events since then.

While the report does not address the current exchange rate environment, Treasury Secretary Robert Rubin said February 8, "A strong dollar is in the United States' interest. We have had a strong dollar for some time now."

The report notes that the world economic expansion has continued at a moderate pace during the period covered, with inflation generally low. In the major industrial countries, growth is expected to average 2.2% for 1997, with somewhat stronger growth in continental Europe and some deceleration of growth in Japan, along with continued strength in the United States and Canada. Growth is expected to continue at a strong pace in the major emerging market countries, although there has been some recent moderation of that pace in Asia and the transition economies. There are a number of countries with macroeconomic and financial challenges that will continue to require careful monitoring.

The dollar appreciated moderately in the six-month period ending October 1996, rising 1.9% in real trade-weighted effective terms. On balance, this was a period of welcome stability in the exchange rates of the major currencies.

The report presents an updated assessment of whether countries have manipulated exchange rates between their currencies and the dollar to prevent balance of payments adjustment or gain an unfair competitive advantage in international trade (as defined in the Omnibus Trade and Competitiveness Act), and concludes that none of our major trading partners is manipulating its exchange rate under the terms of the Act.
RR-1512

Treasury will continue to monitor closely the exchange rate policies of these countries. We will also continue to encourage progress toward the liberalization of capital controls, and, where appropriate, steps to provide for greater flexibility in the exchange rate regime. This will be particularly important in countries where conditions may suggest the need for further appreciation in real exchange rates, both against the dollar and in the trade-weighted indices.

-30-

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
February 21, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $19,250 million of 52-week Treasury bills to be issued March 6, 1997. This offering will provide about $450 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $18,795 million. In addition to the maturing 52-week bills, there are $26,202 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $11,996 million of bills for their own accounts in the maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,183 million of the 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 none 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, as amended) 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.

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Attachment

RR-1513

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED MARCH 6, 1997

February 21, 1997

Offering Amount	$19,250 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 4S 0
Auction date	February 27, 1997
Issue date	March 6, 1997
Maturity date	March 5, 1998
Original issue date	March 6, 1997
Maturing amount.	$18,795 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 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 24, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,047 million of 26-week bills to be issued February 27, 1997 and to mature August 28, 1997 were accepted today (CUSIP: 9127945K6).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.03%	5.23%	97.457
High	5.03%	5.23%	97.457
Average	5.03%	5.23%	97.457

$1,500,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 74%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$56,944,303	$13,046,928
Type		
Competitive	$48,169,566	$4,272,191
Noncompetitive	1,187,529	1,187,529
Subtotal, Public	$49,357,095	$5,459,720
Federal Reserve	3,510,000	3,510,000
Foreign Official Institutions	4,077,208	4,077,208
TOTALS	$56,944,303	$13,046,928

An additional $377,092 thousand of bills will be issued to foreign official institutions for new cash.

5.00 - 97.472

RR-1514

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 24, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,161 million of 13-week bills to be issued February 27, 1997 and to mature May 29, 1997 were accepted today (CUSIP: 9127942Q6).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.99%	5.12%	98.739
High	5.01%	5.14%	98.734
Average	5.01%	5.14%	98.734

Tenders at the high discount rate were allotted 39%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$54,935,686	$13,161,271
Type		
Competitive	$48,951,494	$7,177,079
Noncompetitive	1,352,420	1,352,420
Subtotal, Public	$50,303,914	$8,529,499
Federal Reserve	3,625,180	3,625,180
Foreign Official Institutions	1,006,592	1,006,592
TOTALS	$54,935,686	$13,161,271

An additional $92,908 thousand of bills will be issued to foreign official institutions for new cash.

5.00 -- 98.736

RR-1515

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 25, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,507 million of 2-year notes, Series AC-1999, to be issued February 28, 1997 and to mature February 28, 1999 were accepted today (CUSIP: 9128272K7).

The interest rate on the notes will be 5 7/8%. All competitive tenders at yields lower than 5.885% were accepted in full. Tenders at 5.885% were allotted 94%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 5.885%, with an equivalent price of 99.981. The median yield was 5.865%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.820%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$38,698,647	$17,506,847

The $17,507 million of accepted tenders includes $1,321 million of noncompetitive tenders and $16,186 million of competitive tenders from the public.

In addition, $1,750 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $624 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

RR-1516

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
February 25, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,000 million, to be issued March 6, 1997. This offering will result in a paydown for the Treasury of about $200 million, as the maturing 13-week and 26-week bills are outstanding in the amount of $26,202 million. In addition to the maturing 13-week and 26-week bills, there are $18,795 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $11,996 million of bills for their own accounts in the maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,048 million of the 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 the entire $4,048 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, as amended) 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-1517

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MARCH 6, 1997

February 25, 1997

Offering Amount	$13,000 million	$13,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4L 5	912794 5L 4
Auction date	March 3, 1997	March 3, 1997
Issue date	March 6, 1997	March 6, 1997
Maturity date	June 5, 1997	September 4, 1997
Original issue date	December 5, 1996	March 6, 1997
Currently outstanding	$14,136 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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EMBARGOED UNTIL 2:30 P.M.
February 25, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $23,000 million of 45-day Treasury cash management bills to be issued March 3, 1997.

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.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, as amended) 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.

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Attachment

RR-1518

Report of the Secretary of the Treasury

Administration Efforts to Lift the Procurement Restrictions on the International Development Association's Interim Trust Fund

Submitted to the House Appropriations Foreign Operations Subcommittee
February 26, 1997

Executive Summary

Treasury's efforts to secure procurement rights for U.S. firms on projects funded by the IDA Interim Trust Fund (ITF) began in the IDA-11 negotiations in early 1996. During these negotiations, the U.S. argued forcefully for allowing U.S. firms to participate in bidding on all IDA-related projects, both because it would benefit borrowing countries and because it would provide the best atmosphere for obtaining Congressional support for IDA appropriations. However, a majority of donors felt that the principle of restricting procurement to Fund borrowers and donors, which applies in all concessional loan funds, should apply to the ITF.

Congressional reaction to the IDA board's decision to create the ITF and to include procurement restrictions was strongly negative and the issue was an important factor in Congressional deliberations on the FY97 IDA appropriation. As part of the final compromise on the $700 million appropriation, funding was withheld until after March 1st, 1997. Release of the funds was made contingent on the Secretary of the Treasury submitting a report on Administration efforts to lift the procurement restrictions.

The Administration campaign to have the ITF procurement rules changed began prior to the World Bank/IMF Annual Meetings in October 1996. Treasury Secretary Rubin contacted his counterparts in advance of the meetings and made U.S. opposition to the procurement restrictions a focus of his public and private statements. In his speech at the Bank/Fund meeting, he asked for reconsideration of the restrictions by the ITF donors. The U.S. requested a special meeting of the IDA Deputies to discuss the ITF procurement issue where Deputy Secretary Summers made the U.S. case against restrictions and called for their removal. Treasury officials also raised the issue in a series of bilateral meetings with ITF donor officials.

In the ensuing months (October-January), the Administration continued to raise the issue at every possible level and in a variety of fora. U.S. embassy personnel in both donor and borrower countries were engaged to press the issue. The Secretary of the Treasury, Deputy Secretary of the Treasury, Under Secretaries of State and Treasury, and numerous other U.S. officials all made repeated contacts with officials in ITF donor countries. While certain donors, particularly Japan, Canada and Korea, were sympathetic to the U.S. position, many other ITF donors expressed

strong opposition to any changes.

Administration efforts faced numerous legal difficulties. Changing the ITF agreement required a double majority donor vote - both members and contributions and approval of the IDA board of Executive Directors. This meant that a group of small countries, or a few large ones, could veto any action. The desire of many donors for consensus also made achieving a compromise difficult. The procurement process for ITF projects required a long lead time with bidding companies committing early to the bidding process. The requirements of this process meant that as time went on it became increasingly difficult to change the procurement rules on ITF projects already in the pipeline. Finally, since the parliaments of many donor countries had approved the Fund on the basis of procurement restrictions, major changes would likely involve a long and complicated parliamentary approval process in donor countries.

Although the U.S. had encouraged earlier action by the ITF donors, it became clear that any steps to change the procurement rules would have to be made at the February IDA Deputies meeting. Bank staff were helpful in working with Treasury officials to define options for a possible compromise. After intensive negotiations at the meeting, where the U.S. overcame strong opposition to any change in the procurement restrictions, the ITF donors issued a recommendation to set aside $1 billion, or about 1/3 fund, for potential opening to U.S. procurement. The final decision on whether fold these funds into IDA-11 -- thus freeing them for U.S. procurement -- will be made before the end of 1997.

While this result is not everything we wanted, we put enormous effort into this issue and, given the obstacles, I do believe this was the best we could achieve.

<u>Negotiating the ITF agreement</u>

Negotiations on the IDA-11 replenishment, which led to the creation of the ITF, began in late 1995 after it became clear that FY96 appropriations would leave the U.S. with $934.5 million of arrears to IDA-10. Because of these large arrears, the U.S. could not realistically commit to funding a new replenishment beginning in FY97 while at the same time paying down arrears to the prior replenishment. Furthermore, U.S. negotiators were firm in their opposition to any new replenishment commitment which would not have a good chance of gaining Congressional support.

The IDA-11 negotiations initially began to coalesce around a proposal that assumed a major U.S. commitment ($970 million per year) but tacitly acknowledged that the U.S. would not pay its share in the first year. This proposal would have tied procurement to the level of contribution meaning that any failure to pay on time or in full would trigger a loss of procurement rights. The U.S. rejected this proposal, first because it assumed an unrealistically high commitment level (albeit a significant reduction from the existing level), and second because it implied that our procurement could be limited in a fund in which we participated.

In light of the U.S.'s strong negative reaction to their first proposal, the IDA donors shifted their focus to creating a single year funding mechanism for FY97 that would bridge the gap to a more normal IDA replenishment, beginning in FY98, in which the U.S. would be a full participant. The options proposed for this one year mechanism were to fund projects out of countries' bilateral aid accounts, out of regional multilateral funds such as that of the European Community, or out of a special fund to be administered by IDA.

To provide the maximum amount of continuity to IDA borrowers, the donors decided to create the Interim Trust Fund (ITF) to which they agreed to contribute a total of $3.3 billion. The vote on creating this fund was limited to contributors, so the U.S. could not veto it.

The traditional rules of such funds, and indeed of all of the multilateral concessional windows, are that procurement is limited to fund donors and borrowers. In two prior special funds in 1982 and 1985, procurement was limited in this way. In the first, the $570 million 1982 Special Fund, the U.S. did not participate and was not allowed procurement. In the second, the $1.84 billion Special Facility for Sub-Saharan Africa, the U.S. participated and had procurement rights while non-contributors were excluded.

Despite these precedents, the U.S. argued vigorously against the ITF proposal, emphasizing traditional U.S. support for IDA and the potentially damaging effect that procurement restrictions would have on future U.S. funding, not only for IDA but for the other MDB windows. Ultimately our views did not prevail as the majority of donors felt that the traditional principle of "pay to play" should apply.

Though we did not have a vote on the ITF, the U.S. did ultimately support the final separate IDA-11 agreement which contained a 36% cut in the U.S. commitment, no procurement restrictions on the $18.5 billion in non-ITF IDA-11 funding, and language committing the institution to a package of reforms. This decision did not endorse either a special fund or procurement restrictions.

<u>Congressional reaction to the ITF</u>

During the course of the IDA-11 negotiations, one of the arguments made by IDA donors in favor of retaining the procurement restrictions was that this would provide the U.S. with a greater "incentive" to fully fund its arrears and new commitments. The U.S. negotiators frequently made the point that the exact opposite was likely to be true and that Congress would be less inclined to provide IDA appropriations if the procurement restrictions were in place.

The Congressional debate over FY97 IDA funding clearly showed our prediction to be correct. Many Members felt strongly that they could not support a higher funding level for IDA when the ITF donors refused to allow U.S. firms to compete on ITF funded projects. While several proposals were considered to link U.S. contributions to the removal of procurement restrictions, the final compromise was to hold back FY97 IDA funding of $700 million until after March 1st,

1997. The money would be released after the Secretary of the Treasury had delivered a report detailing the Administration's efforts to have the procurement restrictions removed. The March 1st date was designed to allow the Administration to press the ITF issue through the IDA Deputies meeting on February 6th, 1997.

The FY97 IDA legislation was a strong statement from Congress on the importance of the ITF procurement issue and one which the Administration took to heart. Even before the legislation passed, Administration officials had begun their efforts to get the procurement restrictions lifted.

Administration efforts to lift ITF procurement restrictions at the World Bank/ IMF annual meeting.

On September 25th, 1996, Secretary Rubin sent a letter (Appendix A) to all Development Committee Finance Ministers who were meeting immediately prior to the World Bank/IMF meetings on October 2nd and 3rd. The letter laid out the U.S. position that procurement restrictions were inappropriate given our historical support for IDA, were a disservice to borrowers, and could have a detrimental effect on the U.S.'s ability to provide future IDA funding. It requested that the Ministers consider changing the ITF rules to allow U.S. firms to participate in bidding for ITF projects. Copies of the letter also were circulated to all IDA Deputies.

At the Development Committee meeting on September 30th, the Secretary reiterated U.S. opposition to the restrictions (Appendix B), making the point that the procurement issue was one which merited ministerial attention since it could ultimately affect future U.S. participation in IDA. Since most Ministers had not focussed on this issue prior to receiving the Secretary's letter, the meeting served to raise the profile of the ITF problem and to engage foreign governments at the highest level. The Secretary also spoke privately with key Finance Ministers on the subject.

The Bank/Fund meeting provided a forum to push the ITF procurement issue both publicly and with the IDA Deputies. The Secretary's speech at the annual meeting (Appendix C) included a section on the procurement restrictions which made a direct appeal that the restrictions be lifted.

To capitalize on the attendance of the IDA Deputies at the Bank/Fund meeting, the U.S. requested a special session of the Deputies specifically to discuss the procurement restrictions issue. To emphasize the importance of the issue to the U.S. Administration, Deputy Treasury Secretary Summers made the U.S. presentation. In his remarks to the Deputies, the Deputy Secretary emphasized the importance of the procurement issue to the U.S. Congress and the difficulties that the Administration's FY98 IDA request was likely to face if no adjustment to the ITF were made. He pointed out that because of the nature of IDA's projects, the U.S. share of procurement has traditionally been considerably less than its share of contributions and thus to tie procurement to contributions at this point made little sense. He urged that for the sake of IDA's future and for the sake of the borrowers who rely on IDA loans, the IDA Deputies should take action to lift the restrictions.

This special session provided the first major opportunity to gauge the attitudes of the ITF donors to the U.S. appeal. As Deputies reacted to the U.S. presentation, it was clear that while a few donors were sympathetic to the U.S. problem and were willing to consider ways to accommodate us, the vast majority strongly opposed any changes to the ITF agreement. European countries in particular insisted that the ITF agreement could not be reopened, that procurement restrictions on the ITF had been critical to making the IDA-11 agreement acceptable to their parliaments, and that the principle of burden sharing was one which could not be sacrificed. Nearly every country emphasized that it had its own problems in securing multilateral funding from parliament and that returning with a proposal to change the ITF so soon after it had received parliamentary approval would risk the entire IDA-11 compromise.

The U.S. followed up Secretary's Summers presentation with a similar message by Acting Deputy Assistant Secretary Schuerch at the OECD Development Assistance Committee (DAC) meeting in Paris on November 5th-7th. U.S. arguments elicited similar reactions from representatives of ITF donor countries to those expressed at the special IDA Deputies meeting.

ITF donor statements at the IDA Deputies special session and the DAC meeting, which were confirmed in private conversations with Treasury officials, made clear the uphill battle the Administration faced in achieving any change in the ITF agreement. A positive outcome would require that the U.S. overcome a united block of European countries who opposed any changes to the Fund. Furthermore we faced an ITF legal structure and tradition of consensus in the IDA board that made it easy for individual countries to thwart a U.S. brokered compromise.

Administration efforts leading up to the February IDA Deputies meeting.

In light of these challenges, Treasury developed a four pronged strategy: first, engage key European donors, on a variety of levels, looking for a possible compromise that their parliaments could accept; second, further explore the views of countries such as Japan and Canada who had been sympathetic to our position and encourage them to actively work with the Europeans on achieving a solution; third, bring major IDA borrowers into the debate to emphasize that IDA's future was at stake; and fourth, work with the World Bank staff to establish the legal basis for modifying the ITF.

With this strategy in place, a demarche (Appendix D) went out to U.S. embassies in all key IDA donor and borrower countries instructing embassy staff to contact appropriate foreign and finance ministry officials. Borrowing country officials were asked to contact European ministries and urge them to seek a compromise with the United States. India and Bangladesh in particular were encouraged to press the British to move toward the U.S. position.

Simultaneously, Treasury and State Department officials began a series of contacts with their European and Japanese counterparts at all levels. Under Secretary of the Treasury Shafer addressed the issue with his colleagues in European and Asian capitals. Under Secretary of State Spero pressed for the removal of restrictions with the British Overseas Development Agency. Assistant Secretary Lipton and Acting Deputy Assistant Secretary Schuerch made repeated calls to their counterparts. Secretary Rubin continued his discussion of the ITF issue with German and Japanese Finance Ministers during bilateral meetings.

Progress was very slow. While certain European countries privately expressed some willingness to be flexible, they were unwilling to break the "European consensus" and publicly disagree with more hard line European countries. The issue of European solidarity in fact became a recurring theme in the discussions. In the larger context of European monetary and political integration, there was a reluctance to make any move that risked objection from another European donors. Since at this stage the U.S. was dealing separately with each donor country, circumstances made it logistically difficult to broker any sort of concerted action.

It also took time for the U.S. to truly get the message across that the procurement issue was an important Administration priority that was not going to go away. Many donors, having read the language of the FY97 appropriations bill, assumed that the Administration was simply performing its congressionally mandated duty to try to lift the restrictions. They assumed that, once rebuffed, the Administration would give up. It took numerous contacts over several months to convince these countries that the Administration was determined to see the process through.

Several countries assisted the U.S. in emphasizing the need for compromise, particularly Canada and Japan. While they were not willing to publicly come out in full support of the U.S. position in advance of a wider consensus, they were nonetheless extremely helpful in calling for flexibility and creating an atmosphere where compromise eventually became possible.

Separately our efforts on the ITF had a significant impact on our ability to avoid problems with procurement restrictions in the African Development Fund (AfDF) and Asian Development Fund (ADF) replenishment negotiations. In both cases, the U.S. was behind on its payments and other donors were pressing for a solution similar to what was done in the IDA-11 negotiations with the ITF. U.S. negotiators, citing our arguments against the ITF restrictions, successfully insisted that the ITF arrangement was not an acceptable model and that no procurement restrictions should be incorporated into either agreement. The positive outcome of these two negotiations, where the U.S. significantly reduced its future commitments, was thus to some extent a by-product of the Administration's efforts on the ITF issue.

The original intent of the Administration was to obtain a solution to the ITF procurement issue early in the fall before the ITF was activated and before funds had been designated for projects and the procurement process begun. As the positions of the ITF donors emerged, it became clear that this scenario was not realistic. Action by the ITF donors would require a meeting and, given the still widespread opposition to changing the Fund rules, there was not sufficient support to call for a special session prior to the scheduled IDA Deputies meeting in Paris on February 6th and 7th. The FY97 legislation specified that the Administration's efforts to lift the procurement restrictions should include the February meeting. This correctly anticipated that the February meeting represented the best chance to achieve a compromise on the procurement issue.

With our strategy increasingly focussed on the Paris meeting, Administration efforts shifted to two main goals: ensuring that IDA Deputies had the authority to negotiate a recommendation on changing the ITF procurement rules at the meeting, and making sure that the World Bank staff provided an agenda and legal guidance that would make a deal possible.

Generating the maximum amount of flexibility among the European Deputies required intensifying our contacts to make sure that a sense of urgency was clearly communicated. The other half of the Administration's strategy involved making sure that the World Bank was in a position to facilitate a positive solution. Treasury worked with Bank staff on establishing how various scenarios for modifying the ITF would work and what the legal implications would be. Bank staff helped identify mechanisms to avoid formally amending the agreement thus avoiding the problem of parliamentary review. This proved to be very important in the final negotiations.

Legal barriers to changing the ITF

Our work with the Bank was the culmination of several months of discussions on the legal implications of changing the ITF and the practical barriers to changing procurement rules once the Fund began to be implemented. From the beginning, we faced the problem of an ITF voting structure which made it very difficult to change the rules even if we convinced some major donors that the restrictions should be relaxed. According to the original ITF agreement, any attempt to change the rules, even to free up only part of the Fund, required a double majority of both Fund donors and contributions as well as approval by the IDA board. Practically, the problem was even worse since the IDA board generally has acted by consensus and European donors in particular were sensitive to any split among members. This gave significant influence to smaller countries, many of whom vigorously opposed any change. The reality was that the U.S. needed to provide a solution that could be accepted even by countries who were most opposed to any change.

Another problem we faced was that the ITF continued to approve projects and solicit procurement even as we pressed our case against the restrictions. The procurement process for IDA projects is a multi-step one which requires commitments by companies at an early stage. At the time of the February 6th meeting, funds had been obligated for FY97 projects representing close to 2/3 of the ITF funds (about $2.2 billion). In a large number of cases at least the first steps of the procurement process had been initiated and in some cases contracts had already been formally awarded. What this meant was that our hopes of achieving a full reversal of the restrictions had become impossible and we faced the difficult legal problem of establishing at what stage it became impossible for the bidding process on a project to be altered. While we argued that the bidding rules could reasonably be modified up until the final bids were in, many other countries were very concerned about the fairness of changing the rules once the process had begun.

Several major donors were adamant that their legislatures would not approve changes to the ITF agreement and that any parliamentary review would imperil their IDA-11 commitment. One avenue, which eventually proved critical to the final compromise, was the treatment of funds for projects which fell outside the fiscal year for which ITF funding was intended. While it was clear that the aim of the donors was to have all ITF funds, regardless of their dispersal date, be subject to the ITF procurement rules, there was no language in the original agreement specifically addressing this issue. The legal interpretation -- that funds remaining to be obligated after the end the of the World Bank fiscal year ending June 30, 1997 could eventually be rolled into IDA-11 without technically violating the ITF agreement -- opened the possibility of a compromise which avoided major problems with other donor parliaments.

February 6-7th IDA Deputies Meeting in Paris

The U.S. delegation was led by Assistant Secretary of the Treasury David Lipton who had been actively pressing the procurement issue with his counterparts since September and had been a central player in the Administration's overall effort.

While the final set of contacts prior to the Paris meeting indicated some softening in the position of certain European countries, it was not clear whether any sort of solution would be possible. In fact, meetings on the day before the IDA Deputies meeting were disappointing. French Finance Ministry officials, for example, expressed some sympathy for the U.S. position, but indicated there was still stubborn resistance from other Europeans and that no step could be taken without a full consensus.

The Bank staff began the February 6th meeting by explaining the current status of the ITF and discussing some of the options for making changes to the Fund. Staff explained that while 2/3 of the Fund had already been assigned to projects scheduled for FY97, a total of SDR 700 million (about $1 billion) either remained unobligated or was obligated for projects scheduled for FY98.

Assistant Secretary Lipton began the discussion of the procurement restrictions by making the following points: (1) action by the Deputies at the meeting is critical even if the decision subsequently had to be ratified by donor governments; (2) the Administration is committed to obtaining full funding for the U.S. commitment to IDA as demonstrated by our budget request and the President's statement in his State of the Union Address; (3) although we cannot predict Congress's ultimate decision, failure to act will produce a strong reaction in Congress and greatly impair the chances of a significant IDA appropriation; (4) we recommend that the ITF be immediately suspended and the remainder of the funds be rolled into IDA-11.

The U.S. statement was followed by Japan and Canada whose IDA Deputies both spoke in favor of flexibility on the part of the donors. Following these positive statements, however, came a series of interventions by smaller European countries generally opposing any change to the ITF rules. Statements by France and Germany indicated greater flexibility but still no willingness to break from a common European position. While most of the statements repeated previously expressed positions -- countries have their own budget difficulties, "burden sharing" is a basic principle that has been traditionally supported by the U.S., changing agreements undermines IDA's decision process -- two important points emerged. First, donors would resist anything that would require them to return to their parliaments; and second, because the U.S. had previously proposed to fund its IDA arrears in FY97, donors would not act without some assurance that the U.S. would take positive action on funding its IDA commitments in FY98.

The possibility of setting aside some portion of the funds that were not currently on track for FY97 projects was raised and it was clear that this option held the greatest possibility for a compromise, although several countries had opposed it during their statements. A large group of ITF donors -- including Japan, Canada, major European donors, and smaller European donors who had been the most vocal in opposition to change -- met separately to discuss a possible recommendation. These discussions ended up lasting five hours, with the U.S. delegation periodically called in to negotiate certain points. Japan and Canada were instrumental in pushing the group toward its ultimate recommendation for action.

The recommendation of the IDA Deputies (Appendix F) was to set aside (or freeze) $1 billion or about 1/3 of the trust fund. This was the maximum amount which was available without necessitating amendment to the ITF agreement and parliamentary review by the ITF donors. The final decision on whether to fold these funds into IDA -- thereby opening them for U.S. procurement -- will be made sometime before December 31, 1997. While the final decision on these funds undoubtedly could be linked to Congress's IDA appropriation, the recommendation does not specify a particular number that Congress must reach to open the funds to U.S. procurement. This recommendation was subject to approval by the ITF member governments which was achieved on February 20th, 1997.

While this outcome is not everything we wanted when we began, it was not easily won and required a vigorous effort by the Administration. Given the obstacles we faced when we began our efforts, I believe that this is the best result we could achieve.

Appendix

A. Secretary Rubin letter to Finance Ministers

B. Secretary Rubin remarks to the Development Committee

C. Secretary Rubin speech at the World Bank/IMF Meeting

D. Demarche to U.S. Embassies

E. Secretary Rubin talking points for calls to European Finance Ministers

F. February 6th IDA Deputies Recommendation

APPENDIX A

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

September 25, 1996

Dear Colleague:

I am writing to update you on the status of United States contributions to the International Development Association (IDA) and to request your assistance in removing the procurement restrictions contained in IDA's Interim Trust Fund.

We all agree on the critical role IDA plays in the poorest countries and on the need to ensure adequate funding in the years ahead. At last April's meeting of the Development Committee, I advised members that the procurement restrictions of the Interim Trust Fund were making the already difficult task of securing Congressional approval of U.S. funding vastly more difficult.

My view and the strong view in Congress is that the procurement restrictions are unfair given the long history of consistent U.S. support for IDA and the multilateral system as a whole. As you know, cumulative U.S. contributions to IDA now total $22 billion. Moreover, the U.S. share of IDA procurement has been extremely modest relative to our share of contributions.

Congress now appears set to approve a contribution of $700 million to IDA for FY 1997 which we would use to reduce unfunded U.S. commitments substantially. However, as a direct consequence of the Interim Trust Fund's procurement restrictions, this funding cannot be used until March 1997. Congress has also directed the Administration to seek the removal of the restrictions and we are mandated to provide a report on these efforts prior to the release of any IDA funds.

It is very clear that the existence of procurement restrictions will continue to place at risk the United States ability both to complete clearance of our IDA-10 arrears and to gain Congressional authorization and appropriation of resources with which to meet our new commitments to IDA-11. I therefore request your assistance in working with other Trust Fund donors to consider removing these restrictions as a matter of urgency

In making this request, I understand the importance you attach to "equitable burden sharing." But, frankly, the restrictions are counterproductive and a disservice to IDA borrowers. They are a disincentive for U.S. funding and participation in IDA. They have poisoned the atmosphere in Congress and around the country as we work to broaden support for continued U.S. participation and leadership in IDA. They also confer minimal commercial advantage on Trust Fund donors.

I hope we can advance progress on this important issue during the upcoming Annual Meetings.

Sincerely,

R. E. Rubin

Robert E. Rubin

APPENDIX B

September 30, 1996

STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN AT THE DEVELOPMENT COMMITTEE OF THE WORLD BANK AND THE INTERNATIONAL MONETARY FUND WASHINGTON, D.C.

We meet today in an environment of relative economic stability, with generally low interest rates, steady economic expansion in most developed countries and strong growth in many dynamic developing markets. All of this provides enormous opportunities to help reduce global poverty and encourage sustained growth. Increased global interdependence, through liberalized trade and investment policies, also can contribute to accelerated growth.

Yet, while some general conditions are favorable, fundamental development challenges remain. In particular, we must focus increased attention to working with countries and regions where growth has lagged and where millions remain trapped in poverty. Sound financial and economic policies, including development of human resources, are critical to creating an environment conducive to private sector growth and environmental sustainability. In addition, great challenges exist in reconstruction in areas such as Bosnia, Haiti and West Bank and Gaza, where we need to support efforts to foster the stable, broad-based economic opportunities that will cement lasting peace.

The International Financial Institutions are uniquely placed to promote the sound policy environment needed to build a durable and equitable prosperity. The Development Committee should reinforce these efforts by supporting actions that address constraints to progress in poor countries committed to economic adjustment -- such as the HIPC initiative -- and by challenging the institutions to continually improve their development effectiveness.

Replenishment of IDA Resources

The International Development Association is a critical element in integrating the poorest and least creditworthy countries into the global economy. IDA's traditional role provides the underpinnings of sustainable development through essential health, education, and basic infrastructure programs. In recent years, IDA has become the lead agency for promoting market-oriented policy reform, including trade liberalization, privatization and financial sector reform, in these countries.

The United States has strongly supported IDA for more than 35 years. This Administration is committed to continuing this support and is making every effort to obtain funding to meet our financial commitments. As you know, the President's FY 1997 budget request included $934.5 million to clear fully outstanding U.S. commitments to IDA 10. While this Adminstration has worked to broaden U.S. support for the critical work of the MDB's, obtaining funding for international programs has been increasingly difficult. At our meeting last Spring, I indicated that the procurement restrictions contained in IDA's Interim Trust Fund made obtaining funding even more difficult this year. This has proven more true than I had expected.

Despite our efforts, the funding that Congress now seems likely to approve -- $700 million in FY 1997 -- will not come unconditionally. These funds will not be available until March 1997 and our Congress has indicated that if the Interim Trust Fund remains as currently structured, future U.S. funding for IDA 11 will be at risk.

We therefore urge donors to the Interim Trust Fund to remove the procurement restrictions. These restrictions do not serve the interests of IDA's borrowers, nor do they provide an incentive for continued U.S. participation. We fully understand the importance other donors attach to "equitable burden sharing"; but they need to understand that these restrictions have been counterproductive and they seriously jeopardize our ongoing ability to contribute to IDA. I hope that this issue can be resolved so we can focus exclusively on how best to address the pressing development needs of IDA borrowers.

The serious development challenges faced by IDA countries make it all the more important that IDA sharpen its focus on achieving results on the ground and on adapting to lessons learned from development experience. IDA resources must concentrate on the poorest and least creditworthy countries and increasingly direct scarce resources to countries that demonstrate a real commitment to sound policies, private sector development and sustainable growth.

Heavily Indebted Poorest Countries (HIPCs) Initiative

We strongly support the significant progress that has been made over the past two years in examining the problems of the heavily indebted poorest countries. It has been clear for some time that even after undertaking appropriate adjustment and reform measures and receiving bilateral debt relief, a few countries continue to have debt burdens that are not sustainable and that jeopardize their long-term economic prospects. We now have the comprehensive framework required to address the debt problems of these countries by reducing on a case-by-case basis debt burdens to manageable levels, reinforcing the development efforts of good performers and strengthening incentives for appropriate macroeconomic policies.

APPENDIX C

STATEMENT BY THE HON. ROBERT E. RUBIN,
GOVERNOR OF THE FUND AND THE BANK FOR THE UNITED STATES
GOVERNOR FOR THE UNITED STATES:

Good morning. It is a pleasure, once again, as I did yesterday introducing the Vice President of the United States, to welcome all of you to the Annual Meetings of the IMF and the World Bank.

Before I present the remarks that I had intended to present, I would like to comment on something that I saw in the newspaper this morning.

Over the past two years I have been the Secretary of the Treasury and, in my many years when I was in the private sector, I met with large numbers of Finance Ministers, of business people, heads of state. I developed a very strong feeling or view that one of the principal impediments to development in the developing world was the issue of corruption.

I would like to very much identify with and support the comments of Michel Camdessus and Jim Wolfensohn yesterday with respect to lifting the fight against corruption to the top of their agendas, and also express the full support of the United States to this very important initiative.

Secondly, I would like to recognize that this is the first meeting at which there has been a united delegation from Bosnia and Herzegovina, and I think that is something that we should all note with satisfaction and good feeling.

Last year when the IMF and World Bank met, it marked the Fiftieth Anniversary of the Bretton Woods Conference. It was an historic occasion; it was also an opportunity to review the successes and challenges for these institutions and to focus on the vision going forward.

As President Clinton has said many times, it is vitally important that these institutions adapt and renew themselves in the face of new challenges and new opportunities.

Last year he called for a number of initiatives to do exactly that. To advance the goals of long-term growth for all, we meet this week with three clear objectives: first, to work together to promote strong and durable global growth; second, to advance a sound development agenda; and third, to strengthen safeguards to the international financial system.

Let me deal with each of these briefly.

There has been an emerging consensus over the last decade with respect to how best to promote growth, and it struck me, even in the last couple of days, as I have met with Finance Ministers from the G-7, from developing nations and from transition economies, how widespread that consensus is.

In a word, that consensus is to open markets, not close them; free businesses to compete, not restrain them; reduce deficits, not sustain them; and invest publicly in people, infrastructure and the other areas critical to future productivity, not blindly ignore a wise and appropriate role for government.

With so many economies now basically following this approach, the fundamentals of the global economy are more solid than they have been in a long, long time.

Here in the United States we have had solid growth and low inflation. While many factors have contributed, I believe the key and indispensable factor was the deficit reduction program of 1993, which changed the fiscal direction of this country.

In addition, the President has focussed on investments in education, training, the other areas critical to future productivity and on opening markets around the world, including opening our own markets.

I believe that if we continue to follow the right policy path in this country, we can have solid growth and low inflation on balance over the long term. That is good for us and it is good for the rest of the world.

As I mentioned, I believe that our approach to promoting economic growth is in line with the emerging consensus around the world. But we well recognize that taking actions such as cutting budgets, while absolutely essential to economic health, is also difficult, and that too often the burdens fall on the least well off in our societies.

That does not mean that we shouldn't act, but it does mean that we should act with fairness, compassion, understanding and a commitment to equip the least well off with the tools that they need to be successful in the mainstream economy.

Our second objective this week, which to some extent I have already touched on, is development and promoting growth in poorer nations and raising living standards for all people.

This should be a priority for all of us, no matter what our stage of development. For one thing, it is the right thing to do. Secondly, it is overwhelmingly in the self interest of the developed nations, both to promote stability and to create bigger markets for all of us.

I have had the opportunity to visit the work of the multilateral development institutions in a number of countries--India, Indonesia, the Philippines, Argentina and Brazil.

I was struck by the effectiveness of the programs that I saw. One of the conclusions I reached was that it was enormously important for us to try to get members of our Congress to visit these kinds of programs and these kinds of projects and to see what these institutions are doing on the ground.

I was also struck by the major challenges these countries face in growing their economies.

Multilateral development banks have a unique role to play in fostering growth around the world, by building the underpinnings of a private sector economy and by meeting the needs that free markets by their nature will not meet. This means focusing more selectively on the poorest developing countries, on education and health care and on the environment.

This means encouraging these institutions to be more innovative with respect to financing mechanisms in order to catalyze private investment.

Moreover, in order for these initiatives to work, they must be part of a joint venture between the institutions and between receiving countries that are committed to reform.

One clear obstacle to growth has been unsustainable levels of debt in some of the poorest countries. The World Bank, the IMF and the Paris Club have now reached agreement with a program that will be a comprehensive approach to reducing the excess of debt of several of the poorest countries to sustainable levels. We now need to work to bring together the rest of the international financial institutions into this effort.

As the Vice President said yesterday, and the President said at this same meeting a year ago, the United States is committed to its leadership role in the global economy and to meeting its financial responsibilities to these international financial institutions.

The Administration has been making and will continue to make the fullest and utmost effort to work with our Congress to achieve those ends.

In that regard, let me touch on a sensitive subject. I well understand why the IDA-11 Interim Trust Fund has procurement restrictions, but I can tell you from working with the members of Congress, as we think now about getting funding, going forward for IDA-11, that these restrictions have created enormous resentment, even amongst those who are most supportive of IDA-11 and who feel the United States has played a leadership role over many decades in the global economy.

I believe that these restrictions are counterproductive with respect to future funding and would urge that they be removed.

The World Bank has made great progress for making itself more effective. As the Vice President said yesterday, President Wolfensohn deserves a great deal of credit for his good work. But we need to continue in encouraging good governance, and that very much includes the issue of corruption that Michel Camdessus and Jim Wolfensohn raised yesterday, increasing transparency, measuring results, expanding micro-enterprise lending, strengthening our capacity to deal with the national crises, as well as the issues I discussed a few moments ago.

The third objective for the week is to carry forward the progress we have made in strengthening safeguards of the international financial system against risk.

At Halifax and again at Lyon, G-7 leaders agreed to am ambitious program of initiatives to safeguard financial stability in the global markets. Virtually, all of the initiatives that were brought forth have now been brought either to completion or almost to completion, including strong IMF disclosure standards to prevent future crises, the new arrangements for borrowing to expand the resources available to the IMF and financial emergencies and recommendations to facilitate market-based solutions to sovereign financial crises to reduce the expectation of official finance and encouraging private investors to focus more attention to risk.

Just as with the debt reduction program, which I mentioned a moment ago, which was also a Halifax initiative, these accomplishments show that we can achieve major objectives when we work together.

Over the coming year, we strongly urge that the IMF and the World Bank, in cooperation with international financial supervisory bodies, take up the G-7 call for following through on the Lyon communique to promote soundness in the financing systems of emerging countries.

Too often banking problems and capital market problems have undermined economic growth and progress in these developing nations.

Let me conclude by expressing the President's strong conviction that the economic futures of all nations are inexorably linked. Here in the United States our jobs and living standards are increasingly and substantially affected by whether our global partners, including the developing nations, are prosperous and growing.

The same is true for all the nations of the world. It is a strong conviction of the President and this Administration that the only effective path towards future prosperity for all of us is to work together and that, by working together, we can promote a strong and growing global economy for all of us.

APPENDIX D

DEPT TREASURY COMCEN
PH 622-2222 RM 1121/MT

CAVEAT(S) =
HANDLE VIA
ACTION = [TRS]BOI(1),EPD(1),GI(1),IBR(1),IDB(1) (1),IDD(1)
IMB(1),IMF(1),INA(1),ITF(1),ITN(1),ITT(1),J.MF (1),SEN(-)
CRC = B6CC

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RUEHKO/AMEMBASSY TOKYO PRIORITY ØØØØ
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E.O. 12958: N/A
TAGS: EAID EFIN IBRD XD XY XW ZJ ZL EG
SUBJECT: DEMARCHE TO IDA BORROWERS ON REMOVING PROCUREMENT RESTRICTIONS UNDER THE IDA INTERIM TRUST FUND
REF: (A) 96 STATE 125133, (B) 96 DAR ES SAL 6366

1. THIS IS AN ACTION REQUEST. SEE PARAS. 7-13.

SUMMARY
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2. THE UNITED STATES IS SEEKING TO LIFT RESTRICTIONS ON PROCUREMENT UNDER THE WORLD BANK'S FY-97 IDA INTERIM TRUST FUND THAT DISADVANTAGE U.S. FIRMS AND THREATEN OUR ABILITY TO PROVIDE FUNDING FOR IDA. EFFORTS DURING THE

OCT. 1-3 IMF/WORLD BANK ANNUAL MEETINGS TO CONVINCE OTHER DONORS TO LIFT THE RESTRICTIONS WERE INCONCLUSIVE AND THE ISSUE WAS NOT RESOLVED. WE ARE NOW URGING KEY IDA BORROWERS WHO SHARE OUR CONCERNS ABOUT THE IMPLICATIONS FOR FUTURE IDA FUNDING TO WEIGH IN WITH DONOR COUNTRY GOVERNMENTS. ACTION ADDRESSEES ARE REQUESTED TO RAISE THIS ISSUE WITH HOST GOVERNMENT OFFICIALS AND URGE THEM TO TAKE APPROPRIATE ACTION. END SUMMARY.

THE ISSUE
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3. THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) IS THE WORLD BANK'S SOFT LOAN WINDOW FOR THE POOREST COUNTRIES. DURING REPLENISHMENT NEGOTIATIONS EARLIER THIS YEAR FOR THE FY97-99 PERIOD (IDA-11), THE UNITED STATES INDICATED THAT, GIVEN ITS ARREARS TO IDA-1Ø, IT COULD NOT MAKE ANY FUNDING COMMITMENTS FOR FY97. TO BRIDGE THE GAP BETWEEN THE END OF IDA-1Ø IN FY96 AND THE DELAYED IMPLEMENTATION OF IDA-11 IN FY98, DONORS AGREED TO CREATE A ONE-YEAR INTERIM TRUST FUND (ITF). THE ITF INCLUDES ABOUT USD 3.3 BILLION FROM SOME 35 OTHER DONORS.

4. AS A QUID PRO QUO FOR PARTICIPATING IN AN IDA FUND WITH NO U.S. CONTRIBUTION, SOME EUROPEAN DONORS INSISTED ON RESTRICTIONS THAT PREVENT FIRMS FROM THE UNITED STATES AND OTHER ITF NON-DONORS FROM BIDDING ON ITF-FUNDED PROCUREMENT CONTRACTS. THESE DONORS CLAIM THE RESTRICTIONS WERE NECESSARY TO WIN DOMESTIC SUPPORT FOR THEIR OWN CONTRIBUTIONS TO THE ITF. SOME ALSO THOUGHT THE RESTRICTIONS WOULD BE AN "INCENTIVE" TO CONVINCE THE UNITED STATES TO PAY ITS IDA-1Ø ARREARS AND FULLY PARTICIPATE IN IDA-11. BUT THE RESTRICTIONS SERIOUSLY BACKFIRED IN CONGRESS, JEOPARDIZING OUR ABILITY BOTH TO FULLY CLEAR OUR ARREARS AND TO PROVIDE FUNDING FOR IDA-11.

5. AT THE OCT. 1-3 IMF/WORLD BANK ANNUAL MEETINGS IN WASHINGTON, TREASURY SECRETARY RUBIN APPEALED TO ITF DONORS TO REMOVE THE PROCUREMENT RESTRICTIONS. THERE WAS LITTLE POSITIVE REACTION, BUT THE ISSUE WAS NOT RESOLVED AND DISCUSSIONS WILL CONTINUE WITH DONORS TO FIND AN ACCEPTABLE SOLUTION. AT THIS JUNCTURE, DIPLOMATIC SUPPORT FOR OUR POSITION FROM KEY IDA BORROWERS WOULD BE VERY HELPFUL TO OUR EFFORTS TO SWAY OPINION AMONG DONORS.

6. FURTHER DETAILS ABOUT THE INTERIM TRUST FUND AND THE PROBLEMS CAUSED BY THE PROCUREMENT RESTRICTIONS CAN BE FOUND IN REF A, CABLED TO ALL POSTS IN JUNE 1996. SEE PARA. 14 OF THIS CABLE FOR A LIST OF IDA PROJECTS IN ADDRESSEE COUNTRIES SUBJECT TO PROCUREMENT RESTRICTIONS.

ACTION REQUEST

7. DRAWING ON THE TALKING POINTS IN PARA. 13 BELOW, ACTION ADDRESSEES ARE REQUESTED TO APPROACH FOREIGN, FINANCE, AND/OR DEVELOPMENT/PLANNING MINISTRIES AT AN APPROPRIATE LEVEL TO SEEK SUPPORT FOR LIFTING ITF PROCUREMENT RESTRICTIONS. PLEASE SLUG REPORTING ON HOST GOVERNMENT RESPONSES FOR STATE (EB/IFD/ODF) AND TREASURY (OASIA/IDB).

8. WHILE ALL INTERIM TRUST FUND DONORS HAVE A VOICE IN FUND DECISIONS, CERTAIN COUNTRIES ARE KEY SUPPORTERS OF THE PROCUREMENT RESTRICTIONS. CHANGING THEIR POSITIONS IS CRUCIAL TO OUR SUCCESS IN LIFTING THE RESTRICTIONS. THESE COUNTRIES INCLUDE FRANCE, GERMANY, UNITED KINGDOM, DENMARK, NETHERLANDS AND BELGIUM. JAPAN SHARES SOME OF OUR CONCERNS ABOUT THE EFFECTS OF THE RESTRICTIONS.

9. FOR DHAKA, COLOMBO, KAMPALA, ACCRA, DAR ES SALAAM, CAIRO, AND NAIROBI: WHILE YOU SHOULD ENCOURAGE HOST GOVERNMENTS TO CONTACT AS MANY OF THE KEY TRUST FUND DONORS AS APPROPRIATE, WE RECOMMEND PARTICULAR ATTENTION BE DIRECTED TO THE GOVERNMENT OF THE UNITED KINGDOM.

10. FOR NEW DELHI AND ISLAMABAD: IT WOULD BE ESPECIALLY HELPFUL IF HOST GOVERNMENTS WOULD INTERVENE IN PARTICULAR WITH THE UK AND JAPAN, IN ADDITION TO OTHER KEY DONORS.

11. FOR DAKAR AND ABIDJAN: POSTS SHOULD ENCOURAGE HOST GOVERNMENTS TO INTERVENE AS BROADLY AS POSSIBLE WITH KEY ITF DONORS, BUT A PARTICULAR FOCUS ON THE GOVERNMENT OF FRANCE WOULD BE HELPFUL.

12. FOR YEREVAN, TBILISI, SARAJEVO AND SKOPJE: YOUR HOST GOVERNMENTS' REPRESENTATION IN THE WORLD BANK IS HANDLED BY THE DUTCH, WHO HAVE BEEN PARTICULARLY INSISTENT ABOUT RETAINING THE PROCUREMENT RESTRICTIONS. STRONG REPRESENTATIONS BY DUTCH CONSTITUENCY MEMBERS COULD BE VERY HELPFUL IN CHANGING THE DUTCH POSITION.

13. TALKING POINTS:

--THE UNITED STATES IS FIRMLY COMMITTED TO THE PRINCIPLES AND OBJECTIVES OF THE IDA PROGRAM. VICE PRESIDENT GORE AND TREASURY SECRETARY RUBIN REITERATED THIS COMMITMENT EARLIER THIS MONTH AT THE IMF/WORLD BANK ANNUAL MEETINGS.

--WE WILL CONTINUE TO PARTICIPATE ACTIVELY IN IDA, AND WILL WORK CLOSELY WITH THE U.S. CONGRESS TO SECURE FUNDING FOR OUR FY98 AND FY99 CONTRIBUTIONS TO IDA-11.

--BECAUSE WE NEEDED TO CLEAR OUR ARREARS TO IDA-10, WE

WERE UNABLE TO PARTICIPATE IN THE FIRST YEAR OF IDA-11. AN INTERIM TRUST FUND (ITF) WAS ESTABLISHED BY OTHER DONORS TO FUND IDA PROJECTS DURING FY97.

--UNFORTUNATELY [illegible] RS PLACED PROCUREMENT RESTRICTIONS ON [illegible] BY THE INTERIM TRUST FUND WHICH BAR U.S. FIRMS FROM TENDERING PROCUREMENT BIDS.

--THESE PROCUREMENT RESTRICTIONS HAVE CAUSED A SEVERE POLITICAL BACKLASH IN CONGRESS WHICH THREATENS U.S. SUPPORT FOR IDA. AFTER MORE THAN 35 YEARS OF STRONG COMMITMENT TO IDA AND TOTAL CONTRIBUTIONS OF USD 22 BILLION, CONGRESS AND THE ADMINISTRATION REJECT THE IDEA THAT WE MERIT "PUNISHMENT" FOR TEMPORARY FUNDING PROBLEMS.

--USD 700 MILLION APPROPRIATED TO PAY DOWN OUR IDA-10 ARREARS HAS BEEN PUT ON HOLD BY CONGRESS UNTIL AT LEAST MARCH 1997, AND SOME IN CONGRESS HAVE INDICATED THEY WILL ATTEMPT TO TAKE BACK THESE FUNDS IF THE RESTRITIONS ARE NOT LIFTED.

--EVEN THOSE IN CONGRESS WHO SUPPORT IDA SAY THAT IT WILL BE DIFFICULT TO OBTAIN FULL FUNDING FOR OUR FY98 IDA-11 DUES IF THE PROCUREMENT RESTRICTIONS REMAIN IN PLACE.

--SECRETARY RUBIN IS ACTIVELY PRESSING INTERIM TRUST FUND DONORS TO RESCIND THE PROCUREMENT RESTRICTIONS, BUT SOME DONORS MISTAKENLY BELIEVE THE RESTRICTIONS WILL ENCOURAGE THE UNITED STATES TO INCREASE ITS IDA FUNDING. THE RESTRICTIONS ARE MORE LIKELY TO HAVE THE OPPOSITE EFFECT.

--WE SEEK YOUR HELP IN CONVINCING THE INTERIM TRUST FUND DONORS THAT LIFTING THE PROCUREMENT RESTRICTIONS IS THE BEST MEANS OF ENSURING LONG-TERM IDA SUSTAINABILITY.

--AT STAKE HERE IS THE FUTURE OF U.S. PARTICIPATION IN IDA, WHICH WILL DIRECTLY AFFECT IDA'S OVERALL FUNDING LEVEL AND ITS DEVELOPMENT ROLE IN IDA RECIPIENT COUNTRIES.

--IN ADDITION, PROCUREMENT RESTRICTIONS SUCH AS THESE ARE NOT IN YOUR INTEREST AS AN IDA BORROWER. IN ORDER TO ASSURE THE BEST VALUE FOR MONEY, PROCUREMENT SHOULD BE AVAILABLE FROM AS MANY SOURCES AS POSSIBLE.

--WE ASK THAT YOU CONTACT APPROPRIATE INTERIM TRUST FUND DONORS TO VOICE YOUR SUPPORT FOR LIFTING THE RESTRICTIONS.

--DONORS WHO WILL PLAY A KEY ROLE IN ANY DECISIONS ON THE ITF PROCUREMENT RESTRICTIONS INCLUDE FRANCE, GERMANY, UNITED KINGDOM, DENMARK, NETHERLANDS, BELGIUM AND JAPAN.

END TALKING POINTS

Talking points on IDA Interim Trust Fund (ITF)
for Secretary Rubin for calls to
Finance Ministers Clarke, Waigel and Arthuis

- I am calling to alert you to a very pressing issue concerning funding for the International Development Agency (IDA).

- As you know, the IDA Interim Trust Fund (ITF), which is funding IDA projects during the one year gap between IDA-10 and IDA-11, has procurement restrictions which exclude U.S. companies from bidding on projects from the fund.

- These restrictions were put in place partly as a way of encouraging the U.S. Congress to fully fund past and future U.S. IDA commitments. We said at the time that they would probably have just the opposite effect -- making Congress *less* likely to support IDA -- and unfortunately this has been the case.

- I sent you a letter in September laying out the problem the restrictions pose for our ability to gain Congressional support for U.S. IDA funding. We have now reached a critical juncture -- perhaps the final opportunity for the ITF donors to take action on modifying the procurement restrictions.

- The President's budget will request full funding for IDA arrears and the scheduled IDA-11 payment. We are prepared to push forcefully for these appropriations. If we are to have any realistic chance of achieving our request, we must be able to show Congress that other donors have shown flexibility on the procurement restrictions. It is critical that the restrictions not be in force while Congress is deliberating the IDA funding issue this Spring.

- We understand the domestic political difficulties you face on this issue, especially with your Parliament. Obviously our preference is for a full lifting of the procurement restrictions. However, we are willing to work on a solution that gives all of us a viable political outcome.

- There will be a meeting of the IDA Deputies on February 6th in Paris where they will consider a number of options for modifying the procurement restrictions.

- Please encourage your delegates/Overseas Development Agency to be flexible at this meeting in coming up with a recommendation to modify the restrictions.

- If no accommodation is made, I see a very real chance that U.S. Congressional support for IDA will evaporate putting the institution's future in grave danger.

Additional Point for French Finance Minister

- We appreciate your Ministry's willingness to explore options thus far. I encourage you to emphasize the importance of this issue to your European colleagues -- particularly in Britain and Germany.

The ITF contributors reviewed the implementation of the Tokyo agreement.

In response to the US request to relax the procurement restrictions, the ITF contributors considered whether it would be possible to apply the Tokyo agreement flexibly—conscious of the need to avoid disruption of IDA lending.

They concluded that the principal features of that agreement remain valid. But, equally, they took the view that some flexibility might be possible in relation to ITF funds remaining uncommitted at the end of FY97.

They concluded that they would submit for consideration by their authorities a proposal that ITF funds uncommitted as of the end of FY97 (not more than SDR 700 million) be held back; the use of such funds (i.e., with or without procurement restrictions) would be determined following consideration of decisions by the US authorities on the payment of the amount needed to clear their arrears to IDA10 ($934.5) and the first tranche ($800 million) of their pledge to IDA11. ITF contributors agreed to consider the outcome no later than December 31, 1997.

million

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
February 26, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $12,503 million of 5-year notes, Series D-2002, to be issued February 28, 1997 and to mature February 28, 2002 were accepted today (CUSIP: 9128272L5).

The interest rate on the notes will be 6 1/4%. All competitive tenders at yields lower than 6.359% were accepted in full. Tenders at 6.359% were allotted 37%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.359%, with an equivalent price of 99.539. The median yield was 6.314%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.260%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$26,366,416	$12,503,306

The $12,503 million of accepted tenders includes $499 million of noncompetitive tenders and $12,004 million of competitive tenders from the public.

In addition, $835 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $445 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:30 AM EST
Text as Prepared for delivery
February 27, 1997

Secretary of the Treasury
Statement before the House Foreign Operations Subcommittee
of the House Committee on Appropriations

Mr. Chairman, it is a pleasure to testify today on the President's FY 1998 budget request for foreign operations.

As President Clinton has said, the United States is the only country that can provide effective leadership in today's world --and it is more important than ever for our own well-being that we do so. However, for us to function as the world's indispensable nation, we must participate in international institutions and the global economy. That, in turn, requires a full commitment to our foreign affairs budget, which pays for the United Nations, bilateral assistance programs and the international financial institutions (IFIs) -- the World Bank, the International Monetary Fund and the regional development banks. Accounting for only one percent of

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the federal budget, these programs provide an enormous return for American taxpayers. Abroad, they help bring peace and stability, foster democracy, build free markets and free trade and promote sustainable development. At home, that leads to increased exports, high quality American jobs and greater economic and national security.

The Clinton Administration has worked hard with Congress to maintain support for the IFIs, by negotiating major reductions in our budgetary commitments, and working forcefully for continued reforms. I am pleased to report today that we have made significant progress in both areas. Account by account, we have negotiated, on average, a 40 percent reduction in future U.S. obligations to the multilateral development banks, which, after we pay our arrears, will lower our annual commitment to $1.2 billion. On the basis of this annual U.S. investment, the multilateral development banks will be able to lend a total of $46 billion over which we have enormous influence. For their part, the IFIs are reducing overhead, becoming more open, doing more to prevent corruption and promote the private sector, and becoming more sensitive to environmental concerns. They are, in fact, providing us with better value for the money than at any time in their history.

However, U.S. arrears to the IFIs total well over $1.5 billion, more than our arrears to the UN when you include $700 million in as yet unreleased IDA funding appropriated last year. We are the world's largest and richest economy yet we are the largest debtor to the United Nations, and account for the lion's share of arrears to the Multilateral Development Banks. Nations around the globe, who look to us for leadership, are seriously questioning our willingness to lead. Our budget request of $1.6 billion for the IFIs includes about $300 million to partially pay down those arrears, the first payment on a proposed three year plan to clear all of our MDB arrears. The remainder of our request goes to meet our annual commitments.

This year is critical. If we do not meet our commitments, we will jeopardize our leadership in these institutions. This will affect foreign policy priorities from Bosnia to the former Soviet Union, from the Middle East to Africa. It would also undercut our ability to direct ongoing reforms. We cannot lead with other people's money. Make no mistake: we make this budget request purely and simply because it is in our economic and national security interest.

The IFIs have been instrumental in the economic renewal of Asia, Latin America, and central and eastern Europe, helping foster economic reform and democracy which has turned these regions into dynamic emerging markets for our exports. Even so, the vast economic and human potential of the developing world has barely been tapped, and the central role the IFIs play in bringing developing nations into the economic mainstream has not abated.

The multilateral development banks are building the underpinnings of a market based economy by helping nations improve legal systems, reduce corruption, pursue policies based on fiscal responsibility, build capital markets, engage in free trade, and foster sustainable development. In the poorest countries they are laying the foundation for long-term growth by funding child survival programs, and improving health, education and basic infrastructure. In our own hemisphere, which receives more multilateral development bank lending than any other region, the Banks have been critical in supporting the dramatic transition of countries like Haiti and Guatemala. The IMF's Enhanced Structural Adjustment Facility (ESAF) complements and underpins the Banks' efforts through the macroeconomic and structural conditions attached to ESAF loans. The IFIs also play an important role in efforts, led by the United States, to provide debt relief for the poorest countries.

Let me describe the role IFIs have played in the development of one country: Poland, which has emerged as the leading economic success story in Central and Eastern Europe. Its bold economic reform, a model for others, was based on a strong reform commitment of the Poles, but it could not have succeeded without the support of bilateral donors and the IFIs. The United States was the largest contributor to the Polish Stabilization Fund and provided additional support through USAID. The IMF helped Poland stabilize its hyperinflation and the World Bank followed up with support for structural reforms. Together they provided $5 billion of loans to help Poland through the harsh years of adjustment that set the stage for its subsequent recovery. Exports have tripled since 1990, and GDP has risen by 27 percent since growth resumed. Private capital has now overtaken official sources of finance as the leading source of capital and Poland has repaid its $1.5 billion IMF loan.

By working to promote growth in developing nations, the IFIs are helping create markets for U.S. goods. Developing countries now account for 42 percent of U.S. exports, and those exports are growing at twice the rate of exports to developed countries. Growth in countries borrowing from the International Development Association doubled from 4 percent in 1991 to 8 percent in 1995. U.S. firms exported more than $25 billion worth of goods and services to the 79 very poor countries eligible for IDA funds in 1995 and roughly $60 billion worth to IDA graduates. Those IDA graduates, countries such as Korea and Turkey, had received a total of about $2.2 billion in loans from IDA. Both now contribute to IDA. Similarly, the United States exports substantial amounts to countries which in the past have borrowed from the IMF but are now creditors of the IMF, including a number of emerging market economies. Of course, the IFIs also benefit American businesses and workers directly through the projects they finance. In the past year alone, U.S. firms received over $3.2 billion in direct business from the multilateral development banks.

Congress has directed the Administration to secure needed reform in these institutions. They have done so. They have cut overhead, yet the services they provide have not suffered. For example, the Inter-American Development Bank has cut its budget by 5% in real terms since 1995 and staffing is down 12% from its peak in 1988. Yet loans managed by the bank have increased 48% since 1991. The African Bank has instituted a sweeping reorganization including term limits and replacing 70 percent of its managers.

The World Bank, long a target of criticism, has become more open, and has cut its administrative budget 10% in real terms over the last two years. It has now proposed a major reform program under President Wolfensohn's leadership which is even more responsive to past criticisms. But it also has a significant pricetag and we are carefully reviewing its details. The IMF has also controlled its administrative budget, allowing it to rise by only one percent in the last three years. It has made substantial advances in transparency and strengthened its capacity to detect financial crises.

The Administration and Congress must continue to work together and maintain the bipartisan commitment to these institutions that has existed for fifty years by setting goals for reform, and evaluating how we are progressing. These institutions have not solved all of their problems, but we will reduce our leverage for deeper reform if we keep failing to meet our commitments.

Let me briefly mention the issue of procurement restrictions in the IDA Interim Trust Fund which has been of concern to many members and to this Administration. Yesterday, I submitted a report detailing the Administration's efforts to change the ITF procurement rules. The ITF donors have recommended that $1 billion, or about 1/3 of the trust fund, be set aside, and potentially made available for U.S. procurement. While this result is not everything we wanted, we put enormous effort into this issue and, given the obstacles, I believe this is the best we could achieve.

Let me also mention a separate but related budget request, which is for $3.5 billion in budget authority for U.S. participation in the IMF's New Arrangements to Borrow. This new line of credit would build on the General Arrangements to Borrow and provide a larger reserve tank for the IMF to respond to financial shocks. We are also discussing a possible increase in the normal financial resources. We have consulted with the Congress regarding these matters in the past and will, of course, continue to do so. These funds would not be scored as outlays, as they are offset by the creation of a counterpart claim on the IMF that is liquid and interest bearing. This request is critical to supporting the IMF's primary role of promoting international monetary stability by preventing financial shocks and responding to crises that may emerge.

Mr. Chairman, let me conclude by reiterating how important these institutions are to our own economic well-being. Countless workers and businesses depend on trade --and a thriving global economy --for their livelihoods. Every day our national interests more intertwined with the political stability of other nations, their economic health and their policies which encourage --or discourage --the free flow of goods and services. In that regard, American workers and firms depend on the World Bank, the regional development banks, the IMF, the United Nations and bilateral assistance programs, because these institutions are instrumental in promoting democracy, free markets, the rule of law, a stable international monetary system and sustainable development.

There has been a tremendous movement over the last decade toward more economic and political openness. We cannot afford to reverse the tremendous gains we have made in fostering growth in the global economy over the last fifty years.

Instead, let us fully fund America's commitments to these institutions and begin the process of paying what we owe. Let us pledge to work together to strengthen and reform them, not abandon them. By doing so, we will advance the

interests of all Americans and set the stage for strong, long-term economic growth.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 26, 1997

Contact: Calvin Mitchell
(202) 622-2920

**CLINTON ADMINISTRATION'S BUDGET OFFERS
$224 BILLION IN TAX CUTS OVER TEN YEARS**

The Treasury Department today officially released revenue estimates for the tax proposals and other revenue measures included in the Clinton Administration's FY 1998 Budget through the year 2007. Previous estimates ran only through 2002. The Administration's tax relief proposal is targeted primarily for middle income taxpayers to help with raising a child and education.

"President Clinton strongly believes that while working within the constraints of a balanced budget, we should also invest in critical priorities for our nation, such as education, and provide tax relief for the middle class," said Treasury Secretary Robert E. Rubin.

The Treasury Department estimates that the Administration's Budget proposals would provide $224.8 billion in tax cuts over the FY 1998 - FY 2007 period, with $98.4 billion of the tax cuts coming between FY 1998 and FY 2002.

Secretary Rubin said, "from the beginning of the Clinton Administration, our budgets have been based on realistic and prudent economic assumptions. As a result, actual budget deficits have come in under the projected deficits each of the past four years."

The bulk of tax relief is in the form of tax credits for dependent children ($97.3 billion) and tax credits and deductions for college tuition and job training ($87.7 billion). These tax cuts would be paid for, in part, through the elimination of unwarranted tax benefits and the closing of corporate loopholes totaling $73.3 billion between FY 1998 and FY 2007 ($34.3 billion between FY 1998 and FY 2002). The Budget also proposes the extension of recently expired trust fund excise taxes and other revenue measures that are expected to yield $87.3 billion over the FY 1998 - FY 2007 period ($41.7 billion FY 1998 - FY 2002).

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AUCTION RESULTS

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
February 27, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $19,277 million of 52-week bills to be issued March 6, 1997 and to mature March 5, 1998 were accepted today (CUSIP: 9127944S0).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.34%	5.64%	94.601
High	5.36%	5.67%	94.580
Average	5.36%	5.67%	94.580

Tenders at the high discount rate were allotted 94%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$50,259,800	$19,277,040
Type		
Competitive	$44,050,514	$13,067,754
Noncompetitive	1,104,286	1,104,286
Subtotal, Public	$45,154,800	$14,172,040
Federal Reserve	5,105,000	5,105,000
Foreign Official Institutions	0	0
TOTALS	$50,259,800	$19,277,040

An additional $1,527,000 thousand of bills will be issued to foreign official institutions for new cash.

5.35 - 94.591

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AUCTION RESULTS

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FOR IMMEDIATE RELEASE
February 27, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 45-DAY BILLS

Tenders for $23,140 million of 45-day bills to be issued March 3, 1997 and to mature April 17, 1997 were accepted today (CUSIP: 9127944F8).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.14%	5.24%	99.358
High	5.16%	5.27%	99.355
Average	5.16%	5.27%	99.355

Tenders at the high discount rate were allotted 49%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$82,158,570	$23,140,380
Type		
Competitive	$82,158,000	$23,139,810
Noncompetitive	570	570
Subtotal, Public	$82,158,570	$23,140,380
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$82,158,570	$23,140,380

5.15 - 99.356

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EMBAGOED FOR NOON FEBRUARY 28
Text As Prepared For Delivery

"US Economic Policy Toward Japan in the Second Clinton Administration"
Remarks by
Lawrence H. Summers
Deputy Secretary of the Treasury
The Japan-America Society of Washington, DC
Washington, DC
February 28, 1997

Introduction

Good afternoon. It is a pleasure to be here today with a group that has done so much to strengthen our relationship with Japan. Addressing the economic challenges posed by the US Japan relationship was a central priority of the Clinton Administration four years ago as the President began his first term in office. Now at the beginning of the second term, we have an excellent opportunity to reflect on the progress that we in America and Japan have made in our relationship and a chance to reflect on how to go forward.

We entered into a framework with Japan as an integral part of our effort to restore US leadership in the global economy. That framework had three over arching objectives.

- First, to restore the global competitive position of the United States.
- Second, to pursue policy measures in concert with Japan to reduce Japan's global trade and current account surpluses; and
- Third, to achieve progress in specific trade sectors where US firms had been denied access or equal footing in Japan.

By achieving these economic goals, we hoped and expected to make progress beyond the economic sphere. Repairing the economic relationship seemed central to strengthening our political and strategic relationship, our most vital bilateral relationship. Today it is clear that we have made real progress in all three of these objectives.

The US Competitive Position

Four years ago, few would have projected that the US economy would be as strong and competitive as it is today and few would have forecast the range of difficulties that Japan has encountered.

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In the early 1990s, the American model of capitalism with its decentralization, lack of government direction, independent central bank and emphasis on markets was widely disparaged. A common joke went that the Cold War between America and Russia was over but that Japan and Germany had won.

Four years later, America has proven that it is uniquely competitive. We have created over 11 million jobs. It is now clear that we will grow faster in the 1990s than either Europe or Japan. International observers rate us the most competitive economy in the world. On a sectoral level, the United States is leading in almost every variety of post-industrial activity.

This change is due to a dynamic American economic system and a private sector supported by a strong foundation of government policies. These include a commitment to deficit reduction that has cut the deficit from 4.7% of GDP in 1992 to 1.4% of GDP today, a renewed effort to improve education and the steadfast promotion of exports.

In contrast, these have not been easy years for Japan. Financial problems, deflation, structural rigidities and difficulties in innovation have held back Japan's economic growth. In 1993, the IMF forecast long term growth for Japan of 4%; today the figure is half that.

This represents a remarkable reversal of fortunes.

Reducing Japan's Current Account Surplus

In 1993, Japan's current account surplus was the major asymmetry in the world economy. Its imbalance had evolved from a surplus largely concentrated with the United States to one spread roughly evenly across Asia, Europe and North America. In our framework agreement, the Japanese government entered into a commitment to "achieve over the medium term a highly significant decrease in its current account surplus." It is encouraging that Japan's current account surplus has fallen from 3.1% of GDP in 1992 to 1.4% of GDP today, reflecting fiscal policy which helped promote domestic demand as well as a broader structural shift.

While the global surplus was the crucial measure, its drop has predictably translated into a reduction in Japan's bilateral surplus. Japan's current account surplus with the US has shrunk $67.3 billion in 1994 to $47.7 billion in 1996 reflecting macro as well as microeconomic changes. Japan's merchandise trade surplus has also shrunk in half from $120 to $62 billion.

Macroeconomic policies directed at imbalances and microeconomic ones directed at import penetration are like two blades of a scissor. You need both to cut toward your objective. Fiscal policies directed at increasing domestic demand and consumption, for example, are likely to mean easier penetration by foreign producers. And trade liberalization and structural reform enhance the impact of macroeconomic policy by increasing the responsiveness of imports to changes in demand and prices.

Opening Markets

Accordingly, as the third goal of this policy, we undertook to address problem sectors where US firms had been denied fair access to the Japanese markets and to support an expanded direct presence for US firms in Japan's economy. What distinguished this new approach to opening the Japanese market was a bottom line strategy of measuring success. This was not designed to set targets for US market share in certain sectors as some critics claimed, but rather to provide clear measures to monitor progress in implementing the agreement.

As a result, over the last four years, we have negotiated 24 trade agreements with Japan, more than under any previous Administration. From autos and auto parts to cellular phones to insurance to telecommunications to financial services, we have opened up markets that were closed.

These agreements are an important reason why US exports to Japan have grown over 41% over the last four years, twice as fast as exports to the European Union. In goods covered by the July 1993 Framework agreement, US exports have risen 85 percent, three times the rate of other US exports to Japan.

In the United States, this progress has created high paying jobs for Americans. In Japan, it has enabled Japanese consumers and Japanese manufacturers to pay less for products and components.

Ultimately, however, the greatest accomplishment of the Framework may be that it has further strengthened our indispensable strategic relationship. By strengthening our economic partnership, it has enhanced our strategic partnership which provides an anchor of stability in the world's most dynamic region.

Our Continuing Agenda

Let me now turn to the second portion of my remarks, how our partnership should and is likely to evolve over the next four years.

US policy towards Japan over the next four years will focus on efforts in three basic areas.

- First, to promote domestic demand-led growth and a more balanced pattern of external surpluses;
- Second, to open Japan's markets and investment system to international participants; and
- Third, to reform Japan's financial system.

The Macroeconomic Outlook

As Secretary Rubin said earlier this month, Japan's challenge is to continue to maintain the supportive macroeconomic policy stance necessary to promote a strong domestic-demand led recovery and to prevent a resurgence of its external surplus.

I referred earlier to the tremendous improvement that has occurred in Japan's current account. Clearly, current accounts will fluctuate. What is crucial is that Japan's current account must not again be permitted to become the defining asymmetry in the industrialized world economy. Too often in the past we have seen cycles in which Japan's trade surplus has declined with consequent reductions in trade frictions only to rise again. It is critically important to all of us that we avoid a repeat of this phenomenon.

To avoid this, it is essential to restore domestic demand-led growth. That, in turn, depends on a set of macroeconomic policies to restore confidence. It depends on monitoring and ensuring the structural liberalization to create private investment opportunities that can be important engines of demand. And it means working to repair as rapidly as possible the problems of the financial system.

We learned in the early 1990s the difficulty of achieving expansion after a period of slowdown, particularly in the face of financial headwinds. Japan's current financial restraints make action on this score vital to long term growth.

The Japanese authorities are in the process of putting in place a number of important measures to strengthen the banking system. These look very encouraging and we hope that they will be put in place quickly. They should help create the conditions for a stronger Japanese banking system in the future.

The stakes are large. Moving forward it is important that Japan carefully assess the underlying strength of domestic demand and in that context, that it determine the appropriate pace of fiscal consolidation. In this context, it is important to note that Japan has a relatively modest underlying structural deficit, and a fiscal policy process that permits adjustments to changing circumstances.

Fundamentally, Japan's capacity to prepare for an aging society depends upon its ability to grow its economy by expanding its capacity to produce. That is how you create the resources that are necessary to support an aging population.

Opening Markets

On the trade agenda going forward, I will not lay out a detailed blueprint for future trade actions, or attempt to give you a comprehensive list of products where action is likely or suggest how we will ultimately balance a variety of competing priorities. Rather, let me say the following.

First, this Administration will continue to focus on ensuring full implementation of the large number of agreements we have already negotiated. Japan's credibility in the United States and with its other major trading partners as well depends on following through on its commitments. We have an elaborate process in place to monitor these agreements and we will continue to see that they live up to their initial promise.

Second, we will continue to work on ways to resolve the problems that remain in several areas. And we will remain prepared to take appropriate action to address those problems not yet visible over the horizon. Where these problems are amenable to a multilateral solution or can be addressed by the WTO, this Administration will be creative and pragmatic in pursuing those avenues. But wherever necessary, we will be prepared to pursue our interest directly with the Japanese Government.

Financial Reform

Outside the trade area, we are devoting increased attention to the opportunities created by the Prime Minister's commitment to deregulate, restructure and reform the Japanese economy and financial system. As decades of trade talks have remove successive layers of the classic and more visible forms of protection from the Japanese economy, the focus has necessarily shifted to broader structural features of the Japanese economy which still make Japan, in some respects a uniquely difficult place for foreign firms to compete.

The most important and perhaps the most promising proposals for reform are in the financial area. In the US, a strong and innovative capital market and banking system has played a vital role in sustaining our recent recovery. Our interests in the prospective Big Bang lie in the following broad areas:

- Expanding opportunities for competition
- Promoting greater transparency and disclosure; and
- Seeing Japan create a stronger and more dynamic financial system.

Expanding opportunities for competition.

In January of 1995, the US and Japan concluded a financial services agreement which opened substantial new opportunities in asset management, corporate finance and other important financial activities.

The financial reforms now under discussion have the potential to provide even greater scope for innovation and competition which are important not only to the future prospects of Japan's economy, but also to the opportunities and strength of US financial institutions.

Promoting greater transparency and disclosure.

You will not be surprised to learn that we also believe that strong public disclosure standards are a necessary condition for a well functioning capital market. Japan has a ways to go in this area to meet the Prime Minister's objective of adopting world class standards along the lines of those that exist in London and New York.

This is important not just because better disclosure is critical to the strength of financial institutions but also because a more transparent system would help strengthen the credibility of Japan's plans to strengthen the supervisory system. Weaknesses in supervisory systems are likely to be magnified not masked when disclosure requirements do not provide for effective market discipline.

Disclosure is important because it helps increase the potential for the markets to allocate capital more efficiently by rewarding the productive and penalizing those firms that might be either irresponsible about risk or simply bad about finding ways to be competitive. Indeed disclosure is one of the best tools we have for addressing Japan's distinctive pattern of corporate affiliations.

Creating a Stronger and More Dynamic financial system

Finally, as I have said many times, the dynamism of America's economy owes much to its financial system, the nervous system of the American economy. In Japan as in the United States, improving the financial system is the best way to sustain a dynamic economy.

Some see a conflict between financial deregulation and maintaining the stability of the financial system. It is certainly correct to say that the speed, sequence and timing of financial reform are tough questions and important to get right. In general, however, we believe these objectives are likely to be complementary rather than conflicting, and the problems of the Japanese financial system at present are due more to a record of slow, uneven, ambivalent reform efforts rather than efforts of excess speed in getting the bureaucrats out of the way of the market.

The objectives of financial deregulation and financial stability are complementary because stronger capital markets can diffuse risk more broadly across the financial system and because institutions protected from competition are unlikely to be particularly risk conscious or good at finding ways to increase return.

As Chairman Greenspan said in Tokyo late last year, we should encourage Japan to move ahead--to be careful to get it right--but to move ahead. We are beginning what we expect to be an ongoing discussion with the Japanese authorities on these issues next week.

Conclusion

In conclusion, these are portentous years. Much of the drama that will play out in the world over the next few years, from continuing economic progress to a rapidly changing China to political evolution in other rapidly growing countries will take place in Asia. With the US Japan economic relationship we stand a much better chance to address these challenges successfully. How Japan and we deal with these challenges will be critical to the success of other countries and ultimately the entire world.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 3, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,082 million of 13-week bills to be issued March 6, 1997 and to mature June 5, 1997 were accepted today (CUSIP: 9127944L5).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.09%	5.23%	98.713
High	5.11%	5.25%	98.708
Average	5.10%	5.24%	98.711

Tenders at the high discount rate were allotted 15%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$53,333,692	$13,082,149
Type		
Competitive	$47,775,582	$7,524,039
Noncompetitive	1,488,055	1,488,055
Subtotal, Public	$49,263,637	$9,012,094
Federal Reserve	3,445,955	3,445,955
Foreign Official Institutions	624,100	624,100
TOTALS	$53,333,692	$13,082,149

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AUCTION RESULTS

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
March 3, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,075 million of 26-week bills to be issued March 6, 1997 and to mature September 4, 1997 were accepted today (CUSIP: 9127945L4).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.19%	5.40%	97.376
High	5.20%	5.41%	97.371
Average	5.19%	5.40%	97.376

Tenders at the high discount rate were allotted 12%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$47,335,473	$13,074,947
Type		
Competitive	$39,713,475	$5,452,949
Noncompetitive	1,147,398	1,147,398
Subtotal, Public	$40,860,873	$6,600,347
Federal Reserve	3,445,000	3,445,000
Foreign Official Institutions	3,029,600	3,029,600
TOTALS	$47,335,473	$13,074,947

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PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
March 4, 1997

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY ARKANSAS STORMS, TORNADOES

The Bureau of Public Debt took action to assist victims of floods in Arkansas 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 Arkansas affected by the storms. These procedures will remain in effect through April 30, 1997.

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.

Arkansas counties involved are Clark, Cross, Greene, Hempstead, Jackson, Lonoke, Nevada, Pulaski, and Saline. 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 Bond 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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HONG KONG'S ECONOMIC FUTURE: AN AMERICAN VIEW

BY

LAWRENCE H. SUMMERS
DEPUTY SECRETARY OF THE U.S. TREASURY

PRESENTED TO THE AMERICAN CHAMBER OF COMMERCE
HONG KONG
March 3, 1997

INTRODUCTION

It's great to be here in Hong Kong. This city impresses me not only for its spectacular architecture, but for what those buildings house -- one of world's most active currency markets, Asia's second largest stock market, key operations of the world's great banks, and some of the world's shrewdest financial professionals in both the public and private sectors.

The importance of the future of Hong Kong to the United States is measured not just by the huge value of trade between our two economies, the scale of our investment here, or by the volume of financial flows, but also by number of our citizens whose livelihoods depend on Hong Kong's prosperity.

-- Some 36,000 American citizens live here. And the 1100 US firms that have invested $14 billion in Hong Kong employ some 250,000 people, 10% of the total work force.

What's more, our governments are engaged in close collaboration on a wide array of efforts to fight organized crime -- narcotics trafficking, money laundering, and smuggling.

The reversion process has focused a great deal of attention on Hong Kong, and rightly so, given its importance to the global economy.

But it occurs to me, as I look forward, that many people are missing a very important facet of Hong Kong reversion. The majority appear to view transition as something that China is "doing to" Hong Kong.

-- But the reversion process is hardly a one-way street. The transition will potentially have just as big an impact on China.

Today, I'd like to say a few words about what the interplay between the two great economies within the "one country two systems" framework means for Hong Kong, for China and for the world.

FRAMEWORK FOR TRANSITION

Hong Kong's reversion to China is in many ways a political event unparalleled in history. It marks the takeover of a capitalist, democratic society by a socialist one, but with strong guarantees of the combined system and life-style of the former.

A great deal of attention has been paid to the process surrounding this shift. On the economic and financial aspects, of which I feel more competent to speak, the authorities involved have taken many of the steps necessary to make for a smooth transition.

- In terms of a legal framework, the Joint Declaration and Basic Law lay the basis for a transition that can preserve what has made Hong Kong so special and so successful as an economy.

  -- Hong Kong is to retain its autonomy in economic affairs, including its independent fiscal and monetary policy under the guidance of an extremely competent civil service.

  -- Hong Kong is also to retain its status as an international financial center, and its own currency -- separate from the renminbi.

- Hong Kong has ensconced itself well in the international financial system -- reinforcing its separate role as a financial player. These are moves that China has supported.

  -- Hong Kong is a participant in the New Arrangement to Borrow recently agreed by the international financial community. It recently joined the Bank for International Settlements. Hong Kong will continue to be a key member of APEC, and will retain its separate membership in the major international financial institutions.

- Hong Kong's financial and economic civil servants are recognized as world class by their global counterparts. I am looking forward to seeing my Hong Kong counterpart at the upcoming gathering of finance and monetary officials in Tokyo.

- -- Reflecting their high professionalism, Mr. Tung's recent decision to leave current cabinet members in their posts -- including Hong Kong's extremely competent economic team -- is very welcome. It adds weight to the reassurances that have been given at the highest political levels that Hong Kong's sound financial and economic system will remain intact.

- Hong Kong has also taken measures to ensure that it has the resources to preserve economic and monetary stability should market confidence be rocked by some unanticipated development.

  -- Hong Kong's foreign exchange reserves are now about $64 billion -- a sizeable cushion against exchange rate instability or shock to the balance of payments.

  -- Access to liquidity has been reinforced by a network of nine repurchase agreements that the Hong Kong Monetary Authority has set up with other central banks in the region.

  -- The Hong Kong dollar is further backed up by China's pledge to protect it with its own massive reserves of over $100 billion should it come to that.

- Hong Kong officials at the highest levels have been active in explaining such arrangements in international financial circles and national capitals, including ours.

At least so far, the markets have evaluated these aspects of the transition favorably.

-- Property markets have shown remarkable growth in the last six months, and the Hang Seng Index is at its highest levels since 1994.

-- It is also noteworthy that Hong Kong's government borrows in Hong Kong dollars at rates lower than those of the United States for periods of as much as two years.

But as one central banker's favorite cliches has it: Credibility is not owned; it is rented.

-- After the all the excitement, when legalities of reversion are concluded and after Hong Kong hosts this year's annual meetings of the IMF and World Bank in the Autumn, it will be essential for all political authorities to continue to behave in a way conducive to the maintenance of market confidence.

It is crucial that this transition go well, not just for Hong Kong but for China as well. Apart from questions of international politics and prestige, the transition is a matter of economics for both.

BENEFITS FOR CHINA

China is -- and has been for the past 19 years -- in the midst of an economic transformation of immense proportions. This transformation has progressed from experimentation with market pricing of goods to the development of highly active capital markets in Shanghai and Shenzhen.

Each phase of China's reform process has introduced a greater reliance on market forces.

- -- Early on, China experimented with material incentives to boost production and set up special economic zones to attract foreign direct investment and develop exports. China then undertook broader reforms to re-shape its economy -- including enterprise taxation, wage reform, and the breakup of the monobank system.

- -- Most recently, China's has managed its first soft macroeconomic landing, and is now turning in earnest to the structural deficiencies -- such as the state enterprise system and the financial sector -- that badly need reform.

At this juncture in China's transformation, more than ever, Hong Kong has a great deal to offer China.

- Clearly, in the area of investment, Hong Kong's entrepreneurs, their capital and technological resources, have been an essential ingredient in China's economic growth.

  - -- Between 1991 and 1995, Hong Kong invested more than $68 billion in China.

  - -- Conversely, China has taken advantage of opportunities in Hong Kong. China's estimated stock of direct investment in Hong Kong at end 1995 was $25 billion -- second only to the United Kingdom.

- Hong Kong has also provided China with the opportunity to import financial products from one of the most innovative financial centers in the world.

- But perhaps Hong Kong's greatest potential value to China is as a source of good ideas, technical expertise, and as an exemplar or model for the kind of system that can bring China the most economic success.

  - -- First, Hong Kong has a very impressive record on macroeconomic management: High economic growth, prudent fiscal management and government surpluses, and experience in dealing with capital flows and an open foreign exchange system. Hong Kong has the people to convey this kind of knowledge.

  - -- Second, Hong Kong's regulators have invaluable experience in financial systems and regulation. The bumps that have occurred on this road, and the improved market oversight and regulation that have emerged as a result, have only increased Hong Kong's credentials as a source of wisdom for China.

-- Third, China could draw on Hong Kong's example of clearly delineating the role of government in the economy.

-- Fourth, Hong Kong is a sterling example of the benefits of integration with the world economy. Hong Kong's economic success has depended on its ability to take advantage of the opportunities in global markets -- making it a trade leader in Asia and a living example of the benefits of open markets.

  o This is especially true for financial services, where Hong Kong has generally maintained a high standard for market access. Hong Kong's example of the value of financial liberalization, accompanied by strong prudential supervision, should be studied by other emerging Asian economies as they consider their offers in the current round of financial services negotiation.

-- Finally, Hong Kong, and the Hong Kong people, have a deep understanding of how markets are supposed to work. This is exactly the kind of knowledge that China will have to draw on again and again if it wants to build the kind of economy that will work in the 21st century.

FREEDOM AND ECONOMIC PROSPERITY

Any accurate economic history of the latter part of the 20th century will have to give due attention to two striking developments: the transformation of industrial economies into information-intensive economies based on services; and the inclusion of millions of Asians in an paralleled rise in global prosperity. Hong Kong, with its world-class financial sector, has been at the vanguard of both of these developments. In the 21st century, China, with its vast resources and Hong Kong as an exemplar, has the potential to follow suit.

I noted earlier that authorities on both sides have made good preparations to permit a smooth economic transition. I sense, however some many believe that politics and economics are somehow mutually exclusive. This is too simple a view.

There is no firewall between economic freedom and freedom in its many other dimensions. The free flow of information is essential to free society, to free markets, and to a strong financial system. It is essential to Hong Kong's prosperity -- and to China's -- that information flow freely.

Integrity also is central to both economics and politics. Hong Kong's success as a financial center has been based to no small extent on its civil service's professionalism and honest administration, and on the transparency of its regulation. If prosperity is to be maintained, these too must be maintained.

It is important to recognize that economics, and particularly finance, is driven by expectations and perceptions. Even a perceived risk that China is seeking to undermine Hong Kong's autonomy or tamper with the formulas that have made it so successful could severely damage Hong Kong's standing in international financial circles and, by association, its economic prospects.

I stress these points because I am convinced that in the global economy of the 21st century, even more than in the economy of the 20th century, the quality of governance will be a key determinant of prosperity. Capital, skilled manpower and other factors of production are ever more mobile and responsive to changes in the quality of the business environment. And as we move from an industrial to an information era, the degree of freedom becomes an ever more important prerequisite for economic success.

These points bear emphasis. China's actions regarding the Legislative Council and efforts to repeal or amend several key provisions of Hong Kong's civil liberties laws raise some concerns about its appreciation for the fundamental importance of freely flowing information, and for the integrity and autonomy of Hong Kong's economic system.

-- The danger is that, if China handles the transition poorly, if it encroaches or is perceived to encroach upon Hong Kong's autonomy, Hong Kongers have the ability to make such actions extremely costly -- either by leaving Hong Kong (their skills are very welcome elsewhere) or by transferring their funds out of the territory.

This would not only be disastrous for the Hong Kong economy, but the loss to China would be immense: not just in nominal terms, the lost capital and economic strength of Hong Kong, but in terms of potential benefits. For as I've stressed in my remarks, there is much that China can glean from Hong Kong that would aid in its own development.

CONCLUSION

In short, the transition is as much for China to make as it is for Hong Kong. And it is essential that China allow Hong Kong to be Hong Kong. And if there is to be some convergence of systems over time, it would be beneficial for all involved that China's system become more like Hong Kong's than the other way around.

Suffice it to say that the Administration will be watching closely how events unfold here, including with regard to how these events affect U.S. interests and our stake in both Hong Kong and China's success.

We at the U.S. Treasury will continue to work with our colleagues in Hong Kong as they maintain their separate economic system. We will continue to meet regularly with our financial counterparts in the context of gatherings of the IMF, APEC, BIS, and as partners in the NAB. We look forward to intensifying our cooperation on matters relating to money laundering and to customs issues. And, further reinforcing the separateness of China and Hong Kong's economic systems, our tax laws will, after July 1st, continue to regard Hong Kong and China as two distinct entities for the purposes of U.S. taxation.

I hope that this close attention and interest by the U.S. in the reversion process is taken in the spirit in which it is given – out of a profound interest in the health and well-being of both Hong Kong and China, and our relationship with both.

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Statement of Valerie Lau
Inspector General, U.S. Department of the Treasury
Before the House Ways and Means Committee,
Subcommittee on Oversight
March 4, 1997

Madam Chairwoman and Members of the Committee:

Today, I would like to direct my remarks to two areas. First, I will discuss the role of my office under the IG Act and our relationship to the IRS Inspection Service. Second, I will describe the work of the Treasury OIG and the IRS Inspection Service in the areas defined by GAO as high risk.

Role of My Office Under the IG Act

As you know, the Treasury Office of Inspector General was established by the 1988 Amendments to the IG Act of 1978. Like all other OIGs, our mission is to conduct independent and objective audits and investigations relating to the programs and operations of our Department; make recommendations that promote economy, efficiency and effectiveness; and prevent and detect fraud and abuse.

Unlike most other OIGs, however, the Amendments did not create a single audit and investigative entity for the Treasury Department. We have direct review authority over some Treasury bureaus and oversight authority over others. We oversee investigative units within four law enforcement bureaus. Also, with respect to the Internal Revenue Service, we oversee internal audit and investigative staff who

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have remained under the direction of the IRS Chief Inspector. That office retained primary responsibility for all direct audit activity at the IRS, while my office was assigned oversight responsibility. For remaining Treasury bureaus, we have direct audit and investigative authority.

The Amendments also gave my office the authority to initiate, conduct and/or supervise audits of the IRS. However, our capability to do many such audits is limited. We have an audit staff of approximately 160 auditors who must provide primary audit coverage for the remaining 11 Treasury bureaus. Our recent efforts have been focused on helping these other bureaus improve operations and meet the Chief Financial Officer's Act (CFO) and Government Management Reform Act (GMRA) requirements. In contrast, the Chief Inspector has approximately 460 auditors who focus solely on IRS programs and operations. Consequently, my office must rely on IRS Internal Audit for most of the audit coverage given to IRS. In addition, as you have heard today, the GAO performs an extensive amount of audit work at the IRS, including the bulk of the financial statement work.

Prior to the Amendments, the Inspection Service reported solely to the IRS Commissioner and had little contact with Treasury officials and Congress. The Amendments changed this relationship. They required that the Inspection Service's work become subject to the reporting requirements of Section 5 of the Act. As such, the Inspection Service's results are routinely included in my Semiannual Report to the Congress, including its tax writing and general government oversight subcommittees.

In keeping with this requirement, my Semiannual Reports have highlighted the work of my office and the Inspection Service in each of the high risk areas since 1990. While the IRS and Customs have made progress in managing the risks associated with each area, significant long-term concerns still remain. For this reason, both the Inspection Service and my staff will continue to focus significant audit coverage on these areas and will routinely report the results of our assessments to the Secretary, the Congress, and the public.

A clearer understanding of the scope of the Inspection Service's activities can be seen within the framework of the overall mission of the IRS. As you know, the IRS is a large, complex and geographically dispersed organization which employs over 100,000 people who collect over $1.4 trillion in tax revenues and enforce the tax laws. Considering the significant amount of money involved, the discretionary authority of enforcement personnel, the size of the organization, the massive processing operations, and the scope of taxpayer contacts taking place daily throughout the country, it is easy to see the inherent risks associated with IRS operations. Within this framework, the Inspection Service has historically directed its audit coverage to those IRS activities that are related to the collection of tax revenues, enforcement of tax laws, and processing of returns and other information.

Managing High Risk

We are here today to talk about high-risk issues. Managing risk and minimizing the vulnerabilities is a job for all of us in the public service. IGs, department and agency managers at all levels, and the Congress share this responsibility. Congress is doing its share as evidenced by a recent series of enacted legislation. Legislation like the Government Performance and Results Act of 1993 (GPRA), Government Management Reform Act of 1994 (GMRA), and the Information Technology Management Reform Act of 1996 (ITMRA) provide a perspective and approach to improving government operations which appear well-suited to fixing the problems. These laws provide the framework for systematic long-term solutions for making a government that works better and costs less.

GAO has discussed with you their extensive work in the IRS and in other high-risk areas. Let me briefly discuss with you some of the work that my office and the Chief Inspector are doing to address those areas for which the Treasury is responsible. Let me first discuss how we are helping to address high-risk areas.

Integrate High-Risks Areas in Audit Planning -- Effective audit planning focuses on high-risks areas. We have instituted a long and short-range planning system that systematically identifies programs and activities subject to the risk of fraud, waste, and mismanagement. As these areas are defined, we plan audits, evaluations, and investigations to identify management actions needed to avoid mistakes.

Ensuring That Recommendations for Corrective Action Are Implemented -- Monitoring the department's implementation of recommendations is another way to ensure that progress is being made. Treasury management is ultimately responsible for implementing audit recommendations and achieving the cost benefits outlined in our reports. We monitor management's implementation through the Department's Audit Tracking System. This system allows us to follow up on management actions. For the Treasury high-risk issues, we and the Chief Inspector are making a concerted effort to examine completed corrective actions in order to ensure that they are actually having an effect on previously noted deficiencies. Additionally, my office is completing an evaluation of the Department's audit tracking system. We will make recommendations to ensure that this system provides information needed by management to assure that corrective actions are being timely and correctly made.

I will now discuss the work of my office and the Chief Inspector's as they pertain to the following:

Financial management at the Customs Service and IRS;

Oversight of IRS' Tax Systems Modernization efforts;

Filing fraud:

Asset forfeiture;

Information security; and the

Year 2000 problem.

<u>Customs Financial Management</u> -- Financial management at both the Customs Service and the Internal Revenue Service has been previously reported as a material weakness and has received extensive criticism from GAO. With the advent of the Chief Financial Officers Act, these weaknesses took on greater emphasis.

To provide some perspective, the Customs Service, which is of the size and complexity of a large Fortune 500 company, has existed for well over 200 years without the discipline of undergoing annual financial statement audits. Furthermore, like most federal entities, its operational and administrative functions were organized to address budgetary needs and requirements. Therefore, it was not surprising that its systems and operations were not readily able to withstand the scrutiny of a financial statement audit.

Three years ago, we assumed responsibility for auditing Customs' financial statements from GAO. Customs has improved its financial management; however, more needs to be done. The results of Customs' fiscal year 1996 financial statement audit are a meaningful indication of the tangible progress it has made in addressing previously reported material weaknesses. While Customs' most serious material weaknesses have been addressed, they have not been fully eliminated. We believe that Customs' planned improvement efforts are appropriately focused on control weaknesses involving invalid drawback payments, in-bond shipments, and core financial systems. Customs needs to focus its energies on these efforts. We believe the relative risk associated with Customs' financial management can be reduced with the continuing support of Customs senior and mid-level management. They must ensure that planned improvement efforts are properly implemented so that existing material weaknesses are resolved and related problems do not recur.

<u>IRS Financial Management</u> -- IRS' FY 1996 financial statements are the fifth set prepared by the IRS' Chief Financial Officer and submitted for audit in accordance with the CFO Act. These statements are presented in two separate sections. The first section presents the financial statements of the "Administrative" operations, i.e. IRS' accounting for the appropriated funds it receives to conduct operations. The second section presents the financial statements of the "Custodial" operations, i.e. collection of revenue on behalf of the Federal government.

Since 1992, a GAO team, which included auditors detailed from IRS' Office of the Chief Inspector, has attempted to audit IRS' financial statements. They were unable to render an opinion as to the fair presentation of these statements citing severe financial management and control problems at IRS. GAO is now auditing IRS' FY 1996 financial statements. The OIG and Treasury CFO are closely monitoring the progress of this audit because of the significance of the IRS audit results to the first ever audited Treasury-wide financial statements for FY 1996. Next year, the OIG will have responsibility for auditing the FY 1997 financial statement section pertaining to IRS' "Administrative" operations. GAO will continue to audit IRS' financial statements covering "Custodial" operations.

Tax Systems Modernization -- The IRS has spent billions on TSM and there has been dissatisfaction with the results to date. IRS performed this work without having an overall plan, a consistent approach to managing contractors, or persons with the necessary skills to successfully complete the job. However, many congressional committees, including this one, have already heard of the problems with TSM and are probably not interested in hearing them in detail again.

The IRS' Chief Inspector's work regarding TSM has been extensive. Since 1991, IRS Inspection has issued almost 90 reports on TSM. These reports have reflected the same kinds of problems that GAO has reported in their audits. In our Semiannual Reports to Congress, we have highlighted the Chief Inspector's TSM work and since 1992 have reported TSM first as a major area of concern and later as a material weakness. In early 1996, we issued our own report on Treasury's Oversight of TSM which concluded that Treasury's past oversight of the modernization program had not been effective. Around the same time, the Department and IRS adopted a new approach to oversee TSM -- the Modernization Management Board (MMB). In addition, the IRS created an Investment Review Board (IRB) consistent with GAO's best practices self-assessment. As IRS and the Department embark on a whole new approach to TSM, the Chief Inspector continues to conduct a substantial body of audit work. In conjunction with his efforts, we plan to initiate a followup audit to assess whether Treasury has improved its ability to oversee TSM and whether IRS is addressing the recommendations made by the Chief Inspector and GAO.

I believe the Treasury OIG has a significant role to play as TSM and other "fixes" are put into place. While others continue to extensively audit the development of TSM and other IRS activities, the OIG's oversight role includes monitoring the IRS' progress in implementing previous recommendations and assuring performance of adequate audit followup. We also participate as an advisory member of the MMB. We believe that the MMB and IRB are promising oversight mechanisms to help IRS address and resolve its difficult issues.

While these oversight mechanisms are very new, they are having an impact. For example, in a 1996 audit of TSM, the Chief Inspector found that IRS' Document Processing System (DPS), an integral part of TSM, continued to be at risk because of repeated setbacks in the delivery of major DPS sub-systems. Furthermore, those setbacks indicated that IRS may not have the required technical expertise to deliver those sub-systems. The auditors recommended that IRS consider canceling any further development of DPS. Based on this and other ongoing evaluations of DPS, the IRB recommended, and the MMB agreed, that completing DPS was not cost effective given its projected return on investment. DPS was terminated in October 1996.

Filing Fraud -- As with Tax Systems Modernization, the Chief Inspector's Office has established an aggressive revenue protection audit strategy. This is designed to assist IRS management in improving systems for detecting return filing fraud in advance of issuing tax refunds. In a report released last month, the IRS internal audit staff concluded that IRS' 1996 Revenue Protection Strategy initiative effectively enhanced the selection of returns most susceptible to noncompliance with filing requirements. Since Fiscal Year 1995, IRS internal audit has issued 18 reports on revenue protection activities. Some of the recommendations from those reports include methods to identify suspect tax return preparers who deliberately understate their client's tax liabilities and strategies developed to detect the use of duplicate social security numbers to claim additional tax exemptions. Other reviews addressed the suitability of electronic return originators and the prevalence of tax refund fraud related to false claims under the earned income credit program. In addition to these specific audits performed on filing fraud areas, the Chief Inspector's internal audit staff monitors the processing activities in an on-line environment each tax filing season.

Asset Forfeiture -- GAO has two concerns regarding asset forfeiture vulnerabilities -- the need for better accountability and stewardship of seized property, and economies that could be realized through consolidation of the Justice and Treasury asset management and disposition functions. With regard to the management of seized property, Customs, as the custodial agent, has taken substantial actions that, if properly implemented, should remove Customs' seized-property management from the high-risk category. Customs continues to upgrade existing security at its storage facilities, appropriately focusing on those facilities where particularly large amounts of illegal drugs are stored prior to destruction. Additionally, while Customs' Fiscal Year 1995 year end physical inventory of illegal drugs and other contraband revealed significant errors in recorded quantities and quantities on-hand, its Fiscal Year 1996 year end inventory showed that these conditions had considerably improved.

Customs also is taking steps to correct previously reported weaknesses in its seized property tracking system. It is implementing a new seized asset case tracking system that, when fully operational, should offer improved controls and audit trails over seized and forfeited property, thus, reducing the ability to disguise a loss or theft of seized property. Customs is taking steps to ensure that existing weaknesses are resolved and related problems do not recur. The relative risk associated with Customs' seized property management system can be reduced with the continuing support of Customs top and mid-level management by ensuring that planned improvement efforts are properly implemented.

Since the OIG has not examined the benefits of consolidating the Justice and Treasury funds, we are unable to comment on the extent of GAO's estimated savings. Our work has focused on the use of Treasury Forfeiture Funds by state and local law enforcement recipients. Our conclusions from this work raises concerns regarding the administrative difficulty imposed on recipients because of the existence of two sets of guidelines to which they must adhere. We also had some difficulty in assessing whether Treasury funds have been spent in accordance with Treasury program criteria. We found that recipients commingle funds from Treasury, Justice, and other sources making it more difficult to ensure that the funds were being used for intended law enforcement purposes. Therefore, because of the different spending guidelines and program requirements, local law enforcement agencies would likely find it easier to receive money from one fund or to comply with one uniform set of guidelines for both funds. Treasury and Justice have been working together to establish more uniform guidelines.

Information Security -- GAO is rightly concerned about malicious attacks on computer systems. Federal computer systems are open to attack because so many computers are interconnected these days. The Government is vulnerable, and so is the Treasury Department. Computer intruders, whether outside or inside our bureaus, look to defraud and steal government resources, access sensitive data, and disrupt government services and operations. Whatever the nature of the attack or its consequences, the seriousness of this threat is real.

At Treasury OIG, we have a new group that specializes in information technology issues. So far, we have reviewed information security policies for Customs and ATF We have reviewed information security administration, program change procedures and mainframe security software at Customs, ATF and Secret Service during our annual financial audits. These audits identify a number of weaknesses that intruders could exploit. Some reported weaknesses have been corrected; however, others have not. We have also issued a comprehensive report on disaster recovery planning that compares the plans among the different Treasury bureaus We found several bureaus do not have a workable disaster recovery plan

-- a serious security weakness. IRS Inspection Service auditors have also given extensive coverage to computer security issues. For example, in 1992, the Inspection Service reported that the Integrated Data Retrieval System (IDRS) control systems did not detect or prevent unauthorized accesses by IRS employees to tax information. The information obtained was used for improper and illegal purposes.

In response to the 1992 report, IRS management implemented the Electronic Audit Research Log (EARL) system to identify employees who improperly access IDRS. Since EARL development began in 1993, Inspection Service auditors have monitored and reported on the design and progress of the system deployment. In addition, my office performed a followup audit to evaluate IRS' progress in correcting the IDRS access weaknesses. IRS managers have used these assessments to set the strategic direction for EARL and develop operating procedures to improve their overall effectiveness in identifying unauthorized access to IDRS.

Even though improvements have been made to detect and deter unauthorized or improper access to tax information, weaknesses still exist. For example, IRS management still has not completed an important corrective action of obtaining security accreditation for the EARL system. In 1994, the Chief Inspector's office also identified significant security weaknesses over sensitive taxpayer information on personal computers and mini-computer systems in IRS. They made a number of recommendations to strengthen controls, however, in a 1996 followup audit, they found that these weaknesses still exist. Clearly, more needs to be done to improve information security at IRS.

Year 2000 Problem -- As we have already heard, agencies must immediately assess their Year 2000 risk exposure and need to budget and plan how they will overcome the date problem for all of their mission critical systems. These plans and strategies need to be developed immediately if conversion is to be accomplished by early 1999. The Department's schedule and milestone dates are in accordance with the Government-wide schedule, with most of the conversion work expected to be completed by early 1999. While the Department's approach is consistent with GAO's recommendations, the ultimate challenge for Treasury will be to ensure that its approach is appropriately applied in an expeditious and timely manner.

The Department is currently finalizing their Year 2000 approach and vulnerability assessment. We know that Year 2000 is a particularly high risk area at IRS, Customs, and the Financial Management Service, and the assessment may identify other information systems which may be affected by the Year 2000 problem. Our strategy has been to await the results of the vulnerability assessment, and then determine where direct OIG involvement is required. At that time, we intend to identify issues, programs, or systems that might cause completion dates to slip or milestones to be missed. Furthermore, we are meeting with Department and bureau information resources management officials. We regularly attend the Treasury Year

2000 work group meetings and participate in the Chief Information Officers and Chief Financial Officers Councils where the Year 2000 problem is a regular agenda item. Additionally, we are conducting a Department-wide Survey of Information Technology investment management practices. As a part of this survey, we are assessing the impact of the Year 2000 problem on systems development initiatives and plan to follow their progression.

To conclude, I believe the federal audit community is an important element in the identification, analysis, and removal of high-risk areas. Our collective work can provide assistance to management in its efforts to minimize high-risk programs and other vulnerable areas. Audit followup is also a critical part of the puzzle and should be used to report on progress and identify what is working and what is not. I believe that my office, together with the Chief Inspector's Office, has a good record in this effort.

This concludes my statement. I will be happy to answer any questions you or members of the committee may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:00 AM EST
Text as Prepared for delivery
March 6, 1997

Statement Before the Subcommittee on
Treasury, Postal Service and General Government
Committee on Appropriations
U.S. House of Representatives
Secretary Robert Rubin

Chairman Kolbe, Congressman Hoyer, members of the Committee:

I appreciate the opportunity to testify on the Treasury Department's fiscal year 1998 budget request. With me today is George Muñoz, our Assistant Secretary for Management and Chief Financial Officer.

Let me begin by saying I look forward to working with Chairman Kolbe in his new position as Chairman of this Subcommittee. I have worked closely with Chairman Kolbe over the last four years, in particular when we worked on trade issues, and I look forward to working with him in his new capacity, and with Mr. Hoyer, with whom we have worked constructively for a long time, and the other members of the Subcommittee as well.

I believe the progress we have made in this Administration in bringing down the deficit by over 60 percent the past four years is enormously important to our overall economic health, and we are committed to achieving a balanced budget by 2002. Treasury's budget was constructed to be consistent with this objective.

The Treasury plays a key role in the core functions of government: tax policy, banking policy, the IRS, 40 percent of the federal law enforcement officers, management of the federal government's debt structure, economic policy development, budget policy, international economic affairs, inner city economic development, the processing of federal payments and the manufacture of our nation's currency. With such a broad portfolio, we take very seriously the notion that we must continually seek new ways to improve services and lower costs. As Secretary, I have been interested in and very focused on management.

RR-1533

In our fiscal year 1998 budget request of $11.7 billion, funding is proposed for the most essential operations. The operating budget of $11.2 billion, excluding the IRS information technology fund, is 4.2 percent over the fiscal year 1997 appropriated level. Our request maintains current service levels for all of Treasury's operations, while proposing important advancements for a few Department programs and priorities.

I am pleased to report that, in the spirit of intense managerial focus, Treasury's budget this year is in compliance one year ahead of time with all requirements mandated under the government's strategic planning guidelines -- the so-called Government Performance and Results Act (GPRA). We are focusing resources on the highest priorities: changing our focus from input to results; and expanding cooperation among managers, workers and stakeholders.

The FY 1998 request continues funding to permit a proactive approach to policy development concerning the nation's economic, financial, enforcement and tax policies. This level will also provide the flexibility needed to meet Treasury's growing demands in areas such as expanded oversight of major law enforcement operations, reform of international financial institutions, ongoing tax code improvements, and policy implications of electronic payments and other complex financial instruments.

Let me now highlight some budget items focusing on three key Treasury missions -- law enforcement, management of the government's finances, and promotion of a prosperous global economy. We've attached a more detailed presentation of our fiscal year 1998 request to my remarks.

Law Enforcement

Mr. Chairman, as you know, Treasury is responsible for over forty percent of the federal government's law enforcement personnel. We are requesting new resources to: combat violent crime; decrease availability of illegal drugs and other contraband; protect designated officials; continue counter-terrorism efforts; and upgrade law enforcement equipment, skill levels and facilities. Let me mention a few of our priorities.

Requested funds will enhance Treasury efforts to decrease the availability of illegal firearms to criminals and juveniles, especially ATF's successful Kids and Guns initiative. We also seek new resources for Customs to fight narcotics trafficking and other illicit smuggling activity at our borders.

Financial crime enforcement continues to be a high priority. The profits of crime that are laundered into the United States' financial system each year are staggering and detrimental by any calculation, and the losses attributable to financial fraud -- such as bank fraud and access device fraud -- are a threat to financial transactional systems. We will enhance our tools in support of essential financial crime investigations to better protect our financial institutions and to trace illicit profits to their criminal sources.

Money laundering and other financial crimes should be recognized as clear threats to financial institutions, as well as a new avenue for law enforcement to attack the leaders of drug gangs and organized crime. The FY 1998 budget continues efforts by the IRS, the Financial Crimes Enforcement Network, Customs and the Secret Service, in cooperation with other law enforcement agencies, to address money laundering.

Additional resources for the Secret Service will be used to support the continued implementation of outstanding White House Security Review recommendations. We must maintain our vigilance in discharging our protective mission by employing methods to detect and confront security threats before they surface.

We continue to emphasize counter-terrorism efforts. Customs will continue to aggressively promote protection at airports through automated targeting, non-intrusive inspection systems, and increased enforcement presence. The Bureau of Alcohol, Tobacco & Firearms will work to decrease explosive and arson crimes through the canine explosives detection program, explosive inspections, an arson clearinghouse.

We also seek to upgrade law enforcement equipment, skill levels, and facilities for ATF, Customs, the Secret Service, and the Federal Law Enforcement Training Center.

Effectively Manage the Government's Finances

New resources will enable Treasury to manage the Tax Administration process to improve compliance with tax laws, advance the Government's fiscal and financial management, and secure effective and efficient information systems.

Yesterday, you heard from Deputy Secretary Summers regarding the IRS and tax modernization. Last year, we promised a sharp turn in program direction. I am pleased to say that the commitments made last year have been kept, including, for example, hiring a new CIO, dramatically increasing the use of the private sector, implementing a new Investment Review process, and establishing the Modernization Management Board which functions as an activist board of directors. In addition, we have canceled several major contracts and collapsed over 30 separate projects into a more manageable nine. Nevertheless, changes of this magnitude will take time, just as the problems developed over a considerable period of time. However, let me state unambiguously that the Treasury remains committed to modernizing the IRS. We believe that it is essential for the Administration and the Congress to work together to improve the functioning of our tax administration system, and in my time at Treasury, this committee has played a major role in catalyzing effective focus on the relevant issues.

The Internal Revenue Service, Financial Management Service, Departmental Offices, Alcohol, Tobacco and Firearms and Secret Service are also requesting funds to ensure that program systems will not be affected by the Year 2000 date changes. These systems are critical to core government functions such as cash management, payments, collections, accounting, and financial reporting.

Finally, a priority for Treasury is to develop and implement policies relating to fiscal and financial issues such as electronic money and other complex financial instruments.

Promote a Prosperous World Economy

Treasury plays a key role in fostering global economic growth and stability, in order to further U.S. economic and national security interests. Treasury has been actively involved in issues ranging from assistance to Russia, help in reconstructing Bosnia, and emergency support for Mexico, which, as you know, has repaid the U.S. government in full, principal and interest, including a profit of $580 million. Most of the funding for these priorities is through our commitments to the World Bank, the regional development banks, the International Monetary Fund, and the New Arrangement to Borrow, and are under the jurisdiction of another subcommittee. But let me just mention a couple of priorities in this area that are under the jurisdiction of this committee.

The FY 1998 budget proposes to strengthen the Department's capacities to engage in opening new markets for trade and investment, reducing financial risks throughout the world and forging links with emerging markets. We also seek to upgrade equipment for the Customs Service to support a more effective, fair trade compliance and maintain analytical parity with its counterparts in other countries.

A high priority for Treasury is to strengthen the soundness of financial institutions in this country. The Offices of Thrift Supervision and the Comptroller of the Currency continue to play a major role in ensuring bank and thrift safety and soundness in order to advance a strong national economy. The Office of the Comptroller of the Currency has been designated to study the issues related to electronic money. In addition, the OTS and OCC are downsizing in response to the consolidation of financial institutions.

Mr. Chairman, let me mention one final area that is a priority for Treasury. President Clinton strongly believes that it is critical to the economic well-being to all Americans, no matter where we live, or what our incomes are, that we bring the residents of America's inner cities and other economically distressed areas into the economic mainstream. Treasury is actively involved in this effort, through measures such as the Community Development Financial Institutions Fund, which provides much needed investment capital to distressed urban and rural communities. Our budget includes $125 million for this critical program, which last year drew over 260 applications for over $300 million in assistance, demonstrating the market demand and potential for this program.

Mr. Chairman, let me conclude by saying that I appreciate the helpfulness and cooperation that I have received from this Subcommittee since coming to Treasury. We have worked closely on the IRS, as I mentioned a moment ago, and this Committee has been most helpful in support of Treasury's law enforcement efforts. I look forward to maintaining that cooperation as we move forward.

It has been my great honor to serve as Treasury Secretary for the last two years. In that time I have been continually impressed by the high quality of Treasury employees. They are professional, very knowledgeable about their various fields of expertise, extremely dedicated to their work, and to serving the public. The people at Treasury are our greatest resource. They deserve our respect and support, especially as we go through the difficult process of reaching budget balance.

With such a dedicated and talented team, with the close cooperation of Congress and the Administration, and with the appropriate funding for the Treasury Department, we will be able to maintain -- and improve -- the high level of service you have come to expect from the Department. And when we do that, Mr. Chairman, we will help this country have a strong economy and society for years and decades to come. Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
March 4, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $24,000 million, to be issued March 13, 1997. This offering will result in a paydown for the Treasury of about $250 million, as the maturing weekly bills are outstanding in the amount of $24,246 million.

Federal Reserve Banks hold $6,947 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 $2,727 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, as amended) 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-1534

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED MARCH 13, 1997

March 4, 1997

Offering Amount	$12,000 million	$12,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 4M 3	912794 5M 2
Auction date	March 10, 1997	March 10, 1997
Issue date	March 13, 1997	March 13, 1997
Maturity date	June 12, 1997	September 11, 1997
Original issue date	December 12, 1996	March 13, 1997
Currently outstanding	$13,126 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

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

February 28,1997

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of January 1997.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $57.6 billion on January 31, 1997, posting a decrease of $537 million from the level on December 31, 1996. This net change was the result of a decrease in holdings of agency assets of $450 million, and in agency guaranteed loans of $87 million. FFB made 10 disbursements during the month of January, and FFB reset the interest rate on one loan to the Resolution Trust Corporation. In addition, two RUS-guaranteed loans were bought-down and three were refinanced under Section 306C. FFB also received 19 prepayments in January.

Attached to this release are tables presenting FFB January loan activity and FFB holdings as of January 31, 1997.

RR-1535

FEDERAL FINANCING BANK
JANUARY 1997 ACTIVITY

)RROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
;ENCY DEBT				
₹ESOLUTION TRUST CORPORATION				
Iote 29 /Advance #1	1/2	$4,557,024,956.17	4/1/97	5.332% S/A
)VERNMENT - GUARANTEED LOANS				
;ENERAL SERVICES ADMINISTRATION				
'oley Services Contract	1/6	$230,054.09	7/31/25	6.861% S/A
'oley Services Contract	1/6	$178,006.84	7/31/25	6.861% S/A
:hamblee Office Building	1/10	$142,034.16	4/1/97	5.259% S/A
:hamblee Office Building	1/10	$75,131.14	4/1/97	5.259% S/A
'oley Square Courthouse	1/14	$30,941.00	7/31/25	6.972% S/A
Iemphis IRS Service Cent.	1/17	$36,247.56	1/2/25	6.937% S/A
'oley Square Office Bldg.	1/31	$603,459.00	7/31/25	6.980% S/A
Iemphis IRS Service Cent.	1/31	$179,665.80	1/2/25	6.977% S/A
;SA/PADC				
:CTC Building	1/17	$9,191,762.22	11/2/26	6.941% S/A
:URAL UTILITIES SERVICE				
;ast Kentucky Power #188	1/2	$15,541,442.48	12/31/18	6.665% Qtr.
outh Texas Electric #200	1/3	$216,147.88	12/31/18	6.774% Qtr.
:. Nebraska Tele. #398	1/24	$365,000.00	1/3/17	6.804% Qtr.
'ri-State #	1/27	$4,733,727.37	12/31/18	6.721% Qtr.
'ri-State #	1/27	$26,029.81	12/31/18	6.721% Qtr.
'ri-State #	1/27	$258,325.34	12/31/18	6.721% Qtr.

/A is a Semi-annual rate: Qtr. is a Quarterly rate.
interest rate buydown
maturity extension or interest rate reset
306C refinancing

FEDERAL FINANCING BANK
(in millions)

Program	January 31, 1997	December 31, 1996	Net Change 1/1/97-1/31/97	FY '97 Net Change 10/1/96-1/1/97
Agency Debt:				
Export-Import Bank	$ 1,431.5	$ 1,431.5	$ 0.0	$ -390.3
Resolution Trust Corporation	4,557.0	4,557.0	0.0	-1,439.1
U.S. Postal Service	0.0	0.0	0.0	-1,500.0
sub-total*	5,988.5	5,988.5	0.0	-3,329.4
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	17,875.0	18,325.0	-450.0	-825.0
DHHS-Health Maintenance Org.	5.5	5.5	0.0	0.0
DHHS-Medical Facilities	18.8	18.8	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.1	0.1	0.0	0.0
sub-total*	26,173.3	26,623.3	-450.0	-825.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,188.2	3,200.4	-12.2	-59.0
DoEd-HBCU	0.2	0.2	0.0	0.0
DHUD-Community Dev. Block Grant	37.6	37.7	-0.1	-1.6
DHUD-Public Housing Notes	1,561.4	1,561.4	0.0	-65.4
General Services Administration +	2,339.3	2,335.3	4.0	7.0
DOI-Virgin Islands	19.0	19.9	-0.8	-0.8
DON-Ship Lease Financing	1,308.1	1,382.8	-74.7	-74.7
Rural Utilities Service	16,702.4	16,702.0	0.4	-48.3
SBA-State/Local Development Cos.	304.8	308.3	-3.5	-13.5
DOT-Section 511	12.3	12.3	0.0	-0.4
sub-total*	25,473.2	25,560.2	-87.0	-256.8
grand-total*	$ 57,635.0	$ 58,172.0	$ -537.0	$ -4,411.2

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

DEPARTMENT OF THE TREASURY

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For Release Upon Delivery
Expected at 9:30 a.m.
March 5, 1997

STATEMENT OF DONALD C. LUBICK
ACTING ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT 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 discuss the tax provisions of the President's Fiscal Year 1998 budget The President's plan would provide targeted tax relief, promote a fairer tax system and encourage activities that contribute to economic growth, while achieving a balanced budget by Fiscal Year 2002 We look forward to working with all the Members of this Committee to accomplish these goals

We are especially pleased that, following this overview of the tax provisions of the budget, the Committee is having this hearing today to focus on education issues. The President's FY 1998 budget plan contains a number of proposals to promote education. In particular, the President has offered several tax proposals to encourage higher education and job training We welcome this opportunity to discuss these proposals with you

In addition to encouraging investment in education, the President's tax plan would provide tax cuts to working families, capital gains tax relief and simplification targeted to home ownership, and tax incentives to promote savings and to promote the hiring of the economically disadvantaged Under the President's plan, the gross tax cuts would total $98.4 billion through FY 2002

The President's tax plan is also fiscally responsible The budget offsets the costs of these tax cuts by making cuts in spending and by eliminating unwarranted corporate tax subsidies, closing tax loopholes that are not economically sound, and improving tax compliance. These measures produce budget savings of $34.3 billion through FY 2002. Reinstatement of expired trust-fund excise taxes under the President's tax plan will produce additional savings of $36.2 billion through FY 2002

The President's budget produces, without a sunset of the tax provisions, balance in FY 2002, under OMB assumptions To ensure balance under CBO assumptions, the President's budget would sunset after FY 2000 the following tax provisions the child credit; the HOPE scholarship tuition credit and tuition deduction, expanded IRAs (except in certain technical aspects), and the brownfields deduction

Others have proposed higher tax cuts, but our commitment to balancing the budget and sound tax policy requires us to exercise restraint. As Secretary Rubin stated in testimony before this Committee on February 11, tax cuts that are much more costly than the President's proposals would require us to make cuts that are too deep in Medicare, Medicaid, education, the environment, or other priority areas.

Given the need for fiscal discipline, one of our principles throughout President Clinton's tenure has been that tax relief should be concentrated on middle-income taxpayers. In 1993, the Administration worked with Congress to cut taxes for 15 million working families by expanding the Earned Income Tax Credit (EITC), and to help small business by increasing expensing of capital investments and by providing targeted capital gains incentives. A year later, the President proposed his Middle Class Bill of Rights, including child tax credits, deductions for higher education, and expanded Individual Retirement Accounts. Then in 1996, he signed into law a number of other tax benefits for small businesses and their employees, as well as a new tax credit for adoption.

This year, the budget again proposes the President's Middle Class Bill of Rights, with a number of proposals aimed at helping middle-class families pay the bills, raise their children and send them to college, and save for retirement. This year, however, the plan goes farther. It includes more tax incentives and relief with regard to education and training, capital gains on home sales, work opportunities, and distressed areas, and provides employment and investment incentives to revitalize the District of Columbia.

Middle Class Bill of Rights

The President's Middle Class Bill of Rights focuses on middle-income taxpayers. It includes targeted tax incentives to encourage investment in education and training. It would immediately and significantly benefit families with young children, and promote long-term saving. When evaluating the extent to which the Administration's budget enhances educational opportunities, however, these proposals must also be considered in conjunction with the President's Pell Grant proposals, which give comparable education incentives for those persons who do not have a high enough tax liability to benefit from a non-refundable tax credit.

Education and Training Incentives. Well-educated workers are essential to an economy experiencing technological change and facing global competition. We believe that reducing the after-tax cost of education for individuals and families through tax credits and deductions would encourage investment in education and training while lowering tax burdens for middle-income taxpayers. There is widespread agreement that increasing the education levels of the U.S. work force is essential to a growing economy and an increasing U.S. standard of living. The ever-growing expenses of higher education, however, place a significant burden on many middle-class families.

The President's balanced budget plan contains tax incentives to assist families with the costs of postsecondary education. These incentives will encourage Americans of every age to pursue their education beyond high school so that they can compete effectively in the global economy of the next century and achieve a higher standard of living. Tax relief is provided to families of all kinds, whether they are saving to send a child to college, paying currently for a parent or child to attend college or graduate school, or hoping to lessen the burden of student loans. Tax benefits are available not only for undergraduate degree programs, but also for training to acquire or improve job skills. These tax proposals complement other proposals in the budget to increase access to higher education, such as the proposal to increase the maximum Pell Grant by $300 and to make more aid, including Pell Grants, more accessible to independent students with low income levels. In addition, the budget proposes to cut a variety of student loan fees.

The tax incentives are a key part of our agenda for higher education because they provide broad-based assistance, and they do not require more students to participate in the financial aid system. Also, by providing incentives to save for higher education, they can help families prepare for the cost of college, helping to reduce the demand for student aid.

The President's budget contains five specific tax proposals related to higher education. They are:

> ***HOPE Scholarship Tax Credits.*** Taxpayers would be able to claim a nonrefundable tax credit of up to $1,500 per year (indexed for inflation beginning in 1998) for two years to cover tuition and fees for themselves, their spouses, or their dependents while enrolled at least half-time in the first two academic years of a degree or certificate program. To take the credit in the second year, the student must have attained the equivalent of at least a B minus grade point average in course work completed before that year. No credit is available if the student has been convicted of a drug-related felony. Federal grants (but not loans or work-study payments) reduce the allowable credit. The credit is phased out for families filing a joint return with modified AGI between $80,000 and $100,000 (between $50,000 and $70,000 for single filers), indexed for inflation beginning in 2001. The credit would apply to course work beginning after June 1997.
>
> ***Education and Job Training Tax Deduction.*** As an alternative to the HOPE scholarship, taxpayers could elect to deduct up to $10,000 per year ($5,000 in 1997 and 1998) of tuition and fees for students enrolled at least half-time in a degree or certificate program, or for courses to improve job skills. The deduction can be claimed even by taxpayers who do not itemize. Unlike the HOPE Scholarship credit, which is calculated per-student, the deduction does not vary with the number of students in a family. The deduction is phased out at the same income levels as the HOPE Scholarship credit and would apply to course work beginning after June 1997.

These two provisions will help make 14 years of education the norm for all Americans. They would make a dramatic difference in family finances and are expected to help 12.3 million students in 1998 alone. In fact, middle-income families would be able to combine the tuition deduction with the President's proposal to allow penalty-free IRA withdrawals for education (or with a qualified state tuition program); in many cases, this would have the same effect as avoiding all income tax on college savings.

Tax-Free Employer-Provided Educational Assistance. We should also continue to encourage employers to provide educational assistance to their employees. Currently, up to $5,250 of tuition paid by an employer under a qualified educational assistance program need not be included in the income of the employee. However, the exclusion for undergraduate education expires in mid-1997, and the exclusion ceased to apply to graduate-level courses after mid-1996. The Administration strongly believes that the tax law should encourage employers that are willing to support employees' educations, including for those employees who have already graduated from college and who go back to school to develop new skills. The budget would reinstate the exclusion for graduate-level assistance retroactive to its prior expiration, and would extend both undergraduate- and graduate-level assistance through December 31, 2000.

Ten Percent Tax Credit to Small Businesses that Provide Educational Assistance to Employees. In addition, the Administration believes that an additional incentive is needed to foster increased educational opportunities and work-force training for employees of small businesses that otherwise may be unable to devote sufficient resources to their employees' skill development.

To address this concern, the budget proposes that for taxable years beginning after December 31, 1997, and before January 1, 2001, small businesses (employers with average annual gross receipts of $10 million or less for the prior three years) would be allowed a 10 percent income tax credit for payments for education of employees under an employer-provided educational assistance program. This proposal will help offset administrative costs of small businesses providing educational opportunities for their employees. It is projected to benefit 1.7 million employees.

Expanded Tax-Free Treatment for Forgiveness of Student Loans. The Administration believes in encouraging Americans to use their education and training in community service. Providing tax relief in connection with the forgiveness of certain student loans will help make it possible for students with valuable professional skills to accept lower-paying jobs that serve the public. To this end, the budget eliminates the tax liability that normally arises when debt is forgiven, if the lender is a charitable or educational institution that lends money to a student to pay for education and then forgives the loan after the student fulfills a commitment to perform community or public service at low pay for a certain period of time. The same tax-free treatment would also apply when the Federal government forgives a loan made through the direct student loan program for a student who has been making income-contingent repayments for an extended period.

$500 Child Tax Credit. Over the past decades inflation has reduced the value of the personal exemption, so the burden of taxes has shifted from smaller to larger families. A targeted child credit is an efficient way to address the increase in relative tax burdens faced by larger families. Under the Administration's budget plan, taxpayers would receive a $500 nonrefundable credit ($300 in 1997, 1998 and 1999) for each dependent child under the age of 13. The credit would be phased out for taxpayers with adjusted gross incomes (AGI) between $60,000 and $75,000. Beginning in 2001, both the amount of the credit and the phase-out range would be indexed for inflation.

The relief is directed to low- and middle-income taxpayers because of the limited resources available for tax reduction and higher-income taxpayers' relatively greater ability to pay current levels of income taxes. In the year 2000, this proposal will provide needed tax relief for over 17 million middle-income families. The credit would be nonrefundable, but working families would first deduct the child credit from their income taxes before deducting the refundable EITC -- making it easier for them to get the benefit of both credits.

Expansion of Individual Retirement Accounts. The Administration believes that individuals should be encouraged to save in order to provide for long-term needs, such as retirement and education. Tax policies targeted to middle-income taxpayers can provide an important incentive for generating new savings. (By contrast, new tax benefits for savings by upper-income people are more likely to result in shifting into tax-favored investments of savings that would otherwise occur.) The Administration's proposal would expand the availability of deductible individual retirement accounts (IRAs) to families with incomes under $100,000 and individuals with incomes under $70,000.[2] These thresholds, as well as the annual contribution limit of $2,000, would be indexed for inflation. As under current law, if an individual (and the individual's spouse) is not an active participant in an employer-sponsored plan, the individual (and spouse) would be eligible for a deductible IRA without regard to income.

Taxpayers would have the option of either deducting the amount deposited in an IRA account (and paying tax on the contributions and earnings when withdrawn), or forgoing an immediate deduction but not having to pay tax on either the contributions or earnings on the

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Beginning in 1997, eligibility would be phased out for couples filing joint returns with AGIs between $70,000 and $90,000 ($45,000 and $65,000 for single filers). Beginning in 2000, eligibility would be phased out for couples filing joint returns with AGIs between $80,000 and $100,000 ($50,000 and $70,000 for single filers) contributions when the funds are withdrawn from a new Special IRA, provided the contributions remain in the Special IRA for at least five years. The purposes for which withdrawals could be made without early withdrawal tax would be broadened to include higher education costs, first-home purchases, and long-term unemployment.

Individuals with moderate incomes and younger people, who are now doing very little saving, should find the expansion of IRAs to meet a wider variety of savings needs, such as first-time home purchases and higher education expenditures, very attractive. This expansion also has a strong policy rationale. Homes frequently provide an important financial resource during retirement years, and education will improve productivity and economic security of the next generation. In addition, the knowledge that IRA assets are available to deal with possible family crises, such as unemployment, will make middle-income families more comfortable with beginning a commitment to IRA savings. Moreover, by dramatically increasing the number of middle-income taxpayers eligible for IRAs, financial institutions will have an increased incentive to advertise vigorously and to promote tax-preferred savings accounts. Widespread advertising and media attention to IRAs should be effective in increasing awareness of the importance of saving and encouraging IRA contributions, especially among moderate-income taxpayers.

Exclusion of Gains on Sale of Principal Residence. The budget provides substantial simplification and tax relief for millions of Americans by replacing the current-law tax treatment of capital gains on home sales with an exclusion of up to $500,000 of gain for married taxpayers filing joint returns ($250,000 for other taxpayers). The exclusion is available every two years, so long as the taxpayer used the house as a principal residence for at least two of the five years prior to the sale (the exclusion would be pro-rated for taxpayers forced to move in less than two years). The exclusion generally applies to sales on or after January 1, 1997.

The budget proposal would provide substantial simplification. Currently, all homeowners must keep detailed records of the original cost and improvements to their home because of the potential for capital gains tax liability, even though fewer than four percent of home sales result in taxable capital gains. Under the budget proposal, record-keeping burdens for income tax purposes would be substantially reduced for over 60 million households that own their homes. The number of taxpayers paying capital gains tax on residences would be reduced from about 150,000 per year to fewer than 10,000 per year (one-quarter of one percent of those selling their homes).

Under current law, capital gains from the sale of principal residences are subject to tax. However, taxpayers can postpone the capital gains tax by reinvesting in a replacement residence with a purchase price equal to or higher than the adjusted sales price of the house that is being sold. In addition, taxpayers age 55 and over can elect to take a one-time exclusion of up to $125,000 in gains on residences.

The current-law postponement of capital gain from the sale of a principal residence encourages some taxpayers to purchase larger and more expensive houses than they need because the purchase price of a new home must be greater than the sales price of the old home. Current law also may discourage some taxpayers from selling their homes. When taxpayers feel they must move to a less expensive home, because they are experiencing financial difficulty, going through a divorce, or for other reasons, they currently must pay tax on any gain on their home sale. The budget proposal would eliminate these problems in almost all cases.

Similarly, while the one-time capital gains exclusion has successfully relieved most taxpayers over 55 from tax liability on the sale of their homes, it contains certain tax traps for the unwary that can result in loss of the benefits of the current exclusion and significant capital gains taxes. For example, an individual is not eligible for the $125,000 one-time capital gains exclusion if the exclusion was previously utilized by the individual's spouse. This restriction has the unintended effect of penalizing individuals who marry someone who has already taken the exclusion. The budget proposal would eliminate these traps for the unwary.

Estate Tax Relief for Small Businesses and Farms

The budget proposes to ease the burden of estate taxes on farms and other small businesses, which may have a cash-flow problem when estate taxes must be paid after death. Under current law, estate tax attributable to certain closely held businesses may be paid in installments (interest only for four years, followed by up to ten annual installments of principal and interest). A special four-percent interest rate is provided for the tax deferred on the first $1 million of value. Only certain types of business arrangements are eligible for the installment payment provision, and a special estate tax lien applies to property on which the tax is deferred during the installment payment period. To take full advantage of the available tax benefits, an estate must make an annual filing using complicated interrelated computations to recompute the payment due each year.

The budget proposal would address the liquidity problems of estates holding farms and closely held businesses, and simplify the tax laws, by increasing the value cap on the special low interest rate from $1 million to $2.5 million, expanding the availability of these rules to other comparable business arrangements, and authorizing the Secretary to accept security arrangements in lieu of the special estate tax lien. The applicable interest rates would be cut by 50 percent or more, but interest paid would be nondeductible, thus eliminating the necessity for annual filings and circular computations. These proposals generally would be effective for decedents dying after 1997, but estates already taking advantage of the installment payment plan would be given a one-time opportunity to convert to the lower nondeductible interest rate in order to simplify their filing requirements.

Empowering Communities and the Economically Disadvantaged

The budget contains proposals to spur private-sector participation in revitalizing distressed communities and to generate job opportunities for long-term welfare recipients.

Tax Incentives to Clean Up Blighted "Brownfields" in Distressed Areas. To encourage companies to clean up abandoned, contaminated industrial properties located in distressed communities, clean-up costs associated with the abatement or control of certain pollutants would be immediately deductible if incurred for a qualified site. Qualified sites include business or income-producing properties located in specified high-poverty areas where it has been certified that hazardous substances are present or potentially present in the property. The deduction would be subject to recapture as ordinary income upon a subsequent disposition of the property at a gain. The proposal would apply to expenses incurred after the date of enactment.

This incentive is expected to leverage $10 billion in private investment to help bring an estimated 30,000 environmentally contaminated industrial sites back into productive use again, helping to rebuild neighborhoods, create jobs, and restore hope to our nation's cities and distressed rural areas.

Additional Empowerment Zones and Enterprise Communities. The Empowerment Zone and Enterprise Community Program would be strengthened by a second round of designations and a new mix of federal tax incentives. The program rewards communities that develop comprehensive strategic plans for revitalizing their neighborhoods with a wide array of community partners. In the first round of designations announced in December 1994, 105 communities were selected

Under the budget proposal, 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 current empowerment zone tax incentives to these additional areas, with technical modifications. In addition, 20 additional empowerment zones and 80 additional enterprise communities, which would be subject to modified eligibility criteria, would be authorized. Among the 20 zones, 15 would be in urban areas and five would be in rural areas. The 80 communities would be divided between 50 urban areas and 30 rural areas. Areas within Indian reservations would be eligible for designation.

These additional 20 zones would have available a different combination of tax incentives than those available to existing zones and would include the brownfields initiative, a current deduction for acquisitions of certain business assets, and an expanded form of tax-exempt financing. In addition, the investment incentives available in the original EZs and ECs would be strengthened.

Tax Credits for Community-Oriented Equity Investments. Under the budget plan, access to capital in distressed communities would be enhanced through a new tax credit for equity investments in Community Development Financial Institutions (CDFIs). The Community Development Banking and Financial Institutions Act of 1994 created the Community Development Financial Institutions (CDFI) Fund to provide equity investments, grants, loans, and technical assistance to financial institutions that have community development as their primary mission.

The budget would make $100 million in nonrefundable tax credits available to the CDFI Fund to allocate among equity investors between 1997 and 2006. The allocation of credits is capped at 25 percent of the amount invested in any project and would be determined by the CDFI Fund using a competitive process. Over time, this incentive is estimated to result in at least $5 billion of new lending and investing in distressed urban and rural communities.

Tax Credits to Facilitate the Transition from Welfare to Work. The goal of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 is to move individuals from welfare to work. However, it is anticipated that the process of moving some welfare recipients to work will be a difficult challenge for a variety of reasons, including a recipient's lack of prior work experience and skills relevant to the demands of a changing labor market. To encourage the hiring of these welfare recipients, the President proposes a new welfare-to-work credit that would enable employers to claim a 50-percent credit on the first $10,000 of annual wages paid to certain long-term family assistance recipients[3] for up to two years. Thus, the maximum credit would be $5,000 per year. The new tax credit would be effective through September 30, 2000

In 1996, the Congress replaced the Targeted Jobs Tax Credit with a work opportunity tax credit (WOTC) of 35 percent of qualified wages paid to a targeted group during the first year of employment, up to a maximum credit of $2,100 per qualified employee. The WOTC expires after September 30, 1997 The President proposes to extend the WOTC for an additional year. Moreover, a new category of qualified employees would be added to the targeted groups. Under the President's proposal, the WOTC would be allowed to taxpayers who hire certain food stamp recipients (*i.e.*, able-bodied adults age 18-50 who, under the Administration's Food Stamp proposal, would face a more rigorous work requirement in order to continue receiving Food Stamps). The credit for this group would be effective for individuals hired from the date of enactment through September 30, 2000

Other Tax Relief Provisions

Extension of Other Expiring Tax Provisions. The budget would extend each of the following provisions for one year from their current expiration date:

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[3]"Long-term family assistance recipients" would be defined to include: (1) members of families that have received family assistance (AFDC or its successor program) for at least 18 consecutive months ending on the hiring date, (2) members of families that have received family assistance for a total of at least 18 months beginning on the date of enactment, provided that they are hired within two years of the date that the 18-month total is reached; and (3) members of families who are no longer eligible for family assistance because of Federal or state time limits, provided that they are hired within two years of the date that they became ineligible for family assistance

- The 20-percent credit for research and experimentation expenditures (expiring May 31, 1997);

- The 50-percent credit for qualified clinical testing of certain drugs for rare diseases or conditions (known as "orphan drugs") (expiring May 31, 1997); and

- The fair-market-value deduction allowed for contributions of appreciated stock to private foundations (expiring May 31, 1997).

Equitable Tolling of the Statute of Limitations. To ensure that disabled persons are treated fairly when filing for tax refunds, the statute of limitations for refunds from the Internal Revenue Service would be delayed when the individual is under a sufficient medically determined disability and no other person has been authorized to act on the taxpayer's behalf in financial matters The proposal would be effective for taxable years ending after the date of enactment.

Tax Incentive for Economic Development of Puerto Rico. To provide a more efficient and effective tax incentive for the economic development of Puerto Rico, the budget proposes to modify the Puerto Rican economic-activity credit -- basically a wage credit -- by extending it indefinitely, opening it to newly established business operations, and removing the income cap. The budget proposal will address a real need to preserve and create jobs for U.S. citizens in Puerto Rico

Allow Foreign Sales Corporation Benefits for Computer Software Licenses. The foreign sales corporation (FSC) provisions, which provide a limited exemption from U.S. tax for income arising in certain export transactions, currently are applicable to exports of films, tapes, records, and similar reproductions Since computer software is similar to these other types of property, we believe that FSC benefits should be extended by legislation to licenses of computer software

Tax Incentives for Economic Development of the District of Columbia. The budget also includes a package of Federal income tax incentives designed to encourage hiring and increased investment in undeveloped and underutilized areas in the District of Columbia. We are still finalizing the details of this proposal and are discussing the economic development needs of the District with interested business and community leaders Thus, the specific details of the incentives will be released shortly together with the other components of the President's plan to revitalize the District as the Nation's capital and to improve the prospects of success for home rule To a large extent, the District tax incentives build on the Administration's Empowerment Zone and Enterprise Community incentives, the Work Opportunity Tax credit, and the President's proposed Welfare-to-Work incentive Also included in the mix are substantial amounts of tax credits specifically designed to increase the availability of debt and equity capital for those projects in the District that are determined, at the local level, to promote increased economic activity most effectively

The IRS will assume responsibility from the District of Columbia for administering the District's individual income taxes and unemployment insurance taxes, funded by an addition to the IRS appropriation for that purpose. As a condition of this change, specific authorizing legislation setting out the functions and timing will be required. The IRS will be responsible for management, tax return and refund processing, customer service, computer operations, compliance and enforcement, and will have all of its current enforcement powers available to it.

Closing Corporate Tax Loopholes and Other Revenue Measures

The budget includes measures previously proposed by the Administration to eliminate unwarranted corporate tax subsidies, close tax loopholes that are not economically sound, and improve tax compliance. Such measures include:

- Proposals focused on financial products, to maintain the distinction between debt and equity, to curtail arbitrage opportunities, to prevent avoidance of gain recognition on functional sales, and to measure income properly;

- Proposals focused on corporate transactions, to prevent tax-free disguised sales of businesses, to prevent the manipulation of the stock redemption rules to distort income, to eliminate the use of inventory methods that mismeasure income, and to reduce corporate subsidies such as percentage depletion on lands received from the Federal government at a bargain price,

- Proposals focused on the international tax rules, to measure export income more accurately, to prevent manipulation of the foreign tax credit rules through artificial labels, and to eliminate distortions resulting from the use of derivative financial instruments, and

- Proposals focused on increasing tax compliance, for example by tightening the substantial understatement penalty for very large corporations, expanding withholding on gambling winnings, and streamlining debt collection procedures for non-means tested, recurring Federal payments

Extension of Expired Excise and Other Trust Fund Taxes. The budget also proposes reinstating the excise and other trust fund taxes that have expired: the Airport and Airways Trust Fund excise taxes,[4] the Hazardous Substance Superfund Trust Fund excise and income taxes, the Oil Spill Liability Trust Fund excise taxes; and the Leaking Underground Storage Tank Trust Fund excise tax. These are not new taxes: they have been applied for years to finance specific programs, such as the provision of air traffic control services and the

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The Administration will propose legislation to completely replace these taxes, effective October 1, 1998, with cost-based user fees, as part of the Administration's effort to create a more business-like Federal Aviation Administration cleanup of certain hazardous waste sites. Each of these taxes would be extended through 2007.

Tax Simplification and Taxpayers' Rights

The Administration continues to support revenue-neutral initiatives designed to promote sensible and equitable administration of the tax laws, including simplification, technical corrections, compliance, and taxpayers' rights measures. In the near future, the Administration will propose to Congress a package of such measures.

Conclusion

In conclusion, the President's FY 1998 budget plan proposes to reach balance by 2002 with prudent tax reductions that are pro-family, pro-education, and pro-economic growth, and that are targeted to those who need them the most, with an emphasis on stopping abuses and simplifying the tax system. We look forward to working with the Committee on these proposals. I would be pleased to answer any questions that you might have.

Effect of Proposals on Receipts 1/
FY 1998 Budget

Proposal	03/04/97 05:01 PM	1998	Fiscal Years 2002	1998-2002 2/
			($'s in billions)	
Tax Cuts and Extension of Expiring Provisions				
Tax Cuts				
1 Augmented tax credit for children		-9.9	-10.4	-46.0
2 IRAs		-1.5	-1.7	-5.5
3 Incentive for education		-4.0	-9.4	-36.1
4 Three year extension of income exclusion for employer provided educational assistance (section 127) with 10% credit for small business (through 12/31/2000)		-0.6	0.0	-2.3
5 Capital gains exclusion on sale of principal residence		-0.3	-0.2	-1.4
6 Distressed areas initiative package		-0.4	-0.4	-2.3
7 CDFI		-0.0	-0.0	-0.0
8 Work opportunity tax credit (through 9/30/2000)		-0.1	-0.1	-0.6
9 Small business farm estate tax		-0.0	-0.2	-0.7
10 Equitable tolling		0.0	-0.0	-0.1
11 Extend Puerto Rico wage credit indefinitely		-0.0	-0.1	-0.4
12 Foreign Sales Corporation benefits for licenses of computer software for reproduction abroad		-0.1	-0.1	-0.6
13 D C tax incentive		-0.0	-0.1	-0.3
Extension of Expiring Provisions (1 yr)				
14 R & E credit		-0.8	-0.0	-1.7
15 Orphan drug credit		-0.0	-0.0	-0.0
16 Contributions of appreciated stock to private foundations		-0.0	0.0	-0.1
17 Work opportunity tax credit		-0.1	-0.0	-0.4
Total Tax Cuts and Extension of Expiring Provisions		**-17.9**	**-22.8**	**-98.4**
Eliminate Unwarranted Benefits and Other Revenue Measures 2/		4.1	8.9	34.3
Other				
Excise Taxes		5.8	7.8	36.2
Non-Tax 2/		1.0	1.1	5.5
Total Other		**6.8**	**9.0**	**41.7**
Total Effect of Proposals on Receipts		**-7.0**	**-4.9**	**-22.4**

Department of the Treasury
Office of Tax Analysis

1/ Excludes outlay effects of $117 million in FY 2002 and $328 million for FY 1997 - FY 2002 and FY 1997 - 2007.
2/ Extension of Superfund corporate environmental income tax is included in Other/Non-Tax: $1.1 billion in 1998, $0.8 billion in 2002 and $4.2 billion in 1998 - 2002.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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March 5,1997

TESTIMONY BY THE DEPUTY SECRETARY BEFORE THE HOUSE APPROPRIATIONS SUB-COMMITTEE

Mr. Chairman and Members of the Committee:

I am pleased to be here today to report on the Department's progress with respect to modernizing the Internal Revenue Service. Commissioner Richardson will address the overall budget request.

The Department's perspective is that the next few years will not be easy for the IRS; they must do their current work, absorb natural workload growth, and improve their service and productivity while the resources to get all this done become ever more constrained. Beyond that, aging computer systems have to be made to handle the year 2000. This presents a singular challenge for the IRS, their overseers, and their appropriators.

When I testified before this Subcommittee last year, I acknowledged that there were significant problems with the TSM program. At that time, I promised a sharp turn in program direction during the ensuing year. I think we all recognize that changes of this magnitude cannot be completed overnight, but I am pleased to report today on a number of significant accomplishments so far. I will then review the challenges that remain.

- With respect to leadership, IRS' new Associate Commissioner for Modernization and Chief Information Officer, Mr. Arthur Gross, has brought to us considerable systems integration and tax systems modernization experience from his years with the State of New York. He is responsible for making sure that the modernization program gets on track and stays on track. So far, he has done a superb job under trying circumstances. He has already recruited three key technical managers from outside the IRS, thoroughly restructured the Information Systems organization, and replaced ten people on his executive team. The IRS has also launched an extremely aggressive nationwide search for fifteen additional technical managers, which has already yielded over 750 applications.
- The mix of contractors versus IRS staff in TSM development has become much more appropriate. Specifically, the IRS is contracting out 64% of TSM development staff work in 1997 versus 40% through 1995. As Congress requested, we submitted a plan to migrate the bulk of the TSM-related development work to private sector contractors over the next few months. For the somewhat longer term, we are preparing a solicitation for a prime contractor. Congress asked that the MMB prepare a request for proposals to be ready for issue by July 31 to potential TSM prime contractors. That work is on schedule.
- Stringent criteria for moving ahead with modernization investments have resulted in the winnowing out of development projects which were not affordable as they were envisioned, or which could not be fielded cost-effectively, or which would not be consistent with the IRS' emerging systems architecture. As a result of this analysis:
  - Twenty-six disparate modernization projects identified in last year's report to Congress have been canceled or collapsed into a more targeted and

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manageable nine.
  - The IRS has reduced the number of its own staff working on TSM development projects from 524 to 156.
  - Major projects canceled include the Document Processing System (DPS) and the next release of the Integrated Case Processing system (ICP).

- The architectural blueprint will govern the conception and launch of any TSM project. This critical document will clearly describe what modernization would and would not include and how the pieces fit coherently together. Congress asked us to produce it by May 15 of this year, and we are on track for timely submission.

- We are pursuing a strategy to explore the feasibility of outsourcing submission processing as described in the plan which IRS submitted at Congress' request. There are obvious concerns about taxpayer privacy and security that we must assess carefully, and we need to see how the costs and benefits line up. This is not an issue that will be resolved in a year or two. Outsourcing would be a major change in direction for the Service, but we think the prudent course of action is to investigate our options.

- The IRS has already delivered to Congress a plan to implement GAO's recommendations regarding Information Systems. The implementation is well under way as the IRS has concentrated on upgrading IRS' technical capabilities and infrastructure, and on imposing a disciplined process for current and future acquisition and development. This is hard and unglamorous, but necessary, work. For instance, we have shored up the system testing capabilities at the IRS to make sure that new and modified systems deliver what they are supposed to. We have installed a rigorous new development methodology and a process for evaluating investments.

- The IRS is developing an electronic tax administration strategy which they will review with the MMB in the spring. This strategy will address how to make electronic filing attractive to a much broader range of taxpayers, preparers, and information providers; it will explicitly deal with removing disincentives for use that have held down the acceptance of today's offerings. The strategy will also address potential partnerships with private sector enterprises and the leverage of private sector infrastructure.

Treasury Oversight

In large part, the accomplishments I have just cited result from Treasury's strengthened oversight and governance structure. I will now elaborate on what we have done and how and why it works.

Treasury launched a new approach to oversight in 1995 when TSM issues made it clear that more rigor was needed. We strengthened our approach in 1996 by creating the Modernization Management Board, chaired by me as the Deputy Secretary, which we modeled on an activist corporate Board of Directors. We also staffed the Board at the Department level.

The MMB is a new and different approach to oversight in several important respects. It brings together officials from the IRS, Treasury, OMB, and NPR. It focuses senior executives' sharp turn we promised last year, and we expect to show further concrete results a year from now. But the progress to date is just the beginning. The challenges which Treasury and the IRS, working together, must successfully face over the next few years are:

- First and absolutely, we must continue to deliver successful filing seasons. Our confidence in the IRS' ability to do this is bolstered by the replacement over the past few years of a great deal of aging and outmoded hardware. That is one very important tangible result of TSM investments to date which we must not lose sight of.
- Second, we must maintain the current compliance rate, or the balanced budget plan is in jeopardy.

These are only the bare necessities. We have to do much more, specifically:

- Third, we must improve the quality and availability of customer service, defined as everything from answering the phone promptly to resolving questions and issues in a single crisp and courteous interaction. We think the American people are realistic enough to know that the level of service they get depends on the season, but they can and do expect us to handle their inquiries and situations promptly and effectively, with a high level of accuracy and professionalism. I am happy to report that service has already improved significantly versus the same time last year in several dimensions, e.g.:
    - The level of access has improved from 50% to 68%.
    - The number of people served has increased by almost 12%.
    - Walk-in site assistance has increased by almost 5%.

  But this is only a start. One of the MMB's evaluation criteria for the IRS' new technology architecture is the speed at which material improvements in service occur.
- Fourth, we must dramatically improve IRS productivity. While we look to outsourcing and electronic tax administration to help, their impact is not in the near term. Only by fundamentally reengineering the IRS' processes can the IRS handle its growing workload at the same time as it improves its service and maintains compliance levels, all in the face of real dollar budget constraints. It should be clear that a smaller IRS will not be able to do the work that needs to be done unless it is also a different IRS. While we recognize that information technology will not provide the whole solution, it is inescapably a major part of it.
- Fifth, we must therefore modernize the core databases and systems of the IRS as cost-effectively as possible to support improved service and reengineered processes.
- Sixth, we must more aggressively seek out every opportunity to reduce the burden on taxpayers.
- Finally, all of this must happen in concert with the major time-consuming effort of dealing with the century date change on IRS computers and systems. Like every large computer user, the IRS must get ready for the Year 2000, but with so much of their software custom-made and very old, their problems are even worse than those faced by most other agencies. Keeping the systems running into the next century is, of course, an essential stay-in-business requirement for the IRS; it must have first call on

attention on the issues with highest impact, including broad directions like outsourcing submission processing and electronic tax administration as well as specific high-profile initiatives like DPS. This Board has been extremely engaged. It meets monthly and has given us the opportunity for some blunt but effective dialogue on how to do better.

Also, within the IRS, we have established more effective mechanisms for ensuring appropriate business area participation and judgement in setting direction for technology-related investments. IRS now has an Investment Review Board (IRB) chaired by the Deputy Commissioner, consistent with GAO/OMB best practice recommendations; Treasury officials play an active role on that Board. The IRB has terminated several major modernization projects which failed its criteria for investment attractiveness or readiness to proceed.

This change in oversight structures has already paid dividends and I expect it to become steadily more effective in the coming months. In addition to these institutional changes, Treasury will continue to intervene in IRS' strategic decisions, adding rigor to analyses supporting the choices, and indeed affecting those choices. The submissions processing situation is an illustrative example which I would like to recount.

The IRS had contracted with Lockheed-Martin to build the Document Processing System, or DPS, a highly integrated system to scan, read, and store images of paper tax returns and other documents. They took this approach because of the amount of paper remaining to be processed even after the most optimistic electronic filing volume projections, the difficulty of recruiting sufficient capable temporary staff to enter data, and the obsolescence of the equipment in use.

By early last year, two serious issues had emerged. The first was technical; the complex interfaces with the old IRS systems were becoming the pacing item for deployment, since Lockheed was very close to completion of a working prototype. The second issue was budgetary, since the capital required to field this technology on a timely basis would have absorbed the resources we needed to invest in modernization of the core databases which are the heart of Tax Systems Modernization. So we had to make a difficult decision. While we could not change the fact that the IRS had invested over $250 million, we believed it was vital to understand just what they had bought and how to make the most of it going forward. Therefore Treasury, through the MMB, insisted on a comprehensive analysis of the costs, benefits, and overall approach to DPS, and then we materially supported the effort with MMB staff.

The analysis determined that the technology from Lockheed-Martin was practical and it offered an attractive return on investment, if the capital were available to invest. Therefore an outsourcing vendor able to overcome the capital investment hurdle could offer a viable alternative. But even if outsourcing proves not to be the best approach, we still have options because we maintained access to working technology and the contracting vehicle to deploy it. And we are using the contract to obtain from Lockheed a subset of their technology which we will use to shore up submission processing in the short term.

The Challenges Ahead

The range of accomplishments I have cited demonstrate real progress in rounding the our resources. IRS' Chief Information Officer is currently leading an extensive effort to identify and cost out the corrective actions that we will need to take. Until the study is complete, accurate cost estimates are not possible; the amount identified in the FY1998 budget request may not prove sufficient.

While these challenges are very difficult, they are appropriate and we will do our best to meet them. That will require completing the sharp turn. Treasury's oversight will help, and we will strengthen the MMB process at every opportunity, but we need to recognize that oversight alone will not enable the IRS to meet its challenges. We understand the difference between oversight and executive management, and it would be impractical and dysfunctional for Treasury to try to micro-manage the IRS; the IRS itself has to make the changes happen.

As the Subcommittee knows, Commissioner Richardson will soon return to the private sector after four years of arduous and meritorious service. Given today's challenges, it is clear to Secretary Rubin and me that her successor should have a strong background in the management of technology-based change, and we are personally involved in finding the strongest possible candidate. We expect the new Commissioner to lead a top-notch management team, and we will hold that team accountable, firmly but fairly, for results. We also recognize that they need the tools to get the job done. To the extent current laws inhibit the practice of sound management, personnel, and budget policy, they should be reexamined.

On a different tack, both taxpayers and the IRS win when we reduce the burden of tax administration. Therefore, we are pursuing tax simplification consistent with policy objectives. Making tax laws easier to comply with will help to reduce the need for service at the same time as it reduces the number of forms and schedules which taxpayers must file and which the IRS must then process. For example, the President's budget includes a provision which would exempt 99% of principal residence sales from the capital gains tax, thus greatly reducing record-keeping burdens for 60 million homeowners. And of course we have already made telephone filing a popular option with more than 3 million taxpayers; over 20 million more are eligible.

We believe it is essential for the Administration and the Congress to work together to improve the functioning of our tax administration system. We cannot pay the nation's bills without it, and American taxpayers deserve tax administration which is not only fair but responsive and efficient.

One final note. As we address real problems in the IRS, we must keep in perspective that over 100,000 hard-working IRS employees do a difficult and unpopular job very well as they collect 95% of the revenue which keeps our government running. It does not serve our country well to attack their professionalism or their integrity. We should also remember that, in comparison with most other countries' tax collection operations, our IRS does its job with exemplary fairness and efficiency. Our task is to fix what is wrong while we protect what is right.

We look forward to working with you on this vital national effort. I will be happy to answer any questions the Committee may have.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 5, 1997

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN OHIO

The Bureau of Public Debt took action to assist victims of flooding in Ohio 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 Ohio affected by the storms. These procedures will remain in effect through April 30, 1997.

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.

Ohio counties involved are Adams, Athens, Brown, Gallia, Hocking, Jackson, Lawrence, Meigs, Monroe, Pike, Ross, Seioto, Vinton and Washington. 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 Bond 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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RR-1538

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 5, 1997

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN KENTUCKY

The Bureau of Public Debt took action to assist victims of flooding in Kentucky 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 Kentucky affected by the storms. These procedures will remain in effect through April 30, 1997.

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.

Kentucky counties involved are Bourbon. Braken, Bullitt. Franklin, Hardin, Harrison, Jefferson, Pendleton, and Powell. 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 Bond 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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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Release Upon Delivery
Expected at 10:00 a.m.
March 6, 1997

TESTIMONY OF LAWRENCE H. SUMMERS
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the views of the Department of the Treasury on the Administration's IRA proposal. The Administration is committed to insuring that all individuals are given the opportunity to save adequately for retirement. We are also committed to promoting economic growth by raising the nation's saving rate. We believe our IRA proposal will serve both goals. In my testimony today, I will review some basic statistics on savings and growth, describe the Administration's IRA proposal, and then provide a more detailed discussion of some of the issues involved in making IRAs more effective in promoting saving.

NEED FOR SAVING AND METHODS TO INCREASE SAVING

There is broad agreement among economists that investment contributes to economic growth. Thus, by stimulating investment we can increase growth and productivity. Since saving provides the means of financing investment, not surprisingly there is a strong correlation between saving and economic growth as well. This close relationship is shown in Chart 1, which graphs net national saving as a share of GDP and real growth of GDP per worker for each of the G-7 countries and for the remaining OECD countries over the 1960 to 1994 period. The same data for the 1980 to 1994 period is shown in Chart 2. While both saving and growth rates were generally lower in the more recent period, the positive relationship between saving and growth has remained strong. What I conclude from this and other evidence is that increasing the U.S. saving rate is likely to have beneficial effects on economic growth, international competitiveness and living standards.

The second important part of the evidence is that the savings rate in the United States is low relative to other countries. Chart 3 shows the personal savings rate in the G-7 and the remaining OECD countries over the 1960 to 1994 period. While the personal savings rate for the United States, at 8.6 percent, was higher than the rate for the United Kingdom (5.6 percent), the U.S. rate was lower than the rate for Italy, Japan, Germany, France, Canada and the remaining OECD

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countries. Further, the differences in savings rates are large, with the rates in Italy and Japan about double the U.S. rate.

The third piece of the evidence is even more disturbing: The U.S. personal saving rate has been declining. Over the 1960 to 1986 period, personal saving as a percentage of disposable personal income averaged 7.7 percent. In contrast, over the last decade the average was 5.0 percent. While there has been an encouraging uptick in the savings rate over the last two years, the rate in 1996 was still only 4.9 percent. The low personal saving rate is particularly troubling in view of the aging of the baby boomers who are nearing retirement at the same time that life expectancies, hence years in retirement, continue to increase. Many families today have simply not accumulated the resources necessary to maintain their standard of living in retirement.

There are two principle ways to address the effect of the low saving rate on economic growth and retirement income security. The first is to reduce the Federal deficit. Important progress has already been made over the past four years in closing the deficit. The Administration's Budget continues this effort and eliminates the deficit altogether by 2002. I know that the Chairman and Members of this Committee, and the other Members of Congress are concerned as well, and I am confident that we can work together to achieve a balanced Federal budget.

The second mechanism is to improve current incentives designed to promote saving in general and retirement saving in particular. The Administration's IRA proposal was carefully designed to improve the effectiveness of IRAs, while significantly expanding IRA eligibility. Again, I think this is an area in which we can work together.

Let me turn now to a brief description of the current law IRA provisions and of the Administration's IRA proposal.

CURRENT LAW IRAs

Under current law, a person can make a deductible contribution to an IRA up to the lesser of $2,000 or compensation. If the person or their 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 includable in gross income until they are withdrawn. Withdrawals from an IRA are includable in income, and must generally begin by age 70½. Amounts withdrawn before age 59½ are generally subject to an additional 10-percent tax. This 10-percent early withdrawal tax does not apply to distributions upon the death or disability of the taxpayer or to substantially equal periodic payments over the lives of the IRA owner and his or her beneficiary. The 10-percent early withdrawal tax also does not apply to distributions for certain medical care expenses, or to distributions for medical insurance by individuals receiving at least 12 consecutive weeks of unemployment compensation. In general, an excess distribution tax of 15 percent applies to the extent that an individual receives an aggregate amount of retirement distributions in excess of $160,000 in any year.

ADMINISTRATION'S IRA PROPOSAL

The Administration's IRA proposal consists of three parts: expanding income limits, creating new backloaded IRAs, and eliminating the 10 percent early withdrawal tax for certain specified purposes.

Expand Deductible IRA Income Limits

Under the proposal, the income thresholds and phase-out ranges for deductible IRAs would be doubled, in two stages. Beginning in 1997, eligibility would be phased out for couples filing joint returns with AGI between $70,000 and $90,000 and for single individuals with AGI between $45,000 and $65,000. Beginning in 2000, 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 current-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. In addition, the IRA contribution limit would be coordinated with the current-law limits on certain elective deferrals, and the 10-percent early withdrawal tax would apply to withdrawal amounts attributable to contributions (excluding rollovers) made during the previous five years even after an individual reaches age 59½.

Special ("Backloaded") IRAs

Everyone eligible for a traditional deductible IRA would have the option of contributing an amount up to the contribution limit either to a deductible IRA or to a new "Special IRA." Contributions to this Special IRA would not be tax deductible, but distributions of the contributions would be tax-free. If contributions remain in the account for at least five years, distributions of the earnings on the contributions would also be tax-free. Withdrawals of earnings from Special IRAs during the five-year period after contribution would be subject to ordinary income tax and the 10-percent early withdrawal tax unless withdrawals are used for one of the purposes described below (or unless the withdrawals are exempted from the early withdrawal tax under current law, e.g., upon death or disability).

The proposal would permit taxpayers whose AGI for a taxable year does 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 early withdrawal tax. The amount converted from the deductible IRA to the Special IRA generally would be includable in income in the year of the conversion. However, if a conversion was made before January 1, 1999, the converted amount included in income would be spread evenly over four taxable years.

Distributions Not Subject to Early Withdrawal Tax

The 10-percent early withdrawal tax would not apply to amounts withdrawn from deductible IRAs or to amounts withdrawn within five years after contribution from Special IRAs, if the taxpayer used the withdrawal to pay post-secondary education costs, to buy or build a first home, to cover living costs (not just medical insurance costs) if unemployed, or to cover medical expenses of certain close relatives who are not dependents. I will describe these provisions in more detail later in my testimony.

The proposal would be effective January 1, 1997.

DISCUSSION

Determining the effects of IRAs and proposals to change them on household and national saving is difficult. Many factors influence saving, including demographic influences, social insurance, and households' access to credit. One thing that is clear, however, is that policies that operate by simply increasing the rate of return to saving are unlikely to be effective. Real interest rates and stock market returns have been much higher over the past decade, when the personal savings rate was at historic lows, than in preceding periods. It is apparent from this experience that simply cutting taxes on saving to increase its rate of return is not the key to stimulating saving. Rather, the tax system should rely on focused incentives, like IRAs, that encourage households to put money aside for specific goals, like retirement.

The academic and policy literature on the effects of IRAs on household saving have discussed two main channels, the rate of return and psychological factors, that are likely to be important in understanding the effects of IRAs.

Rate of Return. Even with a focused incentive like IRAs, the effect of increasing the rate of return is uncertain. The special tax preferences give IRAs a higher rate of return than funds invested in taxable accounts. With a higher rate of return, many believe that people will save more. If individuals save to accumulate a specific target level of wealth, however, a higher rate of return enables a saver to achieve his or her saving target with less saving. Which of these effects dominates is an empirical question. If a taxpayer would have saved more than the maximum contribution amount even without an IRA, the tax subsidy will reduce tax revenue but will not provide any additional incentive for the taxpayer to save.

Psychological Factors. In addition to the incentives provided by a higher after-tax rate of return, there are psychological factors related to IRAs that may play an important role in increasing saving. These factors include: (1) the role played by advertising in inducing people to save, (2) the importance of a penalty for early withdrawals in providing the self-discipline to undertake long-term saving, and (3) the important role of an explicit target, such as a contribution limit, in inducing people to increase their savings.

Econometric Evidence. The econometric studies to date have focussed on the effect on saving of altering IRA contribution limits and the rate of return. The evidence is mixed, with some econometric studies suggesting that IRAs represent new savings and other studies suggesting that IRA contributions are largely funded by shifting existing assets or by displacement of saving that would occur even in the absence of the IRA preference. Studies to date have not adequately evaluated the importance of psychological factors on saving behavior, although these may be the most important determinants.

My reading of the evidence is that IRAs, when carefully designed, can increase household and national saving. Moreover, the available evidence provides guidance on the appropriate design of IRAs. In particular, IRA proposals must be designed to reinforce or encourage psychological factors that could increase the efficiency of IRAs in promoting saving.

PRINCIPLES IN DESIGNING THE PRESIDENT'S IRA PROPOSALS

Three principles guided the development of the Administration's IRA proposal. First, incentives must be expanded in a way that increases saving rather than encourages shifting of saving that would have occurred anyway. Second, incentives must be attractive to individuals to encourage participation. Third, incentives must have sufficiently broad appeal to encourage advertising by financial institutions.

Let me elaborate on each principle.

Targeted Expansion

I will first discuss the expansion of income limits and then discuss the treatment of spouses with pension coverage.

Income limits. The Administration's proposal would expand eligibility for deductible IRAs to an additional 37 million tax-filing units, compared with the 75 million tax-filing units that are currently eligible to contribute. With this expansion, 90 percent of taxpayers would be eligible to make deductible contributions. The widespread availability of IRAs is important to stimulating advertising which, as I discuss below, is a critical element of our approach to increasing national saving. Equally important, the proposal offers the vast majority of families a tax-free way to save for retirement.

There are sound reasons for excluding high-income taxpayers covered by pensions from contributing to deductible IRAs though the use of income limits. First, high-income families are more likely to have substantial asset accumulation than other families, and thus are more likely to be able to divert funds from these accounts to finance their IRA. Second, high-income families are likely to save more than the maximum IRA contribution limit anyway, and therefore an IRA will not provide any incremental incentive to save. Third, high-income families are likely to have greater access to tax-preferred forms of borrowing (such as home equity loans) than other households, which can lead to transactions that are costly to the Treasury but have no effect on household saving. For these reasons, IRAs are unlikely to stimulate saving among high-income families, but the associated revenue loss would increase the deficit and hence lower national saving.

Spousal Pension Rule. The Administration's proposal, like current law, would preclude both spouses from making deductible IRA contributions if either spouse participated in an employer retirement plan *and* the couple's income exceeded the income limits. The proposed higher income limits reduce the number of individuals affected by the spousal pension rule and makes changing the rule unnecessary.

Encouraging Eligible Individuals to Participate

Our second design principle is to encourage participation by making the incentive more attractive to individuals eligible to contribute to deductible IRAs. An increase in participation should encourage institutions to more widely advertise and may enhance national saving. I will first describe the two ways the proposal is designed to encourage participation.

Tax treatment of withdrawals for special purposes. The Administration believes that a important role of government is to help families help themselves meet critical needs: buying a house, sending children to college, coping with major medical bills, and weathering periods of unemployment. The special purpose withdrawal provisions in the Administration's proposal have been designed to make IRAs more attractive, with the belief that carefully designed withdrawal rules could actually increase saving by encouraging wider participation and giving more families a chance to develop a saving habit.

Under the Administration's proposal, withdrawals for first-time home purchases would be made free of the early withdrawal tax. This change recognizes the critical role that homeownership plays in raising families and in providing financial security during retirement years.

The Administration's proposal would also make withdrawals for post-secondary education free of the withdrawal tax. Well-educated workers are essential to an economy experiencing technological change and facing global competition. Just as investment is needed in factories and computers, investment is needed in human capital to make our economy grow. Education can help workers earn more during their working years so they can save more for retirement. Withdrawals for education, like any other withdrawals from an IRA, would be subject to income tax. However, under the Administration's education proposals, tuition expenses could be deducted or could qualify for a tax credit. As a result of both the IRA withdrawal rule for education and the tuition tax deduction or credit, education expenses would receive very generous tax treatment under the Administration's proposal.

To see just how generous the tax treatment would be, consider a couple that wants to save money for their children's college education. Suppose the couple's goal was to save for a $10,000 tuition payment in the year 2001 and that their marginal income tax rate is 28 percent. Without an IRA and without an education tax deduction or credit, the couple would have to set aside an extra $5,847 both in earnings 1997 and again in 1998. After paying income tax on the earnings, the couple would deposit $4,210 (=$5,847*(1-.28)) into a taxable savings account in each of those years. Assuming the account earned 7 percent interest, the account would earn an after-tax rate of return of 5.04 percent (=.07*(1-.28)). By the year 2001, the account would have accumulated approximately $10,000.

In contrast, a couple that used an IRA and claimed an education tax deduction would only need to set aside an additional $4,000 in earnings in 1997 and again in 1998. Because they would contribute the $4,000 to a deductible IRA, they would pay no tax on the earnings. Furthermore, the funds would grow at the full 7 percent rate of return. By the year 2001, they would have accumulated slightly more than $10,000. While they would include the $10,000 IRA withdrawal in taxable income on their income tax return, they would subtract an identical amount as a tuition deduction. No early withdrawal tax would apply because the funds were being used for college tuition. In summary, without the education deduction and special IRA treatment for education, the couple would have to save $5,847 in both years to pay the tuition; with the Administration's proposal the couple would have to save only $4,000. In this example, by using the IRA and taking the education deduction, the savings needed to pay for tuition were reduced by almost 32 percent (($5,847-$4,000)/$5,847). Over a longer period, the difference would be even greater We believe that the value of education to our economy and to the American people easily justifies this special tax treatment.

Recognizing the hardship faced by families facing long periods of unemployment and major medical expenses, the Administration's proposal would also allow an exception from the early withdrawal tax for individuals who have been unemployed for 12 weeks and for medical expenses, including those of the taxpayer's child, grandchild, parent or grandparent, whether or not that person otherwise qualifies as the taxpayer's dependent.

While the Administration supports favorable tax treatment for these limited purposes, it would not favor expanding preferential treatment for more general purposes. We have limited our special purpose withdrawals to items that are likely to supplement retirement resources to a very wide range of families and for well-demarcated emergency needs. These expenses are identifiable and could not be readily diverted to what most people would consider to be personal consumption. It is important to understand that the early withdrawal tax plays a critical role in enhancing the effectiveness of IRAs. In particular, it reinforces the self-discipline necessary to undertake long-term saving. It discourages individuals from tapping into their IRAs unless the value of spending these funds exceeds the cost of paying the withdrawal and income taxes.

Special IRAs and Five-Year Rule. In a Special IRA, contributions are not deductible but are tax-free upon withdrawal. The Administration believes that providing taxpayers with the option of a Special IRA will provide a savings vehicle that some middle-income taxpayers may find more suitable for their savings needs than traditional IRAs. For example, younger individuals may expect to be in a higher tax bracket when they take the money out of an IRA. These individuals may be willing to give up the deduction at today's lower tax rate in favor of tax-free treatment in a later year when they are in a higher tax bracket and choose to withdraw the money. Other individuals may prefer the psychological advantage of paying the tax up-front. As they watch their IRA assets accumulate, they will automatically know how much of their IRA assets could be used for retirement needs--the entire amount in the account--without having to calculate how much tax would have to be paid.

Withdrawals of funds for the previously-specified special purposes and withdrawals of funds that had been in the account for five years would not be subject to the withdrawal tax. The five-year rule is likely to encourage more individuals to participate in an IRA than under current law. Once these individuals see their assets start accumulating, they may be encouraged to keep assets in the IRA until retirement and they may even be encouraged to make additional contributions.

Awareness and Advertising

Expansion of IRA eligibility and attractiveness under the Administration's proposal will directly raise public awareness of the importance of retirement saving. An improved IRA incentive will also make tangible to taxpayers the Federal government's commitment to insuring the adequacy of resources in retirement. Further, many taxpayers may be encouraged to save more because the IRA contribution limit will provide them with a "publicly approved" saving target.

Other countries have long recognized the importance of public awareness efforts and public incentives in stimulating saving. Prior to the second World War, the U.S. saving rate was higher than Japan's. Following the war, the Japanese Government launched a concerted national effort to increase the Japanese saving rate. The promotional campaign included worker seminars, the distribution of children's saving banks, advertisements, pamphlets and other written material. While the post-war reconstruction surely accounted for some of the boom in Japanese saving rates, some observers also credit the actions of the "Saving Promotion Movement" for significantly increasing the Japanese saving rate.

Related evidence indicates that employer-sponsored workplace education increases participation in 401(k) plans. This workplace education takes many different forms, including seminars, newsletters, and other written material. The content often covers broad financial principles, such as the effects of compound interest and retirement needs, as well as specific details tailored to the financial benefits available at a particular firm. Worker education could lead to increased participation for several reasons. First, employees become more aware of saving options. Second, employees become more focused on the need to save. Third, employees are encouraged to participate because their co-workers participate. Some have conjectured that there is a social aspect to saving. As more people participate within a firm, they may talk with their friends and relatives about the benefits of saving. Like the experience with 401(k)s, IRA education could have similar payoffs.

There is an additional piece of evidence supporting the important role advertising plays in influencing behavior. Prior to the Economic Recovery Tax Act of 1981, eligibility for IRAs was limited to those with no pension coverage. Despite the fact that many workers in the economy were not covered by pensions, IRA participation rates were extremely low. Because of this, the expansion of IRA eligibility in the 1981 Act was at the time thought to be relatively modest. Instead, IRAs were wildly popular, leading to much higher participation than initially estimated. Most people who have examined the issue conclude that advertising by financial institutions was what caused the high rates of participation. Following the Tax Reform Act of 1986, participation rates fell by more than one would expect. Again, observers have pointed to a substantial decrease in advertising as being the cause.

The Administration's proposal has been designed to include provisions that are likely to make IRAs much more attractive, which will encourage wider participation. By expanding the potential number of participants to 90 percent of all taxpayers, the Administration's proposal may induce financial institutions to advertise more widely. As the baby boom generation ages and boomers begin to think about retirement, IRA advertisements could encourage families to focus their energies on developing a savings plan, even if they do not open IRAs. These positive effects could occur even if expansion does not provide saving incentives at the margin. In summary, the Administration's proposal has been designed to appeal to a broad segment of the population and to encourage financial institutions to advertise, in the belief that advertising can be a powerful stimulus for financial planning and saving.

CONCLUSION

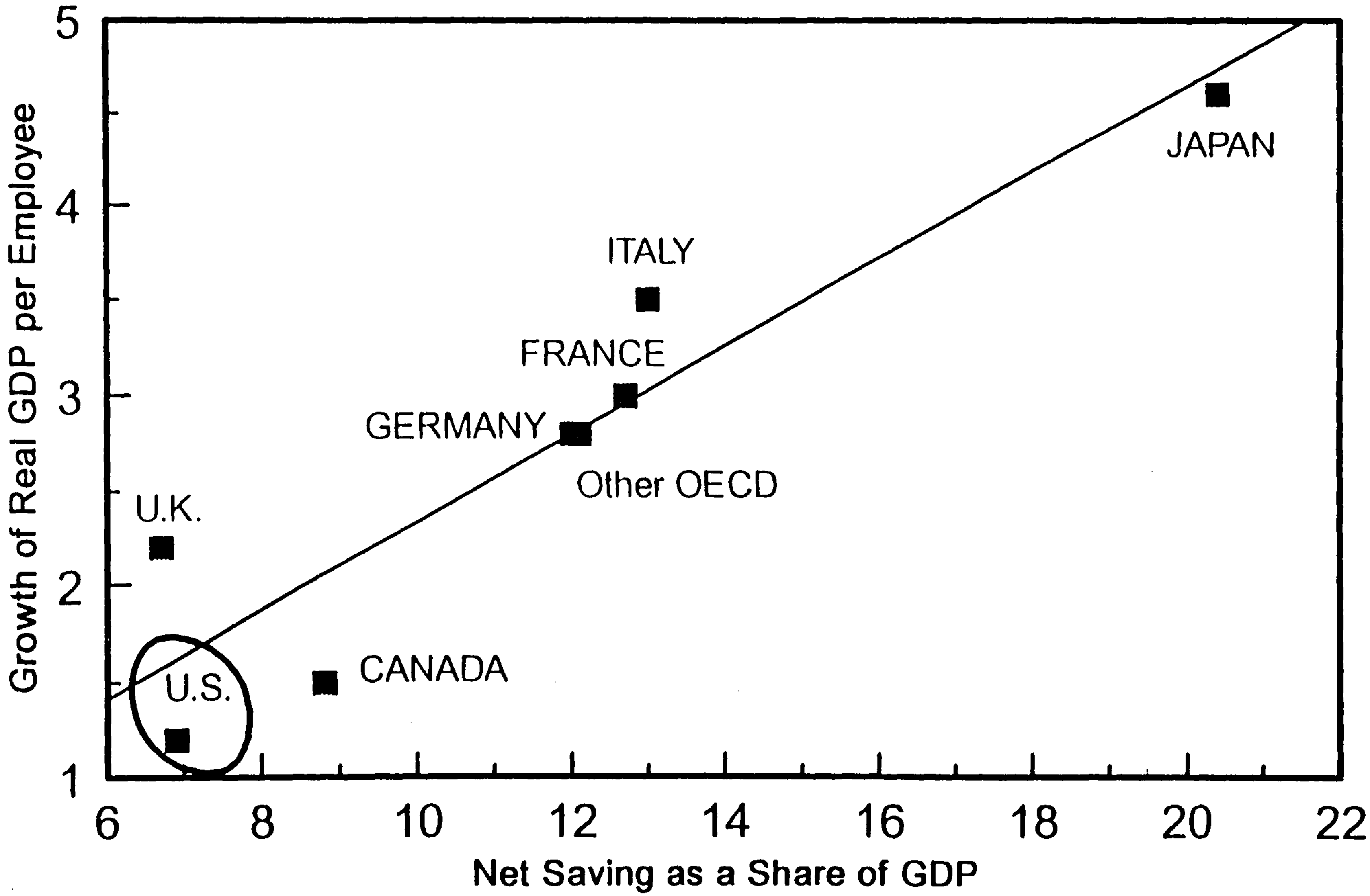
Let me conclude with three observations on which I believe we can all agree. First, saving is critically important to the retirement security of individuals and to the country's economic growth. Second, effective saving incentives must recognize the psychological factors that influence saving, and not just focus on increasing the rate of return on savings. Third, well-designed saving incentives, like the Administration's IRA proposal, can increase saving.

This Administration is committed to meeting the challenge of insuring adequate retirement saving by the baby boom and subsequent generations. One part of that commitment is our IRA proposal. Other parts are our recent introduction of inflation-indexed bonds which are an ideal vehicle for protecting retirement assets against inflation risk, and our continuing work on simplifying pensions and increasing their attractiveness. I look forward to working with this Committee on meeting this important challenge.

Chart 1

Saving and Growth

in the OECD Countries 1960-94



Note: Germany and Other OECD are almost identical.

Chart 2
Saving and Growth
in the OECD Countries 1980-94

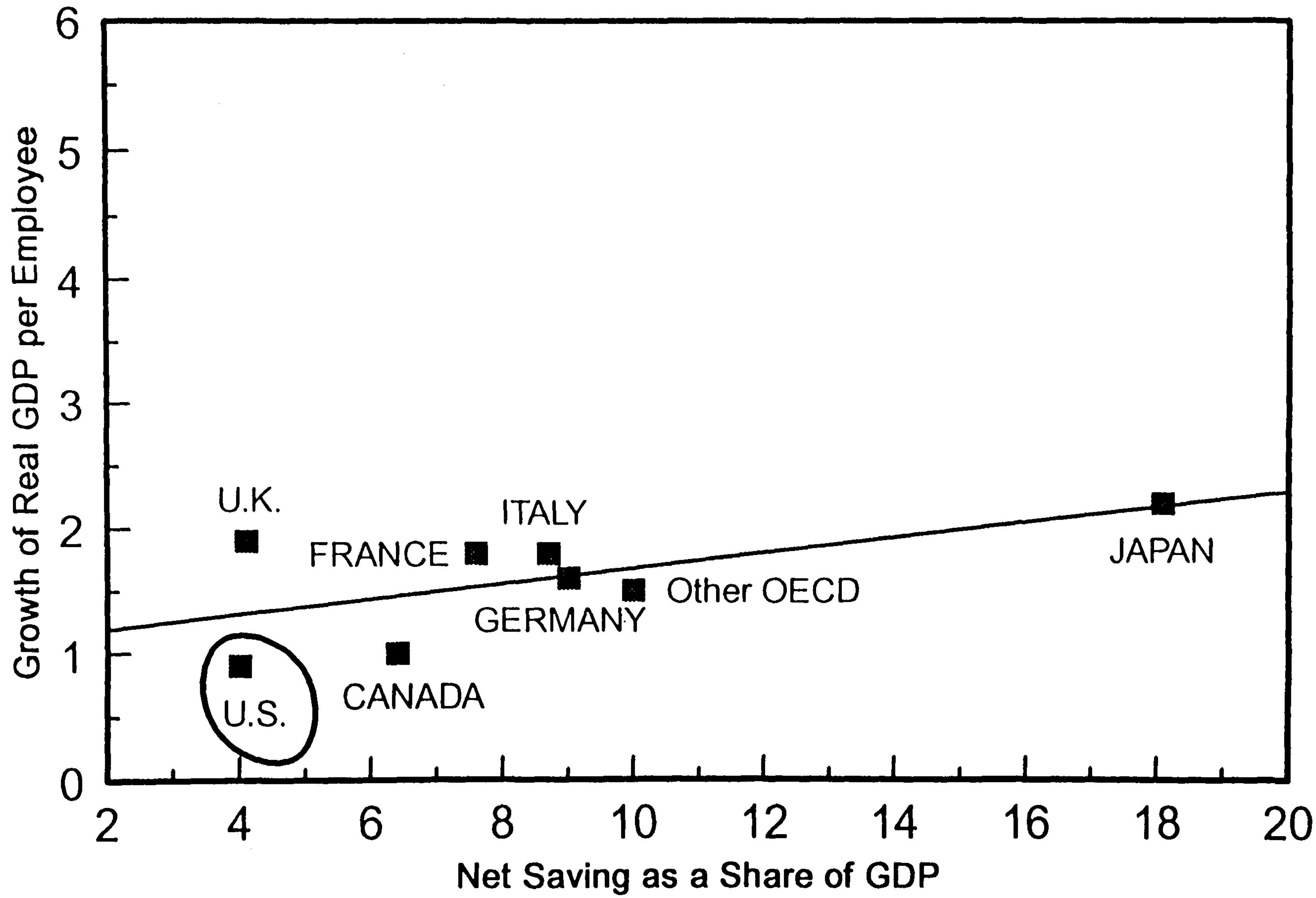
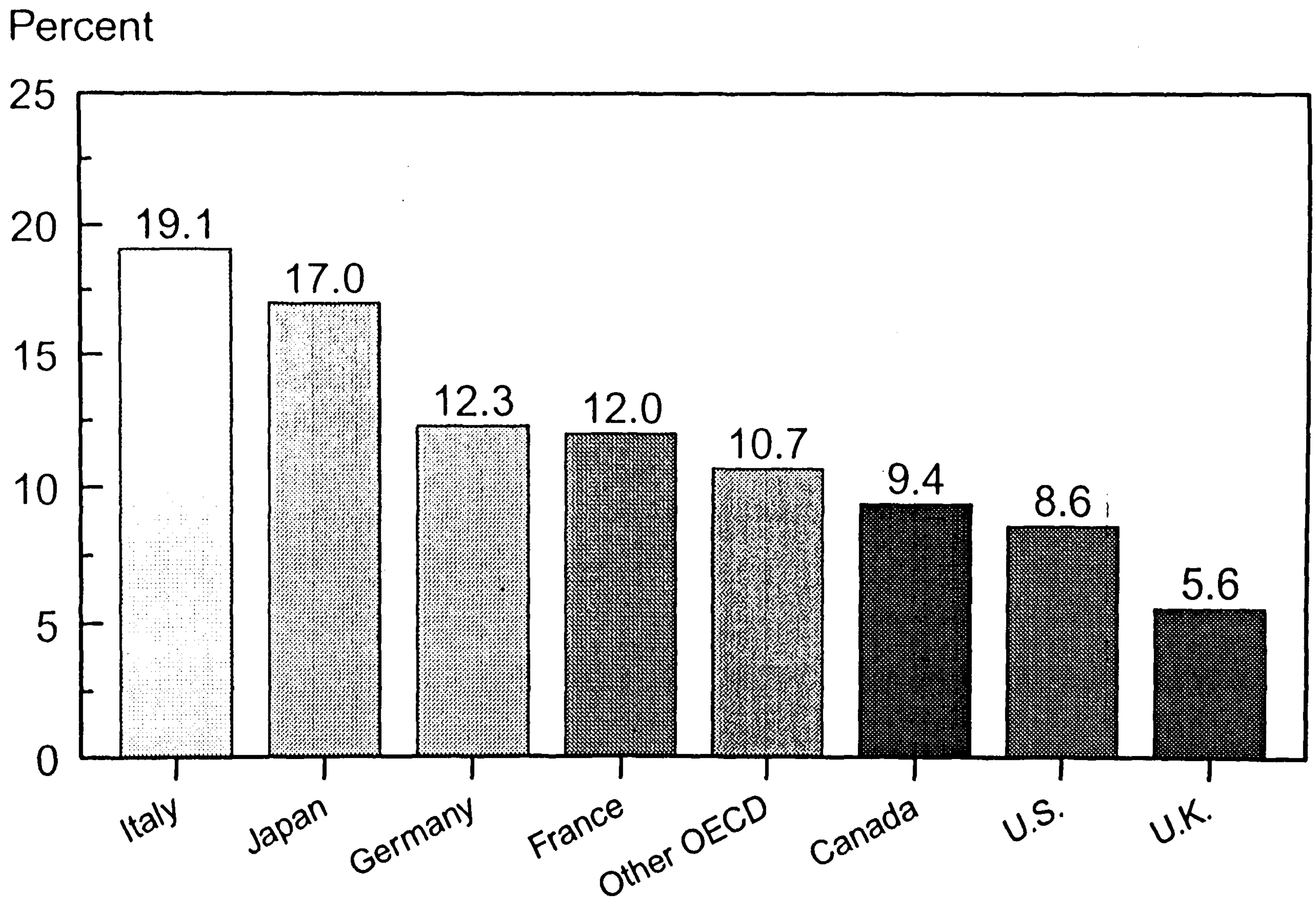


Chart 3

Personal Saving Rates in the OECD Countries 1960-94



PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
March 6, 1997

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR FEBRUARY 1997

Treasury's Bureau of the Public Debt announced activity figures for the month of February 1997, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$959,060,285
Held in Unstripped Form	$734,860,700
Held in Stripped Form	$224,199,585
Reconstituted in February	$9,082,335

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."

The STRIPS data along with the the new *Monthly Statement of the Public Debt*, is available on Public Debt's Internet homepage at: **www.publicdebt.treas.gov**. A wide range of information about the public debt and U.S. Treasury securities is also available on the homepage.

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TABLE V. HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, FEBRUARY 28, 1997

Loan Description			Corpus STRIP CUSIP	Maturity Date	Principal Amount Outstanding in Thousands			Reconstituted This Month [1]
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes								
CUSIP	Series	Interest Rate						
912827 UW0	A	8-1/2	912820 AJ6	05/15/97	9,921,237	7,360,037	2,561,200	79,200
VE9	B	8-5/8	AK3	08/15/97	9,362,836	6,375,636	2,987,200	123,200
VN9	C	8-7/8	AL1	11/15/97	9,803,329	5,920,329	3,883,000	177,600
VW9	A	8-1/8	AM9	02/15/98	9,159,068	6,626,908	2,532,160	54,720
WE8	B	9	AN7	05/15/98	9,165,387	6,528,587	2,636,800	58,600
WN8	C	9-1/4	AP2	08/15/98	11,342,646	8,070,646	3,272,000	5,600
WW8	D	8-7/8	AQ0	11/15/98	9,902,875	6,341,275	3,561,600	0
XE7	A	8-7/8	AR8	02/15/99	9,719,623	7,940,423	1,779,200	35,200
XN7	B	9-1/8	AS6	05/15/99	10,047,103	6,866,303	3,180,800	14,400
XW7	C	8	AT4	08/15/99	10,163,644	7,172,269	2,991,375	27,500
YE6	D	7-7/8	AU1	11/15/99	10,773,860	7,228,360	3,545,500	0
YN6	A	8-1/2	AV9	02/15/00	10,673,033	8,163,833	2,509,200	106,000
YW6	B	8-7/8	AW7	05/15/00	10,496,230	5,713,830	4,782,400	0
ZE5	C	8-3/4	AX5	08/15/00	11,080,646	7,080,486	4,000,160	43,680
ZN5	D	8-1/2	AY3	11/15/00	11,519,682	7,275,682	4,244,000	9,600
ZX3	A	7-3/4	AZ0	02/15/01	11,312,802	7,988,002	3,324,800	0
A85	B	8	BA4	05/15/01	12,398,083	8,697,308	3,700,775	95,800
B92	C	7-7/8	BB2	08/15/01	12,339,185	8,756,785	3,582,400	153,600
D25	D	7-1/2	BC0	11/15/01	24,226,102	20,748,742	3,477,360	44,400
F49	A	7-1/2	BD8	05/15/02	11,714,397	9,995,197	1,719,200	17,920
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,641,415	1,217,600	230,400
J78	A	6-1/4	BF3	02/15/03	23,562,691	23,200,835	361,856	27,200
L83	B	5-3/4	BG1	08/15/03	28,011,028	27,753,428	257,600	42,400
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,951,877	3,200	25,600
P89	B	7-1/4	BJ5	05/15/04	14,440,372	14,434,772	5,600	0
Q88	C	7-1/4	BK2	08/15/04	13,346,467	13,302,467	44,000	0
R87	D	7-7/8	BL0	11/15/04	14,373,760	14,373,760	0	0
S86	A	7-1/2	BM8	02/15/05	13,834,754	13,834,754	0	0
T85	B	6-1/2	BN6	05/15/05	14,739,504	14,739,504	0	0
U83	C	6-1/2	BP1	08/15/05	15,002,580	15,002,580	0	0
V82	D	5-7/8	BQ9	11/15/05	15,209,920	15,209,920	0	0
W81	A	5-5/8	BR7	02/15/06	15,513,587	15,513,587	0	0
X80	B	6-7/8	BS5	05/15/06	16,015,475	16,015,475	0	0
Y55	C	7	BT3	07/15/06	22,740,446	22,740,446	0	0
Z62	D	6-1/2	BU0	10/15/06	22,459,675	22,459,675	0	0
2J0	B	6-1/4	BW6	02/15/07	13,103,668	13,103,668	0	0 X
Treasury Bonds:								
CUSIP:		Interest Rate:						
912810 DM7		11-5/8	912803 AB9	11/15/04	8,301,806	4,041,006	4,260,800	144,000
DQ8		12	AD5	05/15/05	4,260,758	1,785,708	2,475,050	143,500
DR6		10-3/4	AG8	08/15/05	9,269,713	7,629,713	1,640,000	405,600
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,729,164	26,752	0
DN5	8	11-3/4	912800 AA7	11/15/14	6,005,584	1,935,184	4,070,400	52,800
DP0		11-1/4	912803 AA1	02/15/15	12,667,799	10,485,879	2,181,920	210,240
DS4		10-5/8	AC7	08/15/15	7,149,916	5,244,636	1,905,280	354,560
DT2		9-7/8	AE3	11/15/15	6,899,859	4,867,859	2,032,000	188,800
DV7		9-1/4	AF0	02/15/16	7,266,854	6,838,054	428,800	140,800
DW5		7-1/4	AH6	05/15/16	18,823,551	18,577,951	245,600	132,800
DX3		7-1/2	AK9	11/15/16	18,864,448	18,096,928	767,520	75,040
DY1		8-3/4	AL7	05/15/17	18,194,169	11,585,529	6,608,640	498,880
DZ8		8-7/8	AM5	08/15/17	14,016,858	8,280,858	5,736,000	113,600
EA2		9-1/8	AN3	05/15/18	8,708,639	3,548,639	5,160,000	217,600
EB0		9	AP8	11/15/18	9,032,870	3,199,270	5,833,600	130,000
EC8		8-7/8	AQ6	02/15/19	19,250,798	5,529,198	13,721,600	148,800
ED6		8-1/8	AR4	08/15/19	20,213,832	18,109,832	2,104,000	292,160
EE4		8-1/2	AS2	02/15/20	10,228,868	6,180,868	4,048,000	152,000
EF1		8-3/4	AT0	05/15/20	10,158,883	3,124,323	7,034,560	100,480
EG9		8-3/4	AU7	08/15/20	21,418,606	6,093,646	15,324,960	1,128,320
EH7		7-7/8	AV5	02/15/21	11,113,373	9,937,373	1,176,000	368,000
EJ3		8-1/8	AW3	05/15/21	11,958,888	5,620,328	6,338,560	309,440
EK0		8-1/8	AX1	08/15/21	12,163,482	5,098,842	7,064,640	175,680
EL8		8	AY9	11/15/21	32,798,394	6,445,769	26,352,625	423,575
EM6		7-1/4	AZ6	08/15/22	10,352,790	8,335,190	2,017,600	24,000
EN4		7-5/8	BA0	11/15/22	10,699,626	2,816,426	7,883,200	184,000
EP9		7-1/8	BB8	02/15/23	18,374,361	14,193,561	4,180,800	616,000
EQ7		6-1/4	BC6	08/15/23	22,909,044	20,373,972	2,535,072	351,840
ES3		7-1/2	BD4	11/15/24	11,469,662	3,544,782	7,924,880	80,000
ET1		7-5/8	BE2	02/15/25	11,725,170	5,373,170	6,352,000	432,000
EV6		6-7/8	BF9	08/15/25	12,602,007	12,220,567	381,440	107,200
EW4		6	BG7	02/15/26	12,904,916	12,761,316	143,600	0
EX2		6-3/4	BH5	08/15/26	10,893,818	10,829,018	64,800	8,000
EY0		6-1/2	BJ1	11/15/26	11,493,177	11,480,377	12,800	0
EZ7		6-5/8	BK8	02/15/27	10,456,051	10,456,051	0	0 X
Treasury Inflation-Indexed Notes								
CUSIP:		Interest Rate:						
912827 2M3		3-3/8	912820 BV8	01/15/07	7,360,912	7,360,912	0	0 X
Total					959,060,285	734,860,700	224,199,585	9,082,335

[1] [illegible] Commerce Department's Bureau of [illegible] ... subsequent adjustments.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

March 7,1997

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of February 1997.

As indicated in this table, U.S. reserve assets amounted to $67,479 million at the end of February 1997, down from $68,200 million in January 1997.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/ ESF	Foreign Currencies 4/ System	Reserve Position in IMF 2/
1997						
January	68,200	11,048	9,793	14,826	18,161	14,372
February	67,479p	11,048p	9,866	14,687	17,841	14,037

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/ Holdings of Treasury Exchange Stabilization Fund (ESF) and Federal Reserve System. Beginning November 1978, these holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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RR-1542

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 7, 1997

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN INDIANA

The Bureau of Public Debt took action to assist victims of flooding in Indiana 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 Indiana affected by the storms. These procedures will remain in effect through April 30, 1997.

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.

Indiana counties involved are Clark, Crawford, Dearborn, Floyd, Harrison, Jefferson, Ohio, Perry, Posey, Spencer, Switzerland, Vanderburgh and Warrick. 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 Bond 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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RR-1543

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
March 7, 1997

Contact: Bill Luecht
(202) 622-8662

TREASURY'S BEA PROGRAM ACCEPTING APPLICATIONS, $16.25 MILLION AVAILABLE TO BANKS

The U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund is pleased to announce the beginning of the second funding round of the Bank Enterprise Award (BEA) Program. A Notice of Funds Availability and the revised interim regulations for the program was published today, March 7, 1997, in the Federal Register. The CDFI Fund intends to make available up to $16.25 million for Bank Enterprise Awards in this round.

The BEA Program recognizes the key role played by insured depository institutions (banks and thrifts) in serving the credit needs of distressed communities across our nation. In recent years, many of these traditional financial institutions have increased their efforts to lend, invest, and provide services in distressed communities. By offering incentives for these activities, the BEA Program builds on these efforts.

The BEA Program is intended to encourage banks and thrifts to invest in and support community development financial institutions (CDFIs) and to increase the lending and services provided in distressed communities by traditional financial institutions.

In the first round of the BEA Program, 38 institutions received $13.1 million in awards ranging in size from $3,750 to nearly $2.7 million, with a median award of approximately $100,000. These institutions ranged in asset size from $21 million to over $320 billion.

The deadline for application submission is April 25, 1997.

The CDFI Fund is holding a series of regional workshops to provide an overview of the revised BEA Program regulations, an explanation of the streamlined application materials, and an opportunity to ask questions. Each workshop will last approximately 2 ½ hours. Bank and thrift representatives interested in attending should contact the individual listed below.

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Schedule of Regional Workshops:

Boston
March 13, 9:00 a.m.
Federal Reserve Bank
600 Atlantic Avenue
RSVP: Mark Lloret
(617) 973-3097

San Francisco
March 14, 9:00 a.m.
Federal Reserve Bank
101 Market Street
RSVP: Mary Malone
(415) 974-2871

Dallas
March 18, 9:00 a.m.
Federal Reserve Bank
220 North Pearl Street
RSVP: Louisa Quittman
(202) 622-8103

Miami
March 19, 9:00 a.m.
Federal Reserve Bank of Atlanta
9100 NW 36th Street
RSVP: Jennifer Grier
(404) 589-7374

New York
March 26, 9:00 a.m.
The College of Insurance
101 Murray Street
RSVP: Louisa Quittman
(202) 622-8103

To obtain an application packet, send a written request by facsimile which includes the name and title of the requester, the name of the institution, the mailing address, phone number, and facsimile number to (202) 622-2599.

For further information on the BEA Program, contact Jeannine Jacokes of the CDFI Fund at (202) 622-8662.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1 P.M. EST
Text as Prepared for Delivery
March 11, 1997

Treasury Secretary Robert E. Rubin
Statement before the
House Budget Committee
U.S. House of Representatives

Mr. Chairman, I appreciate this opportunity to appear today to discuss the President's budget proposal for fiscal year 1998.

It wasn't so long ago when the other industrial nations roundly criticized the United States for not attending to its economic affairs and we were viewed as yesterday's economy. That situation is now exactly the opposite.

The United States is once again viewed as the world's economic leader. Four years ago, the unemployment rate was over 7 percent. Today, it is 5.3 percent. The economy has generated close to 12 million new jobs over the past four years, or more than four times the rate of the prior four years. Average real wages, which had been falling for a long time, now appear to be rising again, and income inequality has begun to narrow. Business investment is at record levels, and for each of the past three years, the World Economic Forum has recognized the US economy as the world's most competitive.

The strong economic conditions we now enjoy are a result of squarely facing our challenges -- in both the private and public sectors. The private sector has made great strides in becoming more competitive, while in the public sector, we have made dramatic progress in restoring fiscal order. The 1993 deficit reduction program has reduced the size of the deficit from 4.7 percent to 1.4 percent of GDP. That deficit reduction, in turn, inspired broad business confidence and drove down interest rates, which, in turn, was central to the economic recovery.

Just as deficit reduction has been the critical factor in these economic conditions, so is it critical to a strong economy over the long-term. At the same time, because of the globalization of the economy and the information revolution, it is more important than ever that we also focus our resources on priorities that are critical to long-term economic strength: educating our people; bringing the residents of the inner cities into the economic mainstream; and maintaining U.S.
RR-1545

leadership in the global economy. The President's budget is designed to accomplish exactly that by bringing us to balance by 2002, while focusing on those priorities.

Mr. Chairman, I believe we have an historic opportunity to work together and build on the extraordinary economic progress that has been accomplished over the last several years. We are within striking distance of balancing the budget, which, in turn, would contribute enormously to our economic progress. At the same time, there is a change in public attitude about the importance of fiscal responsibility. Moreover, the global capital markets have created a powerful new incentive for fiscal order, by punishing fiscal laxity with high interest rates that are inimical to economic health. We can, should and must work together in a constructive spirit and with good faith to capitalize on this moment and get the job done, and I believe we will get the job done because it is so enormously in the public interest. I would note that the Coalition has introduced a budget of its own, and while we have policy differences, this is constructive to the general budget process, and we look forward to working with them as the process develops.

The President's budget will get us to balance by 2002 by using conservative and realistic economic and technical assumptions. In prior Administrations, budgets were too often based on rosy economic scenarios -- and, when the actual deficits came in much higher than projected, the result was not only a higher deficit but increased public cynicism about the ability of the government to get its fiscal house in order.

During the past four years, our assumptions and projections were realistic and conservative. Over this period, the actual deficit fell *more* than we projected, and our projections were more accurate than the CBO's. In each of the last three years, actual deficits have come in, on average, about $50 billion lower each year than we projected and almost $60 billion lower, on average, than the CBO projection, which must be pretty much unprecedented. Moreover, CBO has already lowered its projection for the 1997 deficit by $9 billion from a projection made less than two months ago. This contrasts sharply with the twelve years prior to 1992 when the actual deficit exceeded the projected deficit in ten of those twelve years.

In short, this Administration has a clear record of using conservative and realistic economic and technical assumptions, and we do so again for our 1998 budget. We have forecast less real growth than the Blue Chip consensus of private forecasters.

But, regardless of whose forecasts turn out to be more accurate -- and we believe ours are likely to be because they are constructed in the same spirit of the budgets of the past four years -- the President's budget will be balanced. As a failsafe, the budget automatically provides additional savings if CBO's assumptions should prove more accurate than the Administration's. Thus, our budget achieves balance by 2002 regardless of whether OMB or CBO's assumptions are used. CBO Director June O'Neill, in a letter to Senator Frank Lautenberg, verified that CBO estimates that our budget reaches balance by 2002, with these automatic additional proposals as failsafes.

Our savings aggregate $350 billion over five years. As with any sound budget plan, the savings grow over time. In this budget, as the Administration estimates, 67 percent of the savings occur in the last two years.

We carefully viewed the discretionary account for each of the agencies to make sure that we have done everything we could to bring spending down, while maintaining the critical functions of those agencies. We closed business tax loopholes and eliminate other business tax subsidies viewed as no longer warranted. We auction broadcast spectrums. Our proposal cuts Medicare spending by $100 billion over five years, but without adversely affecting the quality of care for beneficiaries or the amount they must pay out-of-pocket, and extends the solvency of the Part A trust fund to 2007. At the same time, we recognize that there are obviously long term entitlement problems due to demographic trends such as the aging of the baby boomers, which have not been addressed in any of the Presidential or Congressional budget proposals of the past few years, and which we must address through a bipartisan process.

Within the context of moving toward a balanced budget it is extremely important, however, that we invest in areas critical to future productivity and U.S. global leadership. There are many initiatives in the budget toward these ends, but today I would like to focus very briefly on a few, particularly those that involve the tax system.

The President has proposed middle-income tax cuts, which are designed to help middle-income people obtain the skills they need to prosper in the modern economy. They increase savings, promote education, and, through our child tax credit, make it easier to raise a child. We also have programs to help move people from welfare to work and, more broadly, help distressed inner cities.

Let me say a word about the size and scope of the tax cuts. We have proposed tax cuts that total $98.4 billion over five years. It is, in our judgement, a moderate, and because of its structure, a carefully targeted tax program designed, as I said a moment ago, to help American families prosper in the modern economy.

We believe our proposal strikes the correct balance between advancing the goals of a balanced budget, and providing tax relief. Tax cuts which are higher, would, in my opinion, run a serious risk of requiring us to make cuts that would unduly harm our economy and our society -- or abandon the goal of a balanced budget, which we absolutely must not do. We must not engage in a "bidding war" over tax cuts.

Now, to go back to the President's priorities. As already discussed with respect to tax cuts, much of the emphasis is on areas that are critical to future productivity. The budget invests in education and training, with Hope Scholarships, Pell Grants and Head Start to name a few. And the budget includes new initiatives, including the CDFI Fund, tax incentives to revitalize distressed neighborhoods, and new initiatives to encourage businesses to hire former welfare recipients, so we can bring all Americans into the economic mainstream.

The final area I wish to mention regards the importance of providing adequate resources to maintain U.S. leadership in the global economy.

The budget seeks a significant increase in overall funding to sustain our international engagement, and our role, as the President says, as the world's indispensable nation. There is no question that there is only one country in today's world that can provide leadership on the critical issues of the global economy and that is the United States. But to shape world events to advance our security and economic self-interest, we must meet our commitments to the United Nations and in the international financial institutions, such as the World Bank's International Development Association and the International Monetary Fund. And, we should do so because it is in the economic and national security self-interest of the United States and our citizens.

Before concluding, let me make a comment regarding U.S. leadership that is not related to the budget. U.S. leadership often involves making tough decisions that may be politically unpopular. Last week, the President decided to recertify Mexico as an ally in our efforts to combat drugs. In my opinion, that decision was correct to most effectively maintain a strong war on drugs, fully recognizing the problems in Mexico. I urge all of you to support the President on this matter.

Mr. Chairman, our nation has the world's strongest economy in part because of the tough choices we made in 1993, which have already cut the deficit by over 60%. The Administration is ready to work with Congress to finish the job: to balance the budget, and to do so in a way that protects our priorities, both for now and the future. This is an historic opportunity. We must take advantage of it.

Let me conclude by thanking you again for this opportunity to discuss the President's budget proposal. I look forward to working with all of you this year.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 10, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,068 million of 13-week bills to be issued March 13, 1997 and to mature June 12, 1997 were accepted today (CUSIP: 9127944M3).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.04%	5.18%	98.726
High	5.06%	5.20%	98.721
Average	5.06%	5.20%	98.721

Tenders at the high discount rate were allotted 38%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$52,643,473	$12,068,408
Type		
Competitive	$47,257,346	$6,682,281
Noncompetitive	1,379,626	1,379,626
Subtotal, Public	$48,636,972	$8,061,907
Federal Reserve	3,496,501	3,496,501
Foreign Official Institutions	510,000	510,000
TOTALS	$52,643,473	$12,068,408

5.05 - 98.723

RR-1546

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 10, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,117 million of 26-week bills to be issued March 13, 1997 and to mature September 11, 1997 were accepted today (CUSIP: 9127945M2).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.16%	5.37%	97.391
High	5.18%	5.39%	97.381
Average	5.18%	5.39%	97.381

Tenders at the high discount rate were allotted 41%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$40,214,577	$12,117,497
Type		
Competitive	$33,670,675	$5,573,595
Noncompetitive	1,147,402	1,147,402
Subtotal, Public	$34,818,077	$6,720,997
Federal Reserve	3,450,000	3,450,000
Foreign Official Institutions	1,946,500	1,946,500
TOTALS	$40,214,577	$12,117,497

5.17 - 97.386

RR-1547

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10 A.M. EST
Text as Prepared for Delivery
March 11, 1997

Treasury Under Secretary for Enforcement Raymond W. Kelly
The New York Money Transmitter Geographic Targeting Order
Statement before the
U.S. House of Representatives Banking Committee
Subcommittee of General Oversight and Investigations

Introduction. Good morning Mr. Chairman and members of the Subcommittee. I am pleased to appear before the Committee to discuss Treasury enforcement's successful use of a geographic targeting order (GTO) or "The Order" to fight narcotics money laundering through a segment of the money transmitter industry in the New York Metropolitan Area. The New York GTO has been in place now for over seven months, and it has caused a dramatic reduction in the amount of illicit funds moving through New York money transmitters.

The circumstances surrounding the Treasury's issuance of the New York GTO, and the lessons we are learning from it, are significant for Treasury enforcement, and we appreciate your interest. The El Dorado Task Force investigations that led to the issuance of the GTO demonstrate the value of Treasury's coordinated, systematic attack on money laundering problems affecting a particular segment of an industry. The implementation of the GTO is an example of enforcement and regulatory cooperation at its best. Perhaps most important, the GTO has demonstrated graphically that drug money launderers have been extensively abusing a segment of the relatively unsupervised money transmitter industry, and that this underground market does respond to regulatory and enforcement pressures. The GTO therefore confirms the need for all of us to work together to bring appropriate resources to bear more broadly on the problem.

The GTO. If you would, allow me to provide you with a brief overview of the GTO. The GTO has been in place since August 7, 1996, and is currently scheduled to expire on April 3, 1997. It currently requires 22 licensed money transmitters and their approximately 3,500 agents to report information about the senders and recipients of all cash purchased transmissions to Colombia of $750 or more. The GTO was issued under a provision of the Bank Secrecy Act which allows the Treasury, either on its own initiative or upon a request from an appropriate law enforcement authority, to require a financial institution or a group of financial institutions in a geographic area to comply

RR-1548

with special reporting or record keeping obligations. The special requirements may be put in place upon finding that there is reason to believe that such reporting or record keeping is necessary to ensure compliance with, or prevent evasions of, the Bank Secrecy Act. GTOs may be authorized for no more than 60 days at a time.

The statute and regulations under which the GTO was issued constitute a very flexible and powerful tool. Prior to the New York GTO, Treasury had issued two other GTOs: in Phoenix in 1989; and in Houston in 1991. Like the New York GTO, both of the earlier orders required special reporting of cash purchased money transfers through non-bank money transmitters. But the past two GTOs were not as successful as the New York GTO. This was so because they were not issued in the context of a sustained, multi-agency law enforcement and regulatory task force investigation into abuses across a broad segment of an industry.

Extension and Expansion. The GTO was extended and expanded in October to include a total of 22 licensed transmitters and approximately 3,200 agents. The order was extended again in December, and a third time at the beginning of February.

The Money Transmitter Industry. In addition to a review of the GTO itself, an examination of the money transmitter industry is essential to understanding Treasury's initiative. Due to the global trend of rapidly increasing electronic commerce and the continuing influx of immigrants who use international transfer services to send money home to family and friends, the U.S. market for money transmission services has grown steadily over the last ten years. U.S. money transmitters remit upwards of $10.8 billion, exclusive of fees, each year, through approximately 43,000 locations nationwide. The industry is highly concentrated: the vast majority of the funds transfers and locations are handled by two companies, Western Union and MoneyGram. And most of the money transmission outlets are concentrated in six major states: California, New York, Texas, New Jersey, Florida, and Illinois.

Most of the smaller money transmitters in competition with the major national companies are oriented toward particular ethnic markets and rely on their own service infrastructures for transferring funds, and for communications and settlement among outlets: The niche customers served by these smaller providers are willing to pay a premium for value- added services, such as receiving informal news from other countries. These niche transmitters often are bilingual, and located in urban ethnic communities.

State regulators are monitoring the growing money transmission market with great interest. Twenty-three states now have licensing requirements for money transmitters, but those regulations vary a great deal, and are primarily focused on consumer protection issues. Some states, including New York, also require each licensed money transmitter to register the names and locations of each of its legal agents or vendors. There are 52 licensed money transmitters in New York, which operate through thousands of agents.

Despite these licensing procedures, it has become clear that the money transmitter industry is vulnerable to abuse by organized money launderers. This fact has been made plain as day by the work of the Treasury-led El Dorado Task Force.

El Dorado. The third piece of the picture requires further description. The El Dorado Task Force can serve as a model of interagency cooperation and innovation in combating a broad base of money laundering and financial crime. The task force is a joint federal, state and local effort that includes some 140 agents, police officers and support personnel from 13 agencies, including the Customs Service, IRS Criminal and Examination Divisions, the Secret Service, the NYPD and New York State Banking Department. The task force targets systems or industries that facilitate money laundering. Its resources are aimed at abuses in non-bank financial institutions, banks, brokerage houses and private banking, and the bulk transportation and smuggling of cash. Since its inception in 1992, El Dorado has enjoyed a legacy of success unmatched in federal law enforcement. The task force has seized in excess of $150 million in currency, made 700 arrests, and captured more than 2 tons of cocaine and 120 pounds of heroin.

El Dorado's Operation Wire Drill helped lay the groundwork for our GTO. Wire Drill is an ongoing investigative effort focused on systemic abuses in the money transmitter industry. Over the past several years preceding the GTO, Operation Wire Drill investigations have led to the conviction of hundreds of persons and the seizure and forfeiture of over $10 million dollars associated with money laundering through the agents of licensed money transmitters. These investigations focused primarily on transfers of funds to Colombia and the Dominican Republic. El Dorado has been able to demonstrate the complicity of money remitter agents in the simple scheme of structuring large cash transactions to avoid the reporting and record keeping obligations of the Bank Secrecy Act, using false invoices and fabricated identities of senders and recipients.

In July 1996, based on an investigation conducted by the El Dorado Task Force, the government secured the first-ever guilty plea of a licensed money transmitter, Vigo Remittance Corp., to money laundering charges.

Armed with information generated by El Dorado's Wire Drill investigations, the U.S. Attorneys from the Southern District of New York, the Eastern District of New York, and the District of New Jersey, along with senior officials of Customs, IRS, and FinCEN presented me with a compelling case that a GTO would be an appropriate measure to take with respect to a broad segment of the money transmitter industry in the New York area.

Tailoring the GTO. As I already have indicated, the GTO is a very flexible tool. FinCEN worked closely with the primary Assistant U.S. Attorney, and representatives of Customs, IRS and the Department of Justice, to review the application and craft an appropriate order. Twelve licensed transmitters and their 1,600 agents were identified as particularly vulnerable to abuse. A number of factors were considered in addition to the evidence generated by the Wire Drill investigations in the identification of their subjects. Perhaps most strikingly, the business volume of the 12 money transmitters simply did not accord with the size of the Colombian community in the New York area. New York State Banking Department figures indicated that the 12 originally targeted transmitters, serving a community of approximately 25,000 households, have been sending approximately $1.2 billion annually to South America. About two thirds of this amount, or $800 million, goes to Colombia. To account for this figure, each Colombian household would have to send approximately $30,000 per year through money transmitters to Colombia. Given that the median household income of this same community is roughly $27,000 per year, there was cause for concern.

The terms of the GTO. The terms of the order were designed to avoid interfering with legitimate commerce as much as possible.

--The order was directed against transactions to Colombia because of its peculiar status as perhaps the predominant narcotics source country in this Hemisphere.

--The reporting threshold of $750 was estimated to be well above the average legitimate transmission of $200 - $500.

--Money transmitter agents were required daily to report identifying information about the sender and recipients of each covered transaction on a special form, and to collect and file a copy of one of three standard forms of photo ID of the sender.

--At the same time, the licensed money transmitters were required to file, electronically on a weekly basis, the same information filed by the agents. This feature of the order was intended to enable investigators to check the accuracy and completeness of filings, by comparing the filings of the agents with the filings of the licensed money transmitters.

Finally, the GTO was made confidential, so that it would be a breach of the order to notify any person (other than an attorney or accountant in the context of seeking professional advice) about its terms or even its existence.

All of the information reported under the GTO is collected at the New York High Intensity Drug Trafficking Area (HIDTA) office and entered into a database designed by FinCEN to facilitate entry and analysis of the information collected.

Effects of the GTO. At this point, I would like to highlight directly the results the GTO has produced. The GTO caused an immediate and dramatic reduction in the flow of narcotics proceeds to Colombia through New York City money transmitters. Curiously, business to Columbia dropped off even at the money remitters not subject to the GTO. This suggests that much of the money remitted to Colombia has been controlled centrally by high level cartel money brokers.

Our analysis of data generated by the GTO is ongoing, but the targeted money transmitters' overall business volume to Colombia appears to have dropped by approximately 30%. We believe that most of this money has been physically removed from the New York Metropolitan area, either for transfer through money transmitters operating in other cities along the East Coast, or for bulk smuggling out of the U.S. On this latter point, we have observed a dramatic increase in Customs interdiction and seizure activity at the airports, seaports, common carriers and highways along the east coast -- over $50 million since the GTO went into effect. This figure is approximately four times higher than it has been in prior years. We have also gleaned a substantial amount of intelligence out of Customs undercover operations.

At the same time, it is clear that a significant number of money transmitter agents have been willing to structure transactions beneath the GTO's $750 reporting threshold. The number of transactions in amounts below $750 have risen sharply, and the amount of funds transferred to Colombia in such increments appears to have almost doubled. The El Dorado Task Force has already arrested three defendants, and executed search warrants on 22 money transmitter agents suspected of intentionally structuring transactions in violation of the Order; additional people are currently under investigation. One of the three defendants has already pleaded guilty. Two suspects are considered fugitives. El Dorado is continuing to pursue investigations of this type. Treasury will consider imposing civil penalties against violators who are not pursued criminally.

GTO Filings. Ironically perhaps, the reports of transactions actually required by the GTO -- on cash purchased transfers of $750 or more to Colombia -- have proven to be of only limited use to investigators. Although we have no indications of widespread non-compliance with the order, only about 1,000 required filings have been received each month. These filings have for the most part amounted to a "good guy" database with information about people who have nothing to hide.

Industry Reaction.. Several aspects of the industry response to the GTO are notable. First, representatives of most of the licensed money transmitters have reported that they generally approve of the GTO. Some have praised the GTO's "bright line" rule, observing that it is is both easy to follow and easy to enforce upon their agents. They also welcome the GTO's elimination of any unfair competitive advantage one transmitter might have over the others. They believe the GTO assists them in maintaining their network of agents, and that it is it is particularly important to those transmitters which have imposed tight restrictions on their agents in response to pressure already brought to bear upon them by El Dorado investigators.

Also of interest, is the fact that since the GTO was put in place, several money transmitter agents have lowered their fee for transfers to Colombia from 7% to 5% of the value of the transfer. This appears to be a logical business response to a reduction in the demand for services. This is particularly important because it represents a benefit of the GTO to legitimate customers of money transmitters.

Next Steps. The final issue I would like to discuss today is next steps. The GTO's confidentiality provision was lifted in early December, in order to begin a public policy discussion about what has been learned, and what next steps are available and appropriate.

Naturally, we have begun to consider whether, and under what circumstances, the Department of the Treasury might wish to issue additional GTOs. The New York experience has taught us a couple of key lessons as we ponder this question. First -- and I can't stress this point enough -- the task force environment is key to the successful management of the additional administrative, analytic and investigative work involved in a GTO. Without the coordinated analytic and investigative effort involving all of the El Dorado task force participants, we would not even know what a success we have, let alone be in a position to capitalize on it. In addition, the New York GTO involved considerable administrative effort (and opportunity cost), much of which was born by FinCEN.

Second, the efforts of the U. S. Attorney's Office in the Eastern District of New York in pursuing a series of cases over a two- year period were critical to building an investigative foundation that justified the GTO. We applaud the Department of Justice for encouraging other districts, to take this kind of approach. This is a classic example of less in the short term leading to more in the long term.

Third, the GTO tool is intended to prevent and detect abuses, and cannot replace traditional enforcement techniques. The New York experience has demonstrated the powerful enforcement ramifications a GTO can have when the local authorities are prepared to make use of it and where the regional record justifies it. Those conditions may not prevail everywhere, at all times.

With this in mind, and in the context of our overall strategy to combat money laundering, we at Treasury intend to continue looking carefully, and working with the Department of Justice and other law enforcement and regulatory officials, to find appropriate situations that may lend themselves to application of additional, tailored GTOs in other locations.

Permanent Regulatory Solutions. We are also nearing completion of a number of notices of proposed rulemaking intended to address vulnerabilities in the money transmitter industry. First, we intend to implement the Congressional mandate to register money services businesses generally. A Federal registration requirement -- while relatively easy for businesses to comply with -- will consolidate information about the industry for investigators, and put real teeth into the law that already makes it a federal crime to operate an unlicensed or unregistered money transmitting business. In addition to the registration requirement, we hope to publish in the near future proposed rules to require special record-keeping and reporting by money transmitters. Finally, we are working with the Department of Justice to develop a series of meetings of U.S. Attorney's and Federal law enforcement agencies from other parts of the country where drug money laundering is a particular problem. We will be looking to explore ways to leverage Treasury's unique tools in partnership with Justice to develop additional innovative strategies.

Conclusion. In closing, I would like to emphasize how proud I am of the men and women in Treasury enforcement as well as the Department of Justice, the New York Police Department, and the New York State Banking Department, who have worked so hard to make the El Dorado Task Force and the New York GTO so successful. The dedication to service, team-work, and professionalism demonstrated by these individuals is deserving of the Committee's attention. Thank you for the opportunity to tell you their story.

I would be happy to answer any questions you may have.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 10, 1997

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN TENNESSEE

The Bureau of Public Debt took action to assist victims of flooding in Tennessee 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 Tennessee affected by the storms. These procedures will remain in effect through April 30, 1997.

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.

Tennessee counties involved are Carroll, Cheatham, Dyer, Madison, McNairy, Montgomery and Obion. 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 Bond 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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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 11, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,000 million, to be issued March 20, 1997. This offering will result in a paydown for the Treasury of about $1,125 million, as the maturing weekly bills are outstanding in the amount of $24,132 million.

Federal Reserve Banks hold $6,473 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 $1,793 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, as amended) 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-1550

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MARCH 20, 1997

March 11, 1997

<u>Offering Amount</u>	$11,500 million	$11,500 million
<u>Description of Off</u>		
Term and type of s		182-day bill
CUSIP number . .		912794 2U 7
Auction date . .		March 17, 1997
Issue date . . .		March 20, 1997
Maturity date . .		September 18, 1997
Original issue dat		September 19, 1996
Currently outstand		$19,907 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

<u>The following rule ply to all securities mentioned above</u>:

<u>Submission of Bids</u>:

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.

<u>Maximum Recognized Bid at a Single Yield</u> . . . . 35% of public offering

<u>Maximum Award</u> . . . . 35% of public offering

<u>Receipt of Tenders</u>:

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

<u>Payment Terms</u> . . . . 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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Remarks as prepared for delivery
March 12, 1997

THE TREASURY'S STUDY OF CREDIT UNIONS: A MIDPOINT REVIEW

Remarks of Richard S. Carnell
Assistant Secretary of the Treasury
for Financial Institutions

National Association of Federal Credit Unions
1997 Congressional Caucus
Washington, D.C.

March 12, 1997

I. INTRODUCTION

I appreciate having this opportunity to give you a midpoint review of the Treasury's study of credit unions. My goal this morning will be to provide some perspective on how we at the Treasury view this study and how we're carrying it out. Let me emphasize that the study is still a work in progress. So it would be premature for me to offer conclusions or recommendations at this point.

I'd like to note at the outset that we at the Treasury did not ask to do this study. Congress included it in a bill passed last fall to keep the government running this year. Although we didn't seek this assignment, we take it very seriously and have been working hard to complete it on time.

Not long after the ink had dried on the legislation mandating the study, I spoke to the annual meeting of the California Credit Union League. I said that a few simple principles would guide our approach. Those principles are very straightforward, and they bear repeating: Be fair and objective. Be thorough and rigorous. Be open and inclusive. I hope that by the end of my talk you'll have a better appreciation of how we're following those principles.

RR-1551

II. OVERVIEW OF THE STUDY REQUIREMENTS

Let me begin by talking about what Congress has directed the Treasury to do.

Section 2606 of the Omnibus Appropriations Act for 1997 requires the Secretary of the Treasury to conduct a study of three major topics relating to credit unions. The first topic involves the National Credit Union Share Insurance Fund. The second involves the supervision and financial health of corporate credit unions. And the third involves the NCUA's regulations. The study is due September 30, 1997. We're to conduct it in consultation with the NCUA, the FDIC, and the Treasury's Office of the Comptroller of the Currency, which regulates national banks.

Let me now take a more specific look at the three topics I listed a moment ago. The first is the National Credit Union Share Insurance Fund. Congress has directed us to examine two specific issues relating to the Fund. To begin with, we're to study whether the 1 percent deposit that credit unions have made into the Fund should continue to be treated as an asset on credit unions' books, and thus as part of their equity capital -- or whether credit unions should, instead, expense it. We're to study whether the Fund should be administered by someone other than the NCUA, and what would be the implications of such a change. More generally, Congress also directed us to evaluate the NCUA's oversight of the insurance fund.

Second, Congress has required us to evaluate the nation's ten largest corporate credit unions. We're to do this "in cooperation with appropriate employees of other federal agencies with expertise in the examination of federally insured financial institutions." We're to look at corporate credit unions' investment practices. We're to examine their "financial stability, financial operations, and financial controls." And we're to review how the NCUA supervises them.

Third, Congress has instructed us to study the NCUA's regulations. Let me read you the exact language on this point. "The Secretary . . . shall conduct a study and evaluation of . . . the regulations of the [National Credit Union] Administration." Now this language is rather broad. You could conceivably read it as calling for a study of all the NCUA's regulations, which occupy 250 pages in the Code of Federal Regulations. But quite a few of these regulations, however appropriate in themselves, have little connection to anything else even touched on in the law calling for the study. To take only a few examples, the NCUA has regulations on adjudicative hearings, advertising, flood insurance, the Freedom of Information Act, group purchasing activities, money laundering, pension plan custodians, and suing the government for property damage, personal injury, or death. Did Congress really intend us to delve into all of them? We think not. Instead, we believe the best approach is for us to review the regulations dealing with corporate credit unions, the National Credit Union Share Insurance Fund, and the safety and soundness of credit unions.

III. PROGRESS TO-DATE

Now let me give you a progress report on how we've been going about this study.

First, we believe it is important that we gain a thorough understanding of the study topics from the perspective of credit unions and others interested in the subject. We have made extensive efforts to meet with, and hear from, credit unions. My staff and I have had dozens of meetings with credit union CEOs, credit union trade associations, and the NCUA. We have visited eight natural-person credit unions and two corporate credit unions. We have met directly with over thirty credit union CEOs, representing both large and small credit unions. And we have met with the CEOs of five corporate credit unions and U.S. Central. These meetings have deepened our understanding of how credit unions view the Share Insurance Fund, their corporate credit unions, and NCUA regulations.

Second, since we can't possibly visit with everyone interested in credit union issues, we published a notice in the *Federal Register* inviting public comment on the study topics. The comment period ended February 28th, and I am quite pleased that we received over 170 comment letters, many of them from credit unions and credit union trade associations.

Third, we have had numerous meetings with the NCUA to learn about its operation of the Share Insurance Fund, its oversight of corporate credit unions, and its approach to safety and soundness regulation. We have paid close attention to the changes that have been taking place at the NCUA in recent years. As you know, just last week the NCUA finalized its Part 704 regulation, which includes significant changes to the regulation of corporate credit unions. Part 703, which is awaiting finalization, would make significant changes in the safety and soundness regulations governing natural-person credit unions.

Fourth, as directed by Congress and with assistance from the OCC, we assembled an inter-agency team of federal banking examiners to assist in our review of the financial condition of the ten largest corporate credit unions. The six-person team -- with examiners from the OCC, FDIC, OTS, and Federal Reserve -- has been working since mid-January. As part of this process, the Association of Corporate Credit Unions made a detailed presentation to the Treasury's credit union team and to the inter-agency examination team. The examination team has had numerous meetings with NCUA officials and has conducted on-site reviews of both U.S. Central and Wescorp.

In short, the Treasury has invested significant time and resources to learning more about credit unions. We have approached this study with open minds, open ears, and an open door. But we're still in the process of learning. We aren't rushing to conclusions as we do our work.

IV. MORE TO DO

While we have accomplished a lot in the five months since Congress gave us this assignment, we have much more to do. First, we received most of the response letters to our *Federal Register* notice at the end of February. As I said, we received more than 170 letters and we will review each of them carefully.

Second, as we have met with the NCUA, credit union trade associations, credit unions, and other interested parties, we have accumulated a significant amount of informational materials. We're in the process now of going back over these materials to ensure that we consider all of the facts, data, and viewpoints presented there.

While there is much left for us to do, I am pleased at this point that we appear to be on target for getting our work done on time.

V. A WORD ON FIELD OF MEMBERSHIP

Before concluding my remarks, let me say a few words about the field of membership issue, which is of great interest to credit unions. This issue is not part of our study mandate.

I would note that this is an important legislative issue. NAFCU and CUNA are working together to fashion a legislative solution, as are others associated with credit unions. This issue is of direct policy concern to the Treasury as well, and one that we are following carefully.

Since we already had a team in place studying credit unions, it only makes sense that this team has also been asking people about the field of membership issue. We continue to follow this issue closely, and are considering all the elements involved. But we haven't taken any position thus far.

VI. CONCLUSION

I would like to close now by making three observations.

First, credit unions appear to be doing very well. Loan-to-share ratios are at record levels. And the Share Insurance Fund has experienced no losses in the past couple of years.

Second, in our discussions with credit union representatives, we have been quite impressed with their dedication to serving members' financial service needs.

Third, credit unions have been, and remain, an important and unique component of our financial services system.

One might ask what we expect to accomplish with our study. It's a fair question. I think there are two ways of looking at it. On the one hand, we expect to fulfill our Congressional mandate, to consider the study topics and to make recommendations to Congress as appropriate.

But, in addition, I would note that I have always been impressed with the credit union principle of pursuing self-audit and renewal. Indeed, there's a striking expression of this in the World Federation of Credit Unions' "Statement of Credit Union Operating Principles". This statement calls for all credit unions to pursue self-audit and renewal. It says: "Credit union management and staff should regularly ask the question, 'How have we acted like (or unlike) a credit union today?'"

I hope that the interactions between the Treasury and credit unions aids in that process of self-audit and renewal. I also hope that our study, once completed, is useful to you as you seek to realize your fundamental objective -- serving your members.

Thank you for the opportunity to speak here today.

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DEPARTMENT OF THE TREASURY

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March 12, 1997

Statement Before The
House VA-HUD Appropriations Subcommittee
Secretary Robert Rubin
March 12, 1997

Mr. Chairman, distinguished members of this Subcommittee, I would like to thank you for the opportunity to testify this morning on the President's FY 1998 budget request for the Community Development Financial Institutions Fund

CDFI has been a high priority of the President since taking office. It is critical to the effort to bring the residents of the inner cities into the economic mainstream, an issue which I believe is vitally important to all of us -- no matter where we live or what our incomes may be. We lose tremendously in terms of economic potential and in a worsening of our social conditions because of these tremendous problems that have historically not been dealt with in this country. Just think of the enormous difference in costs that are borne by the taxpayers, and think of the enormous differences in productivity, and in the quality of life for all of us, if we can provide real opportunities for the urban poor to join the economic mainstream. CDFI helps to create those opportunities.

I tend to think there are three fundamental prerequisites for progress: investment in people through education and health care; public safety; and economic development. The CDFI Fund is a key component of the last point. The Fund's aim is to expand access to credit and financial services in poor urban, rural and Native American communities, areas where one of the biggest obstacles to economic development is a lack of access to mainstream sources of private sector capital. As Robert Kennedy once said, "To ignore the potential contribution of private enterprise is to fight the war on poverty with a single platoon, while great armies are left to stand aside." Access to financial institutions is a fundamental tool the residents of these economically distressed areas need to lift themselves out of poverty.

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Since it began operating in October 1995, the Fund has already made a significant contribution to increasing access to private sector capital. In January of 1996, we received 268 applications for the CDFI program and over 50 applications for the Bank Enterprise Award program. After a rigorous review program, we announced the selection of 32 CDFIs to receive over $37 million in financial and technical assistance. In September, we subsequently announced 38 banks and thrifts to receive Bank Enterprise Awards. In January, the President announced the winners of the Presidential Awards for Excellences in Microenterprise Development to highlight the accomplishments of entrepreneurs in this area. The response to the CDFI program has been overwhelming -- the requests for assistance were ten times the available funding. We are clearly getting this kind of response because the private sector know it makes good business sense.

The Fund is beginning to have an impact. It has effectively promoted partnerships between community based financial institutions, banks and other private sector players, leveraging scarce Federal resources into private dollars for credit starved communities. That in turn, fosters cooperation and synergy in efforts to revive economically distressed areas. For example, ShoreBridge Capital in Cleveland is receiving a $1.5 million investment from the CDFI Fund. Using that money, adding capital from other investors, they will finance businesses in Cleveland to retain and expand the area's employment base, particularly focusing on manufacturers in Cleveland's lower-income neighborhoods. The Santa Cruz Community Credit Union in California offers a full range of financial services to lower income people and small businesses. The $1 million grant from the CDFI Fund will be used to help the credit union open a branch in the low-income, predominantly Hispanic city of Watsonville.

In this era of scarce budgetary resources, we must choose our priorities carefully, and focus on those that have long term payoffs for our economy and our society. The Fund is a top priority of the President precisely for that reason: its payoff is in the long-term health of our national economy, by making our nation more productive and fostering higher economic growth.

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to speak to you today, and I look forward to working with you in the future.

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Testimony of Lawrence H. Summers
Deputy Secretary of the Treasury
Before the Senate Foreign Relations Subcommittee
on Western Hemisphere and Peace Corps Affairs
March 12, 1997

Introduction

I am pleased to be here today and to have this opportunity to testify on what I believe is one of the most important foreign policy issues facing this Administration and Congress. I want to speak first about Mexico's cooperation on law enforcement activities to combat drugs -- which was the basis for the President's decision to certify Mexico. I then want to discuss the economic consequences that could potentially result from decertification, and the likely effect of decertification on our cooperation.

We believe the President's decision to certify Mexico's counter-narcotics efforts was the right one, based on the commitment to anti-narcotics displayed by the highest levels of the Zedillo Administration. While we can not rest on the accomplishments over the past year, we can note tangible progress.

Given the presence of General McCaffrey and Ambassador Gelbard at today's hearing, I will not list all factors contributing to the final decision to certify Mexico. I will, however, cite a few examples of Mexico's cooperation with Treasury and its bureaus in the fight against narcotics.

Law Enforcement Cooperation with Treasury and it Bureaus

First, we have been encouraged by measures taken by the Government of Mexico to combat money laundering. Mexico passed legislation in 1996 to criminalize money laundering, and we have worked closely with Mexican officials in order to build on this law. Monday, the Government of Mexico announced the enactment of new anti-money laundering regulations. While still under review, our preliminary assessment indicates that the regulations would require banks to report to law enforcement authorities suspicious transactions, as well as all currency

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transactions in excess of $10,000. In addition, over the course of the past year:

Mexico extended wire tap authority for money laundering investigations, as part of its organized crime legislation designed to provide greater tools to law enforcement.

Mexico's Treasury referred 21 money laundering investigations, involving 82 suspects, to the Justice Ministry for prosecution.

Mexico's Treasury referred 26 money laundering cases to the U.S. for investigation, and conducted 40 joint money laundering investigations with U.S. law enforcement authorities. In addition, a Mexican Treasury official provided testimony in two major narcotics trafficking and money laundering trials in the U.S.

The Mexican Justice Department assisted the U.S. in seizing in excess of $4.6 million in illegal assets.

And representatives from the Mexican Treasury and Justice Department have participated in several U.S. training exercises addressing money laundering investigative techniques. This marked the first time that representatives from the Mexican Treasury and Justice Departments had participated in joint training.

Moreover, the U.S. Customs Service reports continued improvement in cooperation on air interdiction matters. Specifically, Mexican Justice Department pilots continue to receive air interdiction training from U.S. Customs; the Government of Mexico has deployed rapid response helicopters to apprehend smuggling aircraft, and the Government of Mexico continues to allow, on a case-by-case basis, U.S. Customs officials to pursue suspect aircraft into Mexican territory.

We recognize, however, that there are shortcomings along with the successes that I just described. We share the Committee's concern that corruption at both high and low levels continues to threaten the integrity of Mexican anti-narcotics efforts. We have communicated to the Government of Mexico that we view as unacceptable the unexplained release of the suspected money launderer, Humberto Garcia Abrego. We have registered our strong protest at the failure to freeze -- reported only recently -- more than $160 million in funds held in accounts that U.S. Customs had linked to a suspected money launderer. And we continue to seek stronger efforts on the full range of issues affecting interdiction, anti-money laundering, and investigatory matters.

Economic Effects of Decertification

Now let me turn to economics. As we weigh the merits of reversing Mexico's certification, it is important that we look carefully at the economic damage that would potentially inflict on Mexico -- and the consequences that could have for jobs and exports in our own economy. Given that our trade with Mexico was $130 billion last year, that we share a

2000 mile border, and that Mexico is the largest source of illegal immigrants into our country, those consequences could be significant.

Let me say at outset that I cannot predict what the impact of decertification would be. I can't judge the degree to which it would undermine confidence and damage Mexico's economic future. But I can say that the impact would not be salutary. We need to face the real possibility that investors will lose confidence in Mexico, and we have to assume that markets will also recognize that risk. Markets are as fragile as they are difficult to predict, and decertification could trigger results worse than we anticipate. No one would have predicted the scale of the financial meltdown that threatened Mexican and U.S. interests just two years ago as capital fled Mexico. Mexico overcame that crisis, but the costs were huge. Output fell over 6% in 1995. Unemployment more than doubled. Real wages dropped 20% in 1995, meaning a huge fall in the living standard of the average Mexican. As interest rates shot up over 80%, the banking, losses in Mexico's banking system mounted, and a banking collapse was averted only through extraordinary government support, at a cost to the government of 10% of GDP.

That episode is still fresh in the minds and memories of market participants. And despite Mexico's remarkable recovery from the brink of default, Mexico's economy still has fragilities and still depends on international capital flows from the private sector. This year Mexico will need to roll over $10 billion in maturing debt, as well as foreign capital to finance new investment. The global environment is benign at the moment -- Mexico has had good success recently in raising funds on the international markets, and it attracted $9 billion in foreign direct investment last year. Mexico will have no trouble meeting its capital needs if the global capital markets stay strong and retain their confidence in Mexico.

But if confidence were to weaken and that capital were to dry up, Mexico's recovery would be threatened. The peso would come under renewed pressure, interest rates would rise, the fiscal deficit would widen, and investment would slow. Depreciation would threaten to fuel renewed inflation. Real wages, which are just now starting to climb again, would stagnate. The banking system, which is slowly returning to health, would suffer a new setback. When the peso depreciates ten percent, Mexican wages fall ten percent in dollar terms. The damage from a weaker economy and weaker peso would be borne not only by Mexicans. It would also translate into loss of U.S. exports and jobs, and a surge in illegal immigration.

We saw what happened to Mexico when capital stopped abruptly two years ago. U.S. exports fell $5 billion in 1995 (before rising 23% to new record highs last year), and our $1 billion trade surplus turned into a $15 billion trade deficit. The consequences of Mexico losing its access to international capital markets would not likely be as sudden or sharp this time, because Mexico has resolved many of its fundamental problems. Decertification would not, in my judgment, trigger a default now. But a loss if capital inflows would dent the recovery now underway in Mexico and deprive it of the resources it needs to achieve solid prosperity, build high wage, not low wage jobs, and import U.S. goods.

Why is Mexico Different?

Beyond the economic analysis, there is a broader context in which the impact of decertification has to be judged. While decertification may have focused attention in other countries on the need to fight drug trafficking more aggressively, let me say why I do not think it would work well in the case of Mexico.

First, Mexico is unique in its closeness to the United States. Not only does Mexico send 84% of its exports to the United States and buy 76% of its imports from American producers, and not only do American investors account for 60% of the stock of foreign direct investment in Mexico. More than that, international capital markets see the close economic and political relations between the United States and Mexico as the best guarantee of economic reform in Mexico. They see that the United States has been an effective partner for good economic policy in Mexico, which helped to ensure economic policies that brought about a rapid recovery from the financial and economic crisis of two years ago. Decertification would threaten that hard-won credibility as a partner in Mexico's emergence as a strong and prosperous country.

Second, honest elected officials in Mexico would be undermined by a U.S. decision to decertify, while those who are dishonest and corrupt would be strengthened and emboldened by our condemnation of their superiors and by the reduction in the intensity of U.S.-Mexico cooperation.

President Zedillo and the reformers close to him are fighting for economic and political reform in Mexico. They are fighting for openness and transparency, and against corruption. They are fighting against entrenched interests who resist reform. They look to us for support in their struggle to modernize Mexico, just as those opposing reform seek to rally supporters under the banners of nationalism and populism. At this time, most Mexicans broadly support reform, but that consensus may be vulnerable, especially in light of the economic hardships of the past two years. If we turn our backs on President Zedillo, we would strengthen those forces that resist reform. Not only would that undermine President Zedillo and the honest elected officials who are committed to reform. It would also drive a wedge between our two governments and weaken our ability to reach agreements with our Mexican counterparts on combating drugs. And it would weaken us as a force for Mexico's reform and modernization, which is a core foreign policy interest of the United States.

Final Observations

Certification with a waiver would be little less damaging than full decertification. A national interest waiver would spare Mexico any cut-off of U.S. assistance, but that assistance is very small and not economically significant. The true damage would come from undercutting our support for those in Mexico committed to reform, and from undermining investor confidence in the close cooperation between our countries and in the strength of our American commitment to work with Mexico to advance reform.

The decision on whether to certify Mexico is one of the most important foreign policy decisions we are likely to face in the next four years, given our shared border and uniquely close economic relationship. We should not act without a very careful weighing of the consequences.

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Testimony by Acting Deputy Assistant Secretary
William Schuerch to the House Banking Committee --
Subcommittee on Domestic and International Monetary Policy
March 13, 1997

Mr. Chairman, it is a pleasure to testify before you today on the President's request for authorization for the Multilateral Development Banks (MDBs). I have worked with MDB issues for many years, both here in Congress -- where I was with the Appropriations Committee for over 15 years -- and in the Administration. I greatly appreciate the opportunity to discuss these institutions with you, particularly in a year which the President has stated is critical to the future of the MDBs.

I will focus my comments today on proposed authorizations for the World Bank's International Development Association (IDA), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB) and the Asian Development Fund (ADF). At a future date, Deputy Secretary Larry Summers will testify before you on proposed authorizations for the International Monetary Fund (IMF).

In his State of the Union Address, the President stated emphatically that it is in our national interest to maintain our leadership in international organizations such as the World Bank and the UN and that to do so we must fulfill our commitments to these institutions. He said, and I quote, "If America is to lead, those of us who lead America must find the will to pay our way."

Mr. Chairman, during my tenure at the Treasury Department, I have seen first hand the truth of these words. As we have negotiated new MDB agreements and pushed for institutional reforms, I have seen how America compromises its leadership when we fail to bear our share of the burden. Instead of being able to focus our influence on pressing for improvements in the

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institutions, we have had to direct much of our energy to dealing with attempts by other donors to convince us to meet our commitments. We have faced procurement restrictions on U.S. business -- which so far we have been able to limit to the IDA Interim Trust Fund, and we are facing threats to our voting power in the Banks. I believe that while our leadership position in the multilateral arena remains largely intact, continued failure to meet our commitments poses a growing threat to our interests.

There is a direct link between our ability to lead and what has been our inability to meet even our reduced commitments. This is why we are at a critical point in our relationship with other donors and with these institutions. In light of our large and persistent arrears, the rest of the world is looking for a signal of our commitment to the international system that we largely created and which we have shaped over the last 50 years. It is vital that we send a strong message: that America will lead, that we will fulfill our commitments, and that we will bear our share of the burden for institutions which strongly advance our interests.

Let me cite just a few examples of where the MDBs advance our interests:

- In Bosnia, where the U.S. has provided the leadership to stop the civil war and begin the reconciliation process, the World Bank and the EBRD are coordinating their own and other donor funds to support the massive rebuilding process. These efforts, which incorporate U.S. bilateral assistance to the region, are critical to maintaining peace once the U.S. military presence is removed.

- In our own hemisphere, the World Bank and the Inter-American Bank are providing hundreds of millions of dollars to support the difficult transformation of countries like Haiti and Guatemala. They also have provided critical support to Mexico since the 1995 peso crisis which helped to ensure that all U.S. emergency loans were repaid.

- In Eastern Europe and the former Soviet Union, the EBRD and the World Bank are providing nearly $8 billion annually in direct investments in private sector ventures and to privatization and institution-building projects which lay the groundwork for foreign investment.

- IDA is the world's largest funder of AIDS programs. In Africa, IDA is providing support for AIDS and military demobilization to countries such as Uganda and Mozambique. These programs underpin economic reform efforts which are allowing these countries to return to growth and stability after years of civil war. In Uganda in particular, the rewards of several years of concerted economic reform have translated into recent growth of around 10%.

In these and many other areas, the MDBs are vital partners in our foreign policy. We have a strong interest in seeing that they remain responsive to our priorities.

Let me shift briefly to the our FY98 budget request. The Administration is proposing a \$1.5 billion budget request for the MDBs as part of the President's 5-year plan to balance the budget. Our request achieves three main goals:

- First, it meets our \$1.2 billion of scheduled commitments -- what we owe excluding our arrears. This reduced commitment level, which is less than our annual IDA commitment alone under the prior IDA-10 agreement, is the result of the Administration's having successfully negotiated down U.S. funding levels on average by 40% in the last set of replenishment agreements.

- Second, our budget fully clears our \$234 million of arrears to IDA which is the most important source of development aid to poor countries and where arrears present the greatest problem for our international leadership.

- Third, it begins a three-year process of clearing our \$862 million of overall MDB arrears. This will lead to a permanently lower level of required MDB funding after the year 2000.

- It is equally critical that we show our long-term commitment to these institutions. Therefore, we are asking for full authorization of the multi-year MDB funding agreements we have negotiated.

Make no mistake, the Administration's request for the MDBs represents our firm belief that, in the context of diminishing budget resources, these institutions cost-effectively serve the foreign policy, economic and security interests of the American people. Our funding determines our influence over \$46 billion in annual MDB lending, far more than we could ever provide bilaterally. Maintaining our leadership position insures that the institutions continue to focus on areas of vital U.S. interest.

Let me step back for a moment and say that I am fully aware that many people ask the questions, "Do the MDBs work ? Does concessional lending serve the poor countries who receive MDB loans and the donors who benefit from growth in developing countries ?" These types of questions have always existed in the context of both bilateral and multilateral assistance. As you know, they are questions that should be asked about all publicly funded programs on a regular basis.

In response, it should be made clear that the MDBs have many notable successes. IDA's twenty graduates, for example, now import \$60 billion per year from the United States. Private investment flows to developing countries have increased five-fold just in the last six years. Overall, social indicators in the poorest countries have shown remarkable improvement. Since 1970, fertility and infant mortality rates are both down 40%, primary school enrollment is up 36%, literacy rates have risen 33%, life expectancy has increased 8 years, and the percentage of people with access to safe drinking water has gone from 20% to 70%. MDBs projects -- which have built classrooms, provided sanitation for millions of people, delivered textbooks in poor countries, and fed millions of malnourished children -- have played a major role.

Yet the MDBs and bilateral assistance programs have been unable to overcome the forces of social and political chaos and economic disintegration which plague many countries, particularly in Africa. Nor have these programs yet been able to spread adequately the benefits of private foreign investment to many borrowers. Foreign investment has been limited to a few, primarily Asian and Latin American, economies, with 80% of investment flows going to just twelve countries. But there are signs of hope. Growth among IDA-only borrowers, excluding blend borrowers India and China, went from 1% in 1991 to 6% in 1995. In Africa, even with all of the crises of the last few years, overall growth has risen from 1% to 4% during the same period.

Thanks in large part to American influence, the MDBs are directing their resources at the areas which hold the most promise for expanding the scope of private sector-led growth. The institutions are pushing countries to reduce tariffs and barriers to investment. They are helping to build institutions to ensure the rule of law, enforcement of contracts, and the elimination of corruption. And they are providing support for sustainable development and for basic education, heath and infrastructure which are the building blocks of economic growth.

The MDBs are being selective by concentrating resources in the countries which are doing the most to open and restructure their economies. ESAF, for example, conditions its lending on borrower progress on free-market economic reforms. In IDA, 84% of lending over the last four years went to countries rated by the Bank as average or above in terms of economic reform. This helps ensure that IDA projects have the best chance of succeeding and provides incentives to poor performers. Finally, the MDBs are phasing out lending for countries whose access to capital makes their need for concessional resources less pressing. China will graduate from IDA in FY99 and its borrowing this year will be less than 20% of prior levels. India will also be phased down with loans going to sectors that cannot attract private capital. Neither of these countries have access to the Asian Development Fund.

Can the MDBs continue to improve -- definitely. And we continue to press for reforms. Do they currently serve the interests of their borrowers and of the people of the United States -- the answer is yes, absolutely.

Despite problems caused by our arrears, we have achieved what I consider remarkable success in the last set of MDB funding negotiations. Account by account, we have reduced the budgetary costs of the MDBs on average by 40%, we have successfully pushed for cost savings and accountability within the institutions, and we have focussed the institutions on our foreign policy interests and on free market values which we all share.

Looking at the specifics of our authorization requests:

First, our request for authorization for IDA is for $1.6 billion which we have pledged to fund the two-year IDA-11 replenishment for FY98 and FY99. This $800 million per year is a 36% reduction from the $1.25 billion annual IDA-10 commitment negotiated by the previous Administration. Despite this reduction, IDA will be able to continue at its current lending level as loan repayments, higher contributions from other donors and World Bank net income transfers have all increased as sources of IDA funding.

The IDA-11 agreement will also permit us to continue to press our reform agenda. Largely as a result of U.S. efforts, the World Bank has increased the transparency of its operations, encouraged greater participation of beneficiaries in project design, created an inspection panel and an auditing department to evaluate project implementation, and focussed more attention on issues like corruption and labor rights. The Bank has also cut its administrative budget by 10% in two years. World Bank President Wolfensohn is now proposing a major new reform program which carries the reform agenda even further and holds the promise of greatly improving the Bank's efficiency, effectiveness and focus. But it also has a significant pricetag and we are carefully examining its details.

Let me briefly mention the issue of procurement restrictions in the IDA Interim Trust Fund which has been of concern to many members and to this Administration. As you know, the ITF donors have recommended that $1 billion, or about 1/3 of the trust fund, be set aside, and potentially made available for U.S. procurement. While that outcome is not everything we wanted, it is important to remember that the U.S. did not contribute to the ITF, and that the practice of limiting procurement to fund donors and borrowers exists in IDA and all of the other soft loan windows. The concept of burden-sharing is one that the U.S. has long championed. We put enormous effort into this issue and, given these obstacles, this was the best we could achieve. A report on our efforts was delivered to Congress on February 27th.

The second request we have is for authorization of the final three years of the Inter-American Bank's eighth general capital increase, agreed to in 1994. This authorization would continue our annual commitment of $25.6 million which is 15% of the total paid-in capital. The IDB lends approximately $7 billion per year in Latin America and leverages an additional $2.4 billion in co-financing. It continues to be instrumental in supporting the region's dramatic shifts toward greater democracy, lower tariffs, fiscal responsibility and economic growth. On the ground, the IDB is helping cement the Guatemalan peace process by funding roads into isolated areas and rural development programs to raise incomes in indigenous communities. It is helping countries like Mexico and Argentina to privatize and strengthen their financial sectors to reduce vulnerability to external shocks. It has also been a leader in developing effective micro-enterprise programs which bring private enterprise down to the grass roots level.

Third, we are requesting authorization for what we expect to be the final recapitalization of the European Bank for Reconstruction and Development. Our request for $285 million over 8 years, or $35.8 million per year, is a 50% reduction from our previous annual commitment. We nevertheless maintain our status as the largest single shareholder in the Bank with a 10% share. After a shaky start, and I think most of you know that history, the EBRD has developed into an efficient, effective institution which is advancing private sector development in Eastern Europe and the former Soviet Union. 70% of the EBRD's $10 billion in cumulative funding has gone directly to private sector projects where it has been leveraged by over $20 billion in private co-financing.

The EBRD continues to be an effective catalyst for economic reform and democracy. As part of its charter, the Bank can only operate in countries that are making progress toward greater democracy and increased economic freedom. If a country's reform program lags, the EBRD reduces or ends it participation. The EBRD also is effectively targeting its resources to where they are most needed. As countries such as Poland, the Czech Republic and Hungary attract more private capital, the EBRD is shifting its focus further East to the former Soviet Union where its role as an a magnet for private capital investments is more sorely needed.

Finally, we are requesting authorization for the Asian Development Fund where we have recently concluded a remarkably successful replenishment agreement. I call it remarkable because, as you know, we face arrears in the ADF of $237 million, slightly larger than our arrears to IDA. Despite this situation, the ADF-7 agreement incorporates a 41% reduction in the annual U.S. commitment with only a small reduction in our share from 16% to 15%. In addition, we achieved all of the major goals we had laid out when negotiation began:

- There are no procurement restrictions or special funds in the ADF which mirror IDA's Interim Trust Fund. I credit this result in large part to Congressional reaction to the ITF and the strong case the Administration made to lift the Fund's procurement restrictions.

- Despite the wishes of many donors, China and India will continue not to have access to the Fund.

- Very importantly, the Fund has set a goal to become self-financing in half a generation (about 15 years) which would eventually eliminate the need for future funding from Congress.

- Finally, new high-growth Asian donors such as Korea, Malaysia and Thailand are taking a greater share of the burden. For the first time Asian donors will provide 1/2 of the total funding. These countries have benefited greatly from the Asian Bank and Fund's support and are now showing their commitment to helping their poorer neighbors lift themselves out of poverty.

Mr. Chairman, the agreements we are considering today are good ones - they significantly reduce the MDB's budgetary cost and they advance American interests. But, as I have said, we cannot lead in the multilateral system if we are unwilling to fund even our reduced commitments. I urge you to support the Administration's budget request and full authorization of these institutions as a statement of our commitment to international engagement and leadership.

Thank you. I look forward to your questions.

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Remarks as prepared for delivery
March 13, 1997

BUILDING COMMUNITIES TOGETHER

Remarks of Richard S. Carnell
Assistant Secretary of the Treasury
for Financial Institutions

National Community Reinvestment Coalition
1997 Annual Meeting and Conference
Washington, D.C.

March 13, 1997

I want to speak to you this morning about something the Clinton Administration is deeply committed to: expanding access to financial services for all Americans. In particular, I'd like to discuss the Administration's initiatives in three areas: community reinvestment, community development financial institutions, and the electronic delivery of federal benefits and other federal payments.

I. COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act of 1977 has a straightforward purpose: encouraging depository institutions to serve creditworthy borrowers throughout their communities.

CRA requires no public subsidy and no large Washington bureaucracy. Instead it brings banks and communities together to make local economic development happen. It's the kind of public-private partnership that can really make a difference in underserved communities.

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Because of CRA more lenders are making good loans in all types of communities -- sound, profitable loans to creditworthy low- and moderate-income persons.

But think back just two years -- to March 1995 -- and remember how CRA really was in grave jeopardy.

Let me set the stage. A new Congress, flush with victory and bold ideas, was getting ready to undermine CRA.

Safe harbors from community protests. Self-certification. Exemptions. All these proposals were being developed in earnest by people who would lose no sleep at all over eviscerating CRA. These rollback provisions would have seriously undermined CRA's effectiveness -- and threatened to reverse the growing cooperation between mainstream lenders and economically disadvantaged communities.

During the spring of 1995, I spent quite a few lonely hours at the witness table, testifying before Congressional committees on this precise subject. At times it was discouraging. But over the next year and a half we fought back.

We fought back although the prospects sometimes looked bleak. We fought back because it was the right thing to do for America's neighborhoods and communities. Organizations like yours stepped forward to explain quite eloquently just what CRA means to communities. And Secretary Rubin made this Administration's determination very clear, threatening to recommend a veto of any legislation undermining CRA.

In September 1996, when the Congress finally passed regulatory burden relief legislation, the Community Reinvestment Act remained intact.

Why did we fight this battle? It's actually very simple. We need look no farther than your own communities to find the reason.

Let's look at the some of the encouraging news, beginning with homeownership. According to the Department of Housing and Urban Development, nearly two-thirds of all American families now own their own homes. That's a 15-year high. Moreover, in recent years the rate of homeownership has increased more rapidly for minorities than for the nation as a whole.

A 1996 analysis of Home Mortgage Disclosure Act data by economists at the Federal Reserve Bank of Chicago found that "between 1990 and 1995 the annual number of mortgage originations to low- and moderate-income households, in low- and moderate-income census tracts, and to minorities nearly doubled". And generally "there was a significant increase in the number of loans to individuals targeted by fair lending and CRA regulations." A number of other researchers have reported similar results.

Another element of good news is the federal banking agencies' new CRA regulation, initiated at President Clinton's urging in 1993 and becoming fully applicable this coming July. We have limited experience with the regulation because it started to take effect only in 1996, and we don't yet have Home Mortgage Disclosure Act data for that year. Nevertheless, we have good reason to believe that the new approach will prove effective.

For example, the new regulation recognizes that one size does not fit all. To accommodate the variety of depository institutions, the new regulation provides several different performance evaluation methods.

And the regulation recognizes that a broad range of lending -- not just home mortgage lending -- is important for community investment. And so regulators will, as appropriate, take account of small business and small farm lending, community development lending, and consumer lending.

But CRA is just one part of the Administration's approach to encouraging community development through greater access to credit and capital. You might look at our efforts as representing a balanced top-down/bottom up approach.

CRA is the top-down aspect, encouraging traditional institutions to go deeper into their communities to make loans to qualified borrowers. Another important program -- CDFI -- represents the bottom-up aspect. Let's look at CDFI for a moment.

II. COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The Community Development Financial Institutions Fund, established in 1994, is an innovative approach to expanding access to capital and credit.

I worked on the legislation establishing CDFI and now serve on the Fund's Community Development Advisory Board -- as does the President of NCRC, John Taylor. He's a lively and positive force at Board meetings. And let me assure you: John serves you well.

The primary purpose of the CDFI Fund is to better enable non-traditional lenders to meet the financing needs of economically distressed, underserved communities.

A wide range of specialized lenders can tap into the CDFI fund. They include community development banks, community development credit unions, community development loan funds, micro-enterprise loan funds, venture development funds, and community development corporations.

The basic idea behind the Fund's programs is simple and sound: use small amounts of Federal money to leverage significant amounts of private and non-federal public resources. In helping these institutions, the Fund aims to support innovative approaches to locally based private-sector community lending.

Due to the outstanding efforts of the Fund's Director, Kirsten Moy, and her staff, we have another success story in the Administration's efforts to expand access to credit.

In 1996, under the first round of the CDFI program, the Fund awarded a total of $37 million to 32 CDFIs serving communities in 46 states. 50 percent serve predominantly urban areas, 25 percent predominantly rural areas, and the remainder a combination of both. Finally, 24 of the CDFIs serve empowerment zones or enterprise communities.

The Fund estimates that in the next two or three years the $37 million awarded will leverage three to four times that amount in total capital raised for these institutions. In the long term, the $37 million is expected to support lending and investment of 10 to 20 times that amount.

Under the first round of the Bank Enterprise Awards program, the Fund awarded a total of $13 million to 38 banks and thrifts located in 18 states. Of the 38 awards, two-thirds went to recipients who increased their assistance to CDFIs.

The Fund estimates that the BEA program leveraged nearly $66 million in private sector financial support for CDFIs, and it catalyzed another $60 million in direct lending by banks and thrifts in economically distressed neighborhoods.

Looking forward, the Fund just announced the availability of up to $16.25 million for the second funding round of the BEA program. Second round funding for the CDFI program should be announced in a matter of weeks.

All of this is real money, flowing into real communities. The CDFI Fund's strong showing warrants continued bipartisan support by the Congress. The President has also reiterated his strong support for the Fund, announcing in January his intention to increase funding by $1 billion over the next five years.

III. EFT '99 AND THE UNBANKED

I'd like to turn now to my final topic: Electronic funds transfer and addressing the problems of the unbanked -- part of an initiative we call EFT '99.

EFT is generally understood to include some very common things that you are all familiar with: direct deposit, automated teller machines (or ATMs), and credit card transactions. The goal of EFT is to take advantage of the reduced cost, improved convenience, and enhanced security that comes with electronic technology.

Legislation enacted by Congress last year requires that the Federal government make all of its recurring payments by electronic funds transfer, instead of paper checks, by January 1, 1999. This mandate covers not only vendor and expense reimbursements to businesses, but all wage, salary, retirement, and federal benefit payments to individuals.

The EFT '99 mandate raises a number of intriguing issues for government agencies and financial institutions. Possibly the most difficult of these issues deals with serving the needs of a large number of "unbanked" federal benefit recipients.

When we say unbanked, what do we mean? The term "unbanked" refers to people who don't maintain a checking, savings, or other transactions account at a depository institution. Some estimates suggest that about 10 million federal benefit recipients are unbanked. When you look at the U.S. population, as many as 20 percent of American households may be unbanked.

Most studies generally agree that the unbanked are largely drawn from lower income, younger, and minority segments of the population. Many of the unbanked cite a host of reasons why don't have a relationship with a "traditional" financial institution. They don't like the high minimum deposits or monthly balance requirements. They cannot afford the high account maintenance and transaction fees. Some have insufficient savings and a limited need for writing checks. Others have difficulties in managing an account. And lastly many just dislike or distrust banks.

Nevertheless, the unbanked still need and still purchase financial services. And they do so largely from what are known as "alternative" financial services providers. The latter include pawnshops, check cashing outlets, money transfer firms, bill paying services, and money order issuers. In many cases, the fees charged by these firms appear quite high, especially considering the economic circumstances of the individuals involved.

Treasury and the other federal agencies working to implement the EFT 99 requirement don't have unlimited time or flexibility to resolve all of the issues pertaining to unbanked federal benefit recipients. But, we have a very rare opportunity to do some good.

The new law requires federal benefit recipients to designate a financial institution or other "authorized payment agent" to receive their payments. If a recipient does not make such a designation, the Secretary of the Treasury has to effectively do so for them, ensuring that the recipient has access to their account at "reasonable cost" and with "the same consumer protections with respect to the account as other account holders at the same institution."

Against this general background, Treasury's Financial Management Service (FMS) is now conducting additional research on unbanked federal benefit recipients as well as on alternative electronic delivery options. That research should be completed in the near future. It should assist FMS in better profiling unbanked federal beneficiaries, and establishing standards for some key terms such as "payment agents," "reasonable costs," and "consumer protections."

Treasury's goal is to publish a notice of proposed rulemaking for implementing EFT '99 in a matter of months. This will provide individuals, federal agencies, and the financial services industry time to plan what will hopefully be a seamless transition. We've already spent a fair amount of time during the past few months talking to industry representatives about their technical capabilities and current plans for meeting the needs of the unbanked. Within the next few weeks we plan to meet with a wide range of consumer and community groups as well.

While EFT '99 can't address the question of meeting the needs of the unbanked in its entirety, we hope that the lessons learned from this program will have significant spillover value for everyone concerned. Moreover, we firmly believe that EFT '99 provides a significant opportunity for financial institutions to serve a large and known market of some 10 million individuals. We hope that banks and others will step forward aggressively to serve these communities.

IV. CONCLUSIONS

Let me close by making a few observations.

The Administration's program for expanding access to financial services is a balanced, practical, and workable approach. We're trying to address the problems of credit and capital deprivation, as well as the unbanked, through measures consistent with the private marketplace. We believe this is the key to self-sustaining activities.

CRA, in concert with fair lending, has proven itself remarkably effective. It fosters partnerships that bring hope and opportunity to cities and communities around the country. Looking ahead, we'll continue to insist that the new CRA regulation be given a fair chance to work. And this Administration will not tolerate -- let me repeat that -- will not tolerate attempts to weaken or eviscerate the Community Reinvestment Act. We made that pledge stick last time around. And, if necessary, we'll make it stick again.

Next, CDFI has been a rapid, unqualified success. It was enacted with strong bipartisan support and now, more than ever, it deserves to be funded as fully as possible.

And finally I believe EFT '99 will provide significant guidance in how to meet the needs of unbanked households and individuals. Here too, we can expect substantial private sector innovation and participation.

As we work though our agenda, we look forward to hearing your views and encourage your participation in the policy making process.

I appreciate the opportunity to speak to you this morning. Thank you for your work in communities across America.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Toward an IRS for the Twenty-First Century
Lawrence Summers
Deputy Secretary of the Treasury
Tax Executives Institute, Inc.
Washington, DC
March 17, 1997

Good morning. Thank you for that kind introduction. It is an honor to be here among tax professionals to discuss the vital question of improving the way in which the IRS collects our nation's taxes.

Nobody likes to pay taxes, but, as Oliver Wendell Holmes once said, they are the price we pay for civilized society. They have been at the center of our nation's greatest debates from Revolutionary times to today. They fund our armed forces, our children's education, and our parents' health care, and they finance advances in science and technology that benefit us all.

Collecting taxes has always posed a difficult challenge. Because of the nature of the work they do, tax collectors will never win popularity contests. Recently, announcements we have made about continuing problems in computer systems have focused attention on the Internal Revenue Service. Continuing improvements in the service provided by banks, brokers, credit card companies, and other users of information technology bring ever more sharply into focus the IRS's problems with customer service. At Treasury and the IRS we recognize that the IRS could do much better at providing the kind of cost-effective, high quality service that the American people deserve.

We have, I believe, reached an important turning point. Over the last year, the Treasury Department has focused intense efforts on improving the IRS. The National Commission on Restructuring the IRS, led by Senator Bob Kerrey and Congressman Rob Portman, has already made a significant contribution to the ongoing discussion. A consensus has emerged among a wide group of stakeholders, from business executives to Members of Congress to leaders of the National Treasury Employees Union. The message is clear: it is time for change.

I believe that in the next year or so we have the opportunity and the obligation to bring about the

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most far-reaching changes in the way the IRS is managed and in the way it does its business in decades. The IRS needs to be more responsive to taxpayers, to use technology more effectively, and to be more efficient. However you feel about structural tax reform, I suspect that most of you share my conviction that for the foreseeable future, the United States will have an income tax that taxes people based on their ability to pay. Given this, it is not possible to eliminate the IRS, and it is vital that we have an IRS that functions effectively. We must all work constructively toward this end. What we must not do is attack the IRS in order to promote other agendas.

It will be the task of management at the IRS to manage information technology better and to harness it toward the goal of better customer service. What I would like to provide today is the Treasury Department's view of how to establish a framework within which the IRS can best get its mission accomplished. I use the phrase "get its mission accomplished" deliberately to underscore the fact that the IRS of the future will have to contract out, outsource, partner with the private sector, and rely on outside vendors to a much greater extent than the IRS of the present.

Last year in testimony before Congress, Secretary Rubin and I recognized that the modernization program was, as we put it at the time, off track. We called for a sharp turn and made clear our determination to bring about change in the way the IRS uses information technology and provides customer service. And there has been change.

- We have appointed a new Chief Information Officer at the IRS, Art Gross. Following his review of technology projects, we canceled or collapsed 26 programs into nine.
- The IRS has increased outsourcing. The percentage of contractors, as opposed to IRS staff, working on tax systems modernization has increased from 40 to 64 percent over the past two years. The number of IRS staff working on tax systems modernization has decreased from 524 to 156. And we expect to pursue a prime contractor for systems modernization and integration and to develop an outsourcing strategy for submissions processing.
- The IRS has made progress in eliminating paper. This year, we estimate that 19.2 million Americans will file electronically by telephone or computer, up from 11.8 million taxpayers in 1995.
- While there is a long way to go, the IRS has made progress in being able to respond to all incoming calls.
- The IRS has improved customer service by beginning to change the internal culture of the IRS. Last summer, President Clinton signed bi-partisan legislation enacting the Second Taxpayer Bill of Rights, which vastly increased our number of taxpayer advocates. After interviewing our head Taxpayer Advocate on NBC's Today Show, Katie Couric proclaimed that Americans have a friend at the IRS.

Steps such as these are obviously only the beginning. Everyone involved in this process at Treasury, the IRS, Congress, and the union has recognized that the problems at the IRS have developed over decades and will not be solved overnight or even over a couple of filing seasons.

Only if we confront problems directly -- from protecting taxpayers' privacy to using technology to making sure the phones are answered -- will we build an IRS for the 21st century.

The Five Point Plan

As we chart our new course, we will focus on five critical areas -- oversight, flexibility, budgeting, tax simplification, and leadership.

Let me address each of these in turn.

I. Institutionalize Oversight

First, we at the Treasury Department have strengthened and made proactive our oversight of the IRS, and we take responsibility for reforming the institution. We will devote the necessary resources, both managerial and financial, to do the job.

Oversight of the IRS by the Treasury department is the best way to ensure the IRS's accountability to the American people and to coordinate tax collection with tax policy. Through the Treasury, the IRS is able to bring concerns about the difficulty of administering tax changes to senior Administration officials; I raise these concerns frequently in tax policy discussions with policymakers in the White House and throughout the Administration. In addition, the IRS is able to draw upon Treasury resources for critical projects, as demonstrated by our current cooperation on the Year 2000 conversion.

Going forward, we will take two concrete steps to institutionalize oversight of the IRS. Over the last year, we have set up a Modernization Management Board comprised of senior officials from Treasury, the IRS, and other parts of the Administration. The Modernization Management Board is directed at overseeing the information technology programs and functions in many ways like a corporate board, approving major strategic decisions and investments. Based on its success, we will ask the President to issue an Executive Directive that will make this board permanent and extend its mandate to cover the broad range of strategic issues facing the IRS.

We will also establish a blue ribbon Advisory Committee, reporting directly to the Secretary of the Treasury, to bring private sector expertise to bear on the management of the IRS. This committee, composed of senior business executives, experts in information technology, small business advocates, tax professionals, and others, will meet regularly to make recommendations on major strategic decisions facing the IRS.

II. Increase Flexibility

Second, we will enhance and strengthen the IRS's ability to manage its operations. The IRS faces a multitude of restrictions -- restrictions that would be unacceptable in the private sector -- that hamper its ability to provide efficient service. For example:

- The Commissioner should not have to wait four months to hire the management team he or she needs.

- The IRS should be able to attract and retain the highest quality information technology specialists and other professionals.
- The IRS should not face rules that make restructuring the workforce needlessly difficult for employees and the employer.

To strengthen the Commissioner's ability to effect change, we at Treasury will work with Congress, the Commission, and the union to improve flexibility: to bring on people with specific skills more quickly... to pay them more competitively... and to give them the training they need. Many of these changes will require legislation, and we expect to propose this legislation to Congress later this year.

In return, if legislation is passed, employees of the IRS, as in any well-managed business, will be held accountable for results.

Let me add that in taking these steps, we are committed to maintaining the independence and freedom of the IRS from political influence.

And a crucial part of any strategy for improving flexibility has to be outsourcing. Just as private industry has found that outsourcing enables an organization to focus on what it does best and to rely on others for what they do better, so government can benefit from outsourcing as well. Inevitably, resources hired from private companies will be more flexible than those that become part of the IRS's overhead. Where it is cost effective, but only where it is cost effective, we will pursue outsourcing strategies vigorously.

III. Reform Budgeting Procedures

Third, we will work with Congress to help the IRS get the stable and predictable funding it needs to operate more effectively.

Multi-year budgeting for capital projects is already in use in other federal agencies. For example, the Department of Defense uses multi-year funding for many procurement projects, and the Department of Housing and Urban Development uses this funding method for housing construction.

Today, the IRS operates in a low-trust, short-tether budgeting environment. This makes rational planning for capital projects such as information technology very difficult. As we re-establish trust and demonstrate that the IRS is investing resources wisely and prudently, we are examining longer term approaches to budgeting. This year we have proposed funding for the next two years for systems modernization, funding which can be used when needed. As evidence that we recognize our responsibility to Congress and the American people, we have committed not to spend these funds until and unless we demonstrate the clear benefits of our funding proposals.

Over time, the Administration and Congress will have to give careful consideration to the appropriate size of the IRS budget. The budget has declined by more than nine percent in real terms over the last two years. On the one hand, efficiency improvements are surely possible through information technology, which should enable us to reduce the budget. On the other hand, more customer service requires more people serving customers, and experience demonstrates that investments in improving compliance have pay-offs in extra revenues that far exceed their costs.

IV. Simplify Taxes
Fourth, we will work to simplify the tax code.

There is no doubt that we can do a better job of administering the tax laws than we have. But our job, and yours, would be far easier if we, working with Congress, were able to streamline our 9,451-page tax code.

Our Administration has already taken several steps toward simplification. This audience knows first hand how our "check-the-box" regulations have simplified tax planning and compliance, particularly for small business. The President's current proposal to exclude up to $500,000 of capital gains from the sale of a home will dramatically simplify record keeping for more than 60 million families. The President's budget also states our intention to introduce new tax simplification legislation in this year's budget cycle.

There are some who, based on the complexity of the tax code and on problems at the IRS, argue for extreme measures such as a flat tax. I believe that such proposals would not only unfairly increase the tax burden on the middle class and hamper economic growth, they would not simplify the administration of the tax code.

V. Leadership
Ultimately, every business executive knows that leadership is crucial to performance. Leadership is particularly important when there is a need to change the culture of the organization.

Over the last four years, Commissioner Richardson has guided the IRS through difficult times and has made progress in many areas. Now, as we move forward, we are committed to appointing a new Commissioner who has experience with the challenges of organizational change, customer service improvement, and information technology management that the IRS faces. While technical excellence in tax matters must be maintained, the greatest challenges facing the IRS in the coming years are managerial.

We will charge the new Commissioner with developing a detailed strategic plan for change. And we will work to give the new Commissioner the flexibilities and tools he or she needs to effect change and to recruit a first-rate management team.

Conclusion

These steps -- institutionalizing oversight, increasing flexibility, obtaining predictable funding, simplifying taxes, and introducing new leadership -- provide a framework for the kind of tax administration system that American taxpayers deserve. Of course, there are other critical issues that we must address. But I believe that progress on these five fronts will give the IRS a solid foundation on which we can build.

In the coming months, the nation will engage in a discussion of how to reform and renew the IRS. It is essential that we proceed constructively. The problems may lie in many places, but the 103,617 dedicated people of the IRS perform a difficult and unpopular job for our country. It does not serve our country well to attack their professionalism or integrity.

As we evaluate and improve the way we administer our taxes, you, as tax professionals, have an important role to play. We at Treasury and the IRS want and need your suggestions and help. I look forward to working closely with Congress, the Commission, and members of the public such as yourselves to set the Internal Revenue Service on a new course for change as we enter the 21st Century.

DEPARTMENT OF THE TREASURY

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Text as Prepared for Delivery
March 17, 1997

IDB Annual Meeting
Remarks by
David A. Lipton
Assistant Secretary of the Treasury
March 17, 1997
Barcelona, Spain

I am delighted to be here in this historic city and to have the chance to address the Annual Meeting of the Inter-American Development Bank. The Bank is helping countries in the region through a period of enormous change and opportunity. We are fortunate to have at its helm Enrique Iglesias, not only an excellent President, but also a true statesman for our hemisphere.

I. The return of capital flows

The year 1996 brought economic recovery and progress on reform for most of the region. Most countries achieved stable or lower inflation and broadly sound fiscal management, and several made notable advances on privatization. A barometer of that progress is the success the region had in attracting private capital inflows, which exceeded four percent of GDP in the three largest countries.

In some respects, last year also marked the passing of the 1980's debt crisis.

- Peru's commercial bank debt deal brought the Brady Plan to a close.

- Just as the final Brady debt instruments were created, Mexico began to liquidate its Brady bonds, with proceeds from pure sovereign debt issued at long maturities and improved rates. Mexico returned to the markets to issue over $20 billion, only one year after its financial crisis.

- And for the poorest countries, the international community recognized the need to help put their debt on a sustainable basis by engaging all creditors, including for the first time, international financial institutions, in debt reduction to support bold reform.

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Mexico's dramatic economic and financial success in 1996 deserves special mention. The deep recession of 1995 yielded to five percent growth last year. And, in recognition of Mexico's success Secretary Guillermo Ortiz will be named Latin Finance Man of the Year. That recognition is richly deserved.

II. Will capital flows bring higher growth or just higher debt?

Anyone who watched the experience of the 1970's and 1980's might ask: Should we view the record capital flows to the region as an opportunity or an omen? Do those flows reflect a hard assessment of economic returns and growth prospects? In the year 2000, will we look back on these times to see that foreign capital fueled stronger growth, or will we find that the region has repeated the cycle of indebtedness and financial difficulties?

Let me make some observations on those questions. The surge in capital flows reflects, in part, a growing appetite for emerging market investments by industrial country investors. In some countries, this portfolio shift has been fed by institutional changes that make it easier for investors to go abroad in search of returns. The flows also reflect a global environment that was remarkably benign, with low interest rates and generally strong equity markets. We do not need to look far back in history to know that those capital inflows should not be taken for granted.

Keeping that warning in mind, we should recognize that the capital markets are also offering a strong vote of confidence in the region. Capital is rewarding economic reform, greater openness, and the deepening of democracy. Moreover, the markets are learning to judge each country on its own record, rather than as part of an emerging market basket. This means that just as markets have been impressed by recent progress, further progress will receive richer rewards. It also means that slippage will receive swift punishment. So whether the flood of capital into the region is an opportunity or an omen will depend above all on the recipient countries themselves. If capital is put to good uses, in an environment of reform and integration, great opportunity will be realized.

Growth has been too low

In the 1990's, the region's governments have made decisive progress, launching a generation of reform focused on stronger fiscal and monetary policies, privatization, and liberalization. Many examples come to mind.

- Last year Brazil brought inflation down to just over ten percent, compared to sixty percent the year before and twenty-four hundred percent in 1994; its recent progress and near-term plans on privatization have also been impressive.

- Peru, Bolivia, Chile, and Argentina added another year to their track record of sound macroeconomic management.

- Even the poorest country in the hemisphere, Haiti, has stabilized its economy and adopted an ambitious agenda to modernize and transfer to private ownership its existing state-owned enterprises.

Of course, the region has not yet completed the first generation of reforms. In many countries, inflation remains in the double digits. Some countries rely too heavily on tight monetary policy to make up for a lax fiscal stance. In those cases, fiscal deficits absorb too large a share of resources, depriving economies of investment and growth.

The second generation of reforms

But even now attention is turning to a second generation of reform needed for the region to achieve its full potential. That is because growth in the region has remained too low, and its benefits inadequately shared. Last year the region grew by about three percent -- much less than the eight percent achieved by Asian developing countries and importantly, less than the 3.4 percent the World Bank estimates is necessary to begin reducing poverty. Higher growth is needed not only for its own sake, but also to sustain the consensus for economic reform that brought Latin America the progress it has achieved so far. The second generation of reform has started, and the outlines of a new orthodoxy are emerging. But much remains to be done.

The reforms agenda includes:

- First, to reform pension, tax, and financial sectors in order to stimulate savings and ensure that financial systems effectively turn savings into productive investments. Chile has been a leader on pension reform, not only in the region, but globally. After fifteen years, Chile's experience demonstrates the tremendous potential of pension reform to boost national savings and deepen domestic capital markets. Others in the region have recently embarked on their own important pension reforms, including Bolivia, Mexico, and Argentina.

- Second, to build legal and regulatory systems that are fair and efficient. For example, it is striking how little mortgage lending there is in most countries of the Americas. The lack of effective titling of property has constrained the evolution of a mortgage market, and thereby frustrated the aspirations of millions of our hemisphere's citizens to own their own home. Peru's innovative start with land titling serves the important objective of enfranchising people and bringing them into the formal economy.

- Third, to pursue good governance and greater transparency, in both private and public sectors, and thus to ensure that government is responsive to the public it serves. Improvements in the division of responsibility among levels of government will strengthen the provision of public services. Bolivia has been a leader in this area with its "Popular Participation" program that transfers responsibility for local investment to the communities that are served by that investment.

III. Role of the IDB

As the hemisphere turns to this second generation of reform and as the role of private capital grows, the role of the Bank is also changing. Just five years ago, flows of official capital to developing countries exceeded private flows. Today, private flows are five times as large as official flows. In view of that evolution in private capital flows, what should be the role of the IDB? Let me suggest four broad objectives.

First, Support the Private Sector. Private capital and private initiative will ultimately power economic growth and reduce poverty, for only the private sector has the capacity to generate the enormous financial and managerial resources that are needed -- estimated at more than $60 billion a year for infrastructure investments alone. The Bank has an important role to play in supporting the private sector. It should catalyze flows of private capital in those countries and sectors where it can make a difference, including through the use of guarantees and insurance. But it should step aside wherever the private sector can go it alone. It should support the second generation of reforms, helping to ensure an environment that is attractive to private capital, through strong conditionality on Bank programs, coordinated with the country assistance strategies prepared with the World Bank.

Second, the Bank needs to focus its lending on those countries that need it most. While capital inflows into the region have reached new highs, they remain highly concentrated. Just a few borrowers are able to raise resources on the international markets. Last year Latin America issued about $55 billion in sovereign debt, but 89% of that went to just three countries, Mexico, Argentina, and Brazil. The Bank should respond by targeting those countries that still lack access to private capital, not because they lack the will or the ability to reform, but perhaps because they lack the track records that markets demand.

We appreciate that more than half of the Bank's loans go to the smaller countries, the C and D countries. We urge the Bank to work toward the goal adopted at the last replenishment of lending 35 percent of its resources to the C and D countries. Indeed, this may also be a propitious time to begin thinking about graduation of the wealthier and more creditworthy countries from the IDB's borrowing program.

Third, the Bank should focus on areas beyond the reach of the private sector. As the private sector takes over much of the financing needed to create physical infrastructure, the Bank should turn to addressing social and human capital development, so critical for building true prosperity. The region's pressing needs in health and education will not be met by private markets alone. I was heartened by President Iglesias's call today for the countries in the hemisphere to narrow huge education gap, and to ensure all our young people have access to a high school education.

Finally, the Bank should do more to support the region's common efforts to deepen integration. What does it mean to deepen integration? We must reduce all kinds of barriers that stifle and separate our economies and that prevent us from realizing together the benefits of expanded markets. That means more than removing the barriers to trade of goods and services. It also means improving and integrating the rules under which the private sectors of our countries operate and the practices of the institutions that enforce those rules.

For example, it means elevating and harmonizing the accounting standards that governments employ in their dissemination of information on public financial institutions, as many of us have done through adoption of the IMF's data disclosure standards. And it means encouraging our private sectors to adopt in common internationally accepted standards in their own financial accounts. The goal should be that a bank examiner in Buenos Aires should be comfortable reading the financial statement of a bank in Bogota.

When we integrate by opening markets and adopting common standards, we attract capital both from within our countries and from outside. And by stimulating competition, we use that capital more efficiently, raising productivity and generating growth.

Integration will reinforce reforms, and it will create momentum that will pull the region's poorer countries along as well. We should see to it that our integration will benefit not only the countries in the region, but countries around the world which do business in and with the region. Recognizing the benefits that integration can bring, both within and outside the region, the Bank needs to engage non-regional members and the MIF Donors in supporting our integration agenda.

Deeper regional integration is only part of the greater process of global integration. While we work to pursue regional initiatives, we must not lose sight of that larger agenda. Just as our regional free trade agreements should support our common vision of a hemispheric free trade area, so should regional integration be aimed at deepening global integration, in particular through the WTO. Simply moving barriers from the borders of our countries to the borders of our hemisphere would defeat our broader purpose.

IV. FTAA, fast track, and financial integration

To advance regional integration, the region's leaders agreed in Miami in 1994 to work jointly towards a free trade agreement for the hemisphere. The Clinton Administration is deeply committed to that goal. We are now working with our Congress to introduce the "fast track" legislation needed to launch trade negotiations in a timely manner. Hemispheric free trade will be at the top of President Clinton's agenda when he visits Latin America and the Caribbean in May. Our own enthusiasm for free trade has been reinforced by our experience with NAFTA, which allowed trade between our three members to grow over 40% since it went into effect, despite the deep recession in Mexico.

At the Miami Summit, our leaders charged their finance ministers with developing an agenda for financial market development and integration. Last May, the ministers met in New Orleans to elaborate those goals and put forward an agenda to create strong, open financial markets. Since then we have worked actively to achieve consensus on higher standards for operation of financial markets and improvements to supervisory institutions needed for those standards to be effective.

The IDB has done much to support the integration process, with the personal commitment of President Iglesias and the hard work of Bank staff. We call on the IDB to continue and to deepen its engagement on regional integration.

V. Facing the Challenges

Our vision of the IDB is of an institution that seeks to engage the private sector; reaches areas the private sector cannot; focuses lending on countries that need it most; and works with us to advance hemispheric integration.

Over the coming months, the IDB and its members will grapple with several difficult issues. Those issues include:

- the split between lending to higher-income versus lower-income members,
- the need for additional resources for concessional lending, and
- the Bank's involvement in the HIPC.

Our position on those issues will be informed by the vision of the IDB that I just outlined. As the evolution of the global capital markets changes the landscape of Latin finance, our challenge is to ensure that the IDB is, in the words of Secretary Rubin, "as modern as the markets it serves."

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 17, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,569 million of 13-week bills to be issued March 20, 1997 and to mature June 19, 1997 were accepted today (CUSIP: 9127944N1).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.09%	5.23%	98.713
High	5.13%	5.27%	98.703
Average	5.13%	5.27%	98.703

Tenders at the high discount rate were allotted 43%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$46,755,443	$11,568,612
Type		
Competitive	$41,612,896	$6,426,065
Noncompetitive	1,430,179	1,430,179
Subtotal, Public	$43,043,075	$7,856,244
Federal Reserve	3,213,243	3,213,243
Foreign Official Institutions	499,125	499,125
TOTALS	$46,755,443	$11,568,612

An additional $146,475 thousand of bills will be issued to foreign official institutions for new cash.

5.11 - 98.708   5.12 - 98.706

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 17, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,571 million of 26-week bills to be issued March 20, 1997 and to mature September 18, 1997 were accepted today (CUSIP: 9127942U7).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.24%	5.46%	97.351
High	5.26%	5.48%	97.341
Average	5.26%	5.48%	97.341

Tenders at the high discount rate were allotted 44%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$41,967,486	$11,571,266
Type		
Competitive	$36,374,023	$5,977,803
Noncompetitive	1,164,388	1,164,388
Subtotal, Public	$37,538,411	$7,142,191
Federal Reserve	3,260,000	3,260,000
Foreign Official Institutions	1,169,075	1,169,075
TOTALS	$41,967,486	$11,571,266

An additional $343,125 thousand of bills will be issued to foreign official institutions for new cash.

5.25 -- 97.346

RR-1559

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 18, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,000 million, to be issued March 27, 1997. This offering will result in a paydown for the Treasury of about $1,575 million, as the maturing weekly bills are outstanding in the amount of $24,572 million.

Federal Reserve Banks hold $6,304 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 $4,001 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, as amended) 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-1560

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MARCH 27, 1997

March 18, 1997

Offering Amount	$11,500 million	$11,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 2R 4	912794 5N 0
Auction date	March 24, 1997	March 24, 1997
Issue date	March 27, 1997	March 27, 1997
Maturity date	June 26, 1997	September 25, 1997
Original issue date	June 27, 1996	March 27, 1997
Currently outstanding	$32,684 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

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

FOR IMMEDIATE RELEASE
March 18, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY ANNOUNCES BILL AUCTION CHANGE

Beginning with the 52-week bill auction tentatively scheduled for March 26, 1997, awards made to Federal Reserve Banks for their own accounts in Treasury bill auctions will be treated as additions to the announced offering amount. Currently, awards to these accounts are within the announced offering amount.

The announcement of the 52-week bill auction, scheduled for March 21, will be the first announcement to reflect this change. We are making this change in order to provide more complete information to market participants. Awards to these accounts will continue to be at the weighted average discount rate of accepted competitive tenders.

The treatment of awards to Federal Reserve Banks for foreign and international monetary authorities in Treasury bill auctions will not change. Maturing bills held by these accounts may be refunded within the announced offering amount at the weighted average discount rate of accepted competitive tenders. Purchases by these accounts that exceed the maturing amounts will continue to be additions to the announced offering amount.

The Uniform Offering Circular (31 CFR Part 356) will be amended to reflect this change in the treatment of awards to Federal Reserve Banks for their own accounts in Treasury bill auctions.

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RR-1561

Embargoed Until 10:30 A.M. EST
March 19, 1997

Justice Department-(202)616-2777
Treasury Department-(202)622-2960

JOINT STATEMENT OF
JAMES E. JOHNSON, ASSISTANT SECRETARY (ENFORCEMENT)
DEPARTMENT OF THE TREASURY
AND
ISABELLE KATZ PINZLER, ACTING ASSISTANT ATTORNEY GENERAL
CIVIL RIGHTS DIVISION, DEPARTMENT OF JUSTICE
CO-CHAIRS, NATIONAL CHURCH ARSON TASK FORCE
BEFORE THE HOUSE JUDICIARY COMMITTEE
MARCH 19, 1997

Mr. Chairman, Representative Conyers, and members of the Committee, thank you for the opportunity to appear today to update the Committee on the efforts of the federal government to investigate and prosecute individuals responsible for the deplorable act of setting fire to houses of worship.

At the outset, we want to commend this Committee and Congress for its leadership in speaking out against church fires and helping to bring these incidents to the forefront of national attention. This Committee held hearings on the church fires in May of last year. Those hearings, along with similar hearings the next month in the Senate, highlighted the determination within the Administration and in Congress to do everything possible to investigate these incidents and bring the perpetrators to justice, prevent further fires, and assist the victimized congregations to rebuild. We also want to recognize the leadership of the chairman and ranking member in enacting the Church Arson Prevention Act of 1996, which has provided us with additional tools in combating these crimes.

As a result of these combined efforts, we have made remarkable progress.

- The rate of arrest (34%) in the church arson cases is double the general arrest rate for arsons (16%). Federal and state authorities have arrested 175 suspects since January 1, 1995, in connection with 126 fires at churches and other houses of worship. Three quarters of all defendants arrested in the last two years were arrested since June 1996, when the President established the National Church Arson Task Force (NCATF or "Task Force") to oversee the investigation and prosecutions of incidents of church arson.
- Since January 1, 1995, 68 defendants have been convicted in federal and state prosecutions in connection with fires at 55 houses of worship.
- Overall, the NCATF has opened investigations of 369 arsons, bombings or attempted bombings that have occurred at houses of worship between January 1, 1995, and March 12, 1997.

Our testimony today will provide the Committee with the current status of the coordinated church fires investigations and prosecutions. Rachel Rowland of the Federal Emergency

Management Agency (FEMA) will describe the federal government's efforts in the area of arson prevention, Pat Glenn of the Community Relations Service (CRS) will discuss the services that CRS has provided local communities, and Jacquie Lawing of the Department of Housing and Urban Development (HUD) will discuss the joint efforts of HUD, the National Council of Churches, the Congress of National Black Churches and others in helping those congregations already victimized by fire.

Last summer, in June 1996, the President established the National Church Arson Task Force, which we co-chair, to formalize the coordination of investigations already underway. The NCATF has brought together the Bureau of Alcohol, Tobacco and Firearms (ATF), the FBI, Justice Department prosecutors, victim/witness coordinators, the Community Relations Service and the U.S. Marshals Service, in partnership with state and local officers and prosecutors. Well over 200 ATF and FBI investigators have been deployed and are working with over 75 federal prosecutors and state and local authorities. This is the largest current civil rights investigative effort and one of the largest series of arson investigations in history.

Each of the component agencies of the Task Force brings particular resources and talents to the Task Force efforts.

The expertise of ATF in conducting arson investigations, particularly in making cause and origin determinations, and the expertise of the FBI in conducting civil rights investigations has proven highly beneficial to the success of the NCATF. The Civil Rights Division has extensive experience in hate crimes prosecutions and in enforcing the criminal civil rights statutes that are used in prosecuting racially motivated church arsons. CRS and victim/witness coordinators work closely with victim congregations. We have met at least once a week since June of last year with the Task Force representatives, and we report to the President through the Attorney General and the Secretary of the Treasury.

Coordination of Federal Effort

In an investigative effort of this size and scope, coordination among federal agencies and between state and federal law enforcement is essential. To that end, the Attorney General directed United States Attorneys either to establish a local task force focusing on church arsons or to join an existing local task force. These local task forces include state and local law enforcement and fire protection officials, as well as representatives of the ATF, FBI, the Community Relations Service and victim/witness coordinators.

In addition to the local task forces, the NCATF has an operations team in Washington staffed by special agents of the ATF and the FBI and prosecutors on detail from the United States Attorney's Offices around the nation and from the Criminal Section of the Civil Rights Division. The director of this operations team is a senior experienced career prosecutor. This team works with the local task forces to investigate incidents, analyze potential connections among incidents, and prosecute cases. Due to the high priority of these matters, many federal cases are prosecuted jointly by an NCATF prosecutor and an Assistant United States Attorney.

The Task Force has taken the following steps in carrying out its responsibilities:

- **Investigative Protocol.** The NCATF has established a protocol for its investigations and prosecutions. This protocol sets forth procedures for immediately exchanging information among task force agencies, developing an investigative plan for each incident, and ensuring that investigators pursue all lines of inquiry, including whether the crime was motivated by race or religion, and whether any given incident is connected to any other.

- **Unified Database.** The NCATF has created a database of statistical information about ongoing investigations. The ATF and FBI databases and computer systems are also used in Task Force operations to track and analyze evidence about attacks on houses of worship and to generate investigative leads.

- **Training.** Last year, the NCATF conducted training among its constituent agencies. ATF experts trained FBI agents and Department of Justice prosecutors in arson investigations. Civil Rights Division prosecutors and FBI experts trained ATF agents in civil rights investigations and prosecutions.

- **Tip Line.** The NCATF established a toll-free tip line for citizens to report information on church arsons. That toll free number is 1-888-ATF-FIRE. As of March 17, 1997, NCATF had received over 2000 calls through that service. The ATF and FBI also are offering rewards for information in a number of arson cases.

- **Threat Assessment Guide.** The NCATF updated and distributed a Church Threat Assessment Guide containing valuable information on the steps that may be taken to prevent fires at houses of worship and the steps to follow after an incident has occurred. Working with FEMA, the Task Force has distributed over 300,000 of these booklets.

Outreach

Without the confidence and cooperation of the victim congregations, many of these investigations would have been destined to fail. The NCATF took steps early on to ensure a solid, working relationship between law enforcement and the affected communities.

Less than a week after being formalized, the NCATF met with FBI and ATF Special Agents in Charge and United States Attorneys from the Southeast region to emphasize the critical importance of pursuing the investigations with vigilance, determination and dispatch, as well as with sensitivity to the needs of the victims.

President Clinton, Vice President Gore, Secretary of the Treasury Robert Rubin and Attorney General Janet Reno have worked to bring church arsons to national attention, speaking out forcefully of the commitment of the federal government to solve these cases, and meeting with ministers from the churches burned. Secretary Rubin and Attorney General Reno instructed us to remain in close contact with the affected communities.

As part of that effort, last week we traveled to Western Tennessee to meet with investigators and prosecutors, as well as with pastors, congregations and community leaders. This trip again gave us a chance to view personally the devastation that these fires have wrought. It also gave us the chance to witness the renewed spirit of communities that have come together to rebuild their houses of worship.

We went to the Salem Baptist Church in a small town called Fruitland, an African American church that had been burned in November 1995, and met with congregants, pastors and community leaders from around that area. We went to the Church of God of the Prophesy, a church with a predominantly white congregation in Dyersberg, Tennessee, that was burned in July of 1996. We also met with the United States Attorney, ATF agents, FBI agents, and local law enforcement personnel, who briefed us on the current investigations in the district. The

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Western District of Tennessee has seen significant success in investigating church arsons, and we have obtained several convictions. There remain, however, other difficult cases that have not as yet been solved. Most sadly, there was another fire in Middleton, Tennessee, just last month.

These visits highlight the importance of community outreach. Working with CRS, the NCATF developed and distributed to every ATF and FBI supervisor and United States Attorney a "Best Practices" guide for conducting community outreach activities.

Statutory Authority and Resources

The support of Congress has been essential in responding to these crimes. When the Task Force was formed, the federal government had authority under several statutes to investigate and prosecute suspicious fires at houses of worship. These authorities include the Anti-Arson Act of 1982, which makes it a federal crime to use fire to destroy property used or affecting interstate commerce (18 U.S.C. 844(I)), and criminal civil rights statutes that make it a federal crime to desecrate religious real property or a house of worship or to conspire to deprive persons of their civil rights (18 U.S.C. 241 and 247).

On July 3, 1996, the President signed the Church Arson Prevention Act of 1996, which was sponsored by Chairman Hyde, Congressman Conyers, and Senators Faircloth and Kennedy. This statute, passed unanimously by both Houses of Congress, amended 18 U.S.C. 247, to strengthen the criminal law against church burning and desecration. The new law removed a cumbersome interstate commerce requirement, eliminated a $10,000 damage requirement, and increased the maximum sentence to 20 years imprisonment for arson.

There have been two successful prosecutions under the amended Section 247 so far: one for the July 22, 1996, fire at the Church of God of the Prophesy in Dyersberg, Tennessee, and one for the September 19, 1996, fire at the Church of Christ in Henderson, Nevada.

The 1996 Church Arson Prevention Act also authorized a HUD loan guarantee program that can be used for church rebuilding, and authorized additional personnel at the Treasury Department and the Justice Department, including the Community Relations Service, to respond to the fires.

Congress has also provided essential resources for our efforts. In August 1996, in a supplemental appropriation for fiscal year 1996, Congress provided $12 million dollars to support ATF's role in the Task Force. Congress appropriated an additional $12 million dollars in ATF's fiscal year 1997 direct funding to support arson investigations, particularly those directed toward religious institutions. Additional funds for Task Force activities by the Justice Department, the FBI and CRS were also appropriated or reprogrammed.

The Justice Department has also been able to provide immediate and direct assistance to local jurisdictions through the Department's Bureau of Justice Assistance (BJA). Pursuant to the President's directive and congressional approval, BJA awarded grants to counties in 13 states to intensify their enforcement and surveillance efforts around vulnerable houses of worship. The states were: Alabama, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Oklahoma, North Carolina, South Carolina, Tennessee, Texas and Virginia. Five hundred and eighty six counties received over $2.7 million in awards. More than half of these funds were used to pay the overtime costs of increased police and sheriff patrols, or to hire additional part-time law enforcement officers. Additional funds were used to pay for security measures, such as lighting and security systems, and educational efforts aimed at arson prevention.

In addition to the government effort to address church arsons, perhaps even more impressive has been the tremendous outpouring of assistance and support from the American people in response to these fires. These attacks are rightly seen as a threat to our common sense of sanctuary and have generated a shared sense of outrage. People have crossed lines of faith, race and region to engage in a united effort to rebuild and protect our houses of worship. Religious groups, volunteer organizations, unions, insurance companies, financial institutions, and civil rights organizations have all pitched in to tackle this problem. We would like to recognize one person in particular, whose efforts have inspired all of us to work that much harder in responding to this call. Reverend Mac Charles Jones was a principal leader for the Burned Churches Fund at the National Council of Churches. Mac died just last week, and the world is diminished by his loss. We mourn the loss of a forceful leader, a constructive critic, and a friend.

Results to date

The men and women of the ATF, FBI, the Treasury and Justice Departments, together with their partners in local law enforcement have had striking success. The Task Force has opened investigations of 369 arsons, bombings or attempted bombings that have occurred at houses of worship between January 1, 1995, and March 12, 1997. This number does not include vandalism or other desecration at houses of worship, which continue to be investigated and prosecuted by the FBI, the Civil Rights Division and United States Attorneys. Nor does it include fires that the investigators have determined are accidental. Of these 369 arson investigations, at least 155 have been fires at African American churches. Three quarters of the fires at African American churches have occurred in the southern United States.

As a result of the exceptional partnership among federal, state and local law enforcement, many of the incidents investigated have been solved, mainly by a combination of federal and state arrests and prosecutions. Since January 1995, arrests of 175 suspects have been made in connection with 126 fires at churches and other houses of worship. This rate of arrest (34%) is significantly higher than the general arrest rate for arsons, which is approximately 16%, according to Department of Justice statistics. Since the formation of the Task Force, the number of arrests has increased significantly. One hundred and thirty persons, representing three quarters of all defendants arrested since January 1995, were arrested following the June 1996 formation of the Task Force.

The 175 arrests have led to a number of convictions. Since January 1, 1995, 68 defendants have been convicted in federal and state prosecutions in connection with fires at 55 houses of worship All but two of the remaining cases are still pending trial.[1] These prosecutions include the first convictions under the 1996 Church Arson Prevention Act, 18 U.S.C. 247, as amended.

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[1] There have been two acquittals. On November 21, 1996, a defendant was acquitted by reason of insanity for the June 10, 1996, arson at Our Most Sorrowful Savior Catholic Church in Soap Lake, Washington, and the June 14, 1996, arson at the Community Evangelical Church in Soap Lake, Washington. He was indefinitely committed to the Eastern State Hospital. In October 1996, a 13-year old defendant was acquitted of state arson charges stemming from a fire that caused $500 in damage to the Slaughterneck United Methodist Church in Milford, Delaware. The fire appeared to have been caused when a pile of leaves was set on fire behind the church. All of the other prosecutions have resulted in convictions or are still pending.

Federal charges are pending in a number of cases, and grand jury investigations are ongoing in many others. State prosecutions also have been initiated in consultation with federal prosecutors or investigators. The NCATF actively monitors these prosecutions to ensure that any federal interest is vindicated and to ensure that accurate information is compiled regarding law enforcement's response to attacks on houses of worship.

There are still many cases that have yet to be solved, however, and new fires continue to occur. Arson cases are among the most difficult criminal cases to solve. Forensic evidence is often destroyed with the fire. Moreover, because some of the churches burned are located in isolated, rural areas, there are often no eye witnesses to the incident. For these reasons, it can often take years to solve arson cases.

The Task Force remains committed to expending the necessary time, resources and effort to solving these crimes and prosecuting those who are responsible.

As you know, information relating to ongoing investigations may not be publicly released before the investigation is concluded. Thus, we are constrained in the information we can provide. We can, however, make some preliminary observations from the charges we have brought so far.

The number and proportion of fires at African American churches have raised the possibility of racial hostility as a motive. Indeed, nine defendants have been convicted of federal civil rights charges in connections with six fires in Nevada, Tennessee and South Carolina. We have found overall, however, that there have been a range of motives, from blatant racism and religious hatred to financial profit, to personal revenge, burglary or vandalism.

There is still much work to be done before charges are filed in other cases. While it was the number of fires at African American churches that brought these crimes to national attention, the NCATF will continue to investigate and prosecute attacks on all houses of worship, regardless of their denomination or racial composition.

Burning a church may implicate federal anti-arson and civil rights laws and warrants swift and certain investigation and prosecution. The work of the NCATF continues to be vital to our efforts to prevent these heinous crimes, and to prosecute those responsible, whether they are motivated by racial hostility, religious bigotry, financial profit, revenge, or simply a desire to burn down a symbol of authority in the community. The commitment of resources and attention to this work by federal, state and local authorities has been essential to the success of the Task Force, and the Task Force remains dedicated to solving these crimes and bringing the perpetrators to justice.

In closing, we would again like to note that the Administration and Congress have worked together in addressing this issue. We must continue our unified approach. As the President said last summer: "We must rise up as a national community to safeguard the right of every citizen to worship in safety. That is what America stands for."

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 19, 1997

Contact: Office of Financing
(202) 219-3350

TREASURY'S INFLATION-INDEXED NOTES
APRIL REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of April for the 10-Year Treasury inflation-indexed notes issued February 6, 1997. This information is based on the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the U.S. Department of Labor.

In addition to the publication of the reference CPIs (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period. Public Debt intends to announce the reference CPI numbers and the related index ratio monthly for at least one year.

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 1563. The information is also available on the Internet at Public Debt's home page: (http://www.publicdebt.treas.gov).

The information for May is expected to be released on April 15, 1997.

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PA-257

RR-1563

TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES:	A-2007
CUSIP:	9128272M3
AUCTION DATE:	January 29, 1997
ORIGINAL ISSUE DATED DATE:	January 15, 1997
ORIGINAL ISSUE DATE:	February 6, 1997
MATURITY DATE:	January 15, 2007
Ref CPI on DATED DATE:	158.43548
TABLE FOR MONTH OF:	April, 1997
NUMBER OF DAYS IN MONTH:	30

CPI-U (NSA) Dec. '96	158.6
CPI-U (NSA) Jan. '97	159.1
CPI-U (NSA) Feb. '97	159.6

Ref CPI and Index Ratios for April 1997

Calendar day			Ref CPI	Index Ratio
April	1	1997	159.10000	1.00419
April	2	1997	159.11667	1.00430
April	3	1997	159.13333	1.00440
April	4	1997	159.15000	1.00451
April	5	1997	159.16667	1.00462
April	6	1997	159.18333	1.00472
April	7	1997	159.20000	1.00483
April	8	1997	159.21667	1.00493
April	9	1997	159.23333	1.00504
April	10	1997	159.25000	1.00514
April	11	1997	159.26667	1.00525
April	12	1997	159.28333	1.00535
April	13	1997	159.30000	1.00546
April	14	1997	159.31667	1.00556
April	15	1997	159.33333	1.00567
April	16	1997	159.35000	1.00577
April	17	1997	159.36667	1.00588
April	18	1997	159.38333	1.00598
April	19	1997	159.40000	1.00609
April	20	1997	159.41667	1.00619
April	21	1997	159.43333	1.00630
April	22	1997	159.45000	1.00640
April	23	1997	159.46667	1.00651
April	24	1997	159.48333	1.00661
April	25	1997	159.50000	1.00672
April	26	1997	159.51667	1.00682
April	27	1997	159.53333	1.00693
April	28	1997	159.55000	1.00703
April	29	1997	159.56667	1.00714

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
March 19, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $29,750 MILLION

The Treasury will auction $17,250 million of 2-year notes and $12,500 million of 5-year notes to refund $29,122 million of publicly-held securities maturing March 31, 1997, and to raise about $625 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $1,534 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 $3,112 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, as amended) 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-1564

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED MARCH 31, 1997

March 19, 1997

<u>Offering Amount</u>	$17,250 million	$12,500 million
<u>Description of Offering</u>:		
Term and type of security	2-year notes	5-year notes
Series	AD-1999	E-2002
CUSIP number	912827 2N 1	912827 2P 6
Auction date	March 25, 1997	March 26, 1997
Issue date	March 31, 1997	March 31, 1997
Dated date	March 31, 1997	March 31, 1997
Maturity date	March 31, 1999	March 31, 2002
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	September 30 and March 31	September 30 and March 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

<u>The following rules apply to all securities mentioned above</u>:

<u>Submission of Bids</u>:

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 three decimals, e.g., 7.123%
(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.

<u>Maximum Recognized Bid at a Single Yield</u> . . . 35% of public offering

<u>Maximum Award</u> . . . . 35% of public offering

<u>Receipt of Tenders</u>:

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

<u>Payment Terms</u> . . . . 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

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

EMBARGOED UNTIL 11 A.M. EST
Text as prepared for delivery
March 20, 1997

Testimony of Timothy F. Geithner
Senior Deputy Assistant Secretary of the Treasury
for International Monetary and Financial Policy
Before the Banking and Financial Services Committee
Subcommittee on Domestic and International Monetary Policy
of the United States House of Representatives
on
Thursday, March 20, 1997

Introduction

Mr Chairman, Members of the Subcommittee, I am pleased to testify before you today on the President's request for authorization for additional resources for the International Monetary Fund (IMF)

Let me begin by summarizing the main reasons why it is so important to assure that the IMF has adequate resources to carry out its mission and why that mission is critical to the strategic, political and economic interests of the United States in the post cold war world.

- The United States, as the leading power in the post-cold war world, has a major stake in the continued viability of the IMF We have a great deal to gain from a strengthened IMF that multilateralizes the financial support for on-going economic reforms in countries important to our interests and that can respond to widespread liquidity problems.

- To sustain its capabilities the Fund needs to sustain its strength relative to a rapidly expanding global economy characterized by exponential growth of international capital markets In a world of new and potentially greater financial risks, the IMF needs a solid financial footing

- We have to be prepared to participate financially in the institution and to contribute our share if we are to continue to influence the policy and operations of the institution effectively and to implement needed reforms We cannot lead through the use of other people's money

- Our financial commitment to the Fund leverages several times as much from other sources, and, except for the relatively small case of ESAF, these transaction are not scored as a budgetary outlay Under established statutory and budgetary treatment, increases in the U.S commitments to the general financial resources of the IMF do not come at the expense of other programs and will not impinge on our goal of reaching a balanced

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budget.

The Administration's Request

Our agenda for the IMF involves these requests for authorization by the U.S. Congress:

Strengthening the IMF's financial resources.

- The Administration is seeking authorization for U.S. participation in the New Arrangements to Borrow (NAB) and to provide the dollar equivalent of SDR 2.462 billion (approximately $3.4 billion) for this purpose. The NAB is a set of emergency credit lines for the IMF to supplement its ordinary (quota) resources if necessary to deal with a threat to the international monetary system. The President's budget requests an appropriation for budget authority in addition to the SDR 4.25 ($6 billion) previously authorized and appropriated for the General Arrangements to Borrow (GAB), first established in 1962.
- The Administration is also reviewing the adequacy of IMF quotas, which finance the ordinary lending of the institution. If, as a result of that review, we believe that an increase in IMF quotas is needed to ensure that the IMF has adequate resources to carry out its responsibilities well into the next decade -- and if we are able to negotiate a satisfactory agreement -- then we will propose that the Congress authorize an increase in the U.S. quota. We will consult closely with the Congress as this review proceeds.

The Administration and the Congress have, since 1968, agreed that transactions with the IMF related to U.S. credit line arrangements or the U.S. quota subscription are treated as exchanges of monetary assets that are not scored as outlays and, therefore, do not increase the deficit. When we provide such resources to the IMF, we get a liquid interest-bearing claim on the IMF which is backed by its substantial reserves, including gold. Our claim is like a deposit in the soundest of banks, on which we are paid interest and which we can withdraw on very short notice if needed. Since 1980, appropriations as well as authorization have been required, but the "no outlay" treatment has remained in place.

Consistent with this treatment, the Budget Enforcement Act of 1990 (BEA) provided for an adjustment to discretionary spending limits to accommodate the previous increase in the U.S. quota for the IMF. Following the precedent of the BEA, we will propose that there be an adjustment to the discretionary spending limits for budget authority for the NAB and for a possible increase in the U.S. quota.

Providing Affordable Assistance to the Poorest Countries

- The Administration seeks authorization for $75 million for the Interest Subsidy Account of the Enhanced Structural Adjustment Facility (ESAF) of the IMF to support concessional lending to the poorest countries that are willing to undertake comprehensive market-oriented macroeconomic reforms to promote long-term economic growth. This request is for the remaining amount of the commitment of $100 million made in 1994 by the U.S. Governor to the IMF, former Treasury Secretary Bentsen, for expansion of the Interest Subsidy Account of the ESAF. Unlike the appropriations for strengthening the IMF's basic resources, the appropriations for ESAF would entail budgetary outlays. We anticipate that the $75 million would be outlayed over a period of 10 to 15 years. The President's FY 98 budget requests appropriation of $7 million for this purpose.

SDR Equity Amendment

We are also in the process of considering an amendment to the Articles of Agreement to assure that the newer members of the IMF participate on an equitable footing in the IMF's Special Drawing Rights (SDRs) arrangement. SDRs are a form of reserve assets created by the IMF in the 1960s. There have been no additional allocations of SDRs since 1981, although more than 40 countries have joined the IMF since that time. This would require congressional authorization but there would be no appropriation of budget authority and no budget outlay entailed in this "equity" amendment request.

The Role of the IMF

I want to take a moment to highlight just what the IMF is and does to illustrate why preserving its financial strength is so important. The IMF is the principal monetary institution of the world economy. Current membership of 181 countries is virtually universal. Conceived in 1944 at Bretton Woods, New Hampshire, the IMF is charged with promoting a sound and open world economy and a stable international financial system. Its regular activities include:

- Oversight of the operation of the international monetary system and members' economic and financial policies. This includes regular consultations with members about their economic and financial policies, and surveillance of international financial market activity.

- Promotion of strong, market-oriented, macroeconomic reforms through financing programs that lay the foundation for sustainable economic growth and development;

    - General quota resources finance economic programs that promote sound monetary and fiscal policy and include performance conditions;

    - ESAF programs provide closely monitored highly concessional longer-term financing to the poorest countries if they are willing to undertake comprehensive reforms that help to prepare them for full participation in global economic activity. ESAF is also the vehicle for the IMF's participation in the multilateral debt initiative to assure a sustainable debt profile that fosters economic growth for the most heavily indebted poor countries with a track record of sound policy implementation;

- Management and resolution of challenges to the stability of the international monetary system, such as the developing countries' debt crisis of the 1980s.

The IMF's unique monetary characteristic is reflected in its financial structure. Quota subscriptions provide the resources for most IMF lending and are the basis for members' voting strength in the institution and for their access to borrow Fund resources. These quota resources are of a revolving character.

Any transfer of these resources to the IMF is offset by another monetary asset in the form of a liquid, interest-bearing claim on the IMF which is backed by the IMF's strong financial position. These claims are part of a member's international reserves and can be drawn for balance of payments purposes at any time without charge.

The nature of quota transfers (and transfers under the GAB or NAB) also accounts for their unique budgetary treatment. In accordance with the budgetary treatment recommended by the Presidential Commission on Budgetary Concepts in 1968 and modified by the Congress in 1980, United States transfers to the IMF such as these are not scored as budgetary outlays and thus do not increase the deficit.

Serving U.S. Interests

For 50 years the IMF has been instrumental to the exercise of U.S. economic and financial leadership. The Fund multilateralizes the costs of advancing U.S. economic interests in promoting stability, openness, and growth -- which create the incentives for peace and the spread of democratic values that are our strategic goals.

Let me give you a few specific examples:

- The IMF has played a critical role in aiding the transformation of the Eastern European economies and the former Soviet Republics. Across much of the region, inflation has stabilized, the role of the state has been reduced, budgets have been brought under control, the private sector has expanded, trade barriers have been reduced, and growth has been established. The technical assistance and conditional lending programs of the IMF were fundamental to the progress achieved so far, and they will be critical in sustaining the momentum of reform going forward.

- The IMF has been a powerful force for trade liberalization around the world. In countries such as Sri Lanka, Argentina, Uganda and Lithuania -- to name only a few -- IMF programs have resulted in the removal of state monopolies, the elimination of licensing and quantitative restrictions and the reduction of high effective tariff rates.

- The IMF's response to the Mexican financial crisis helped contain the risk of an escalating series of crises throughout the emerging markets, which could have resulted in much greater damage to U.S. economic interests.

- Throughout the world, countries that at one point adopted IMF programs financed by the IMF's short-term financial assistance have established long records of strong economic performance. Five of the 14 non-G10 countries that have agreed to participate in the New Arrangements to Borrow are previous beneficiaries of IMF programs.

As these examples illustrate, the IMF has played an important role in building the economic fundamentals critical to growth and stability in countries that are of critical strategic interest to the United States. It has helped foster the conditions that have led to the phenomenal growth in U.S. exports over the last several decades. It has helped us avoid even greater demands for bilateral assistance in countries of strategic significance to the United States.

These are the reasons that led the last two Administrations, President Reagan's in 1983 and President Bush's in 1990, to support an expansion of IMF resources. In his message to the Congress transmitting his FY 84 budget, President Reagan stated forcefully that these programs are "critical to American world leadership and to the success of our foreign policy."

Reforms

The success of the IMF in these cases reflects in part the considerable progress the Fund has made in adapting its own policies to changes in the world economy.

Refocusing Fund Surveillance and Adjustment Programs

With strong U.S. encouragement, the IMF now pays more attention to the quality of fiscal adjustment, encouraging countries with IMF programs to cut unproductive expenditures and to shift more resources to primary education and health care and to essential capital investment. Since 1990, military spending has declined from 5.5 percent to 2.2 percent of GDP in countries with IMF programs, and military spending has declined and social spending has increased as a share of government outlays.

A new emphasis on effective governance and anti-corruption in Fund surveillance and adjustment program design is just beginning to take hold but will help over time to accelerate and deepen economic reform and lead to a more equitable distribution of economic opportunity and rewards.

New procedures permit the IMF to act more quickly to support countries emerging from civil conflict or other severely disruptive events that initially limit policy implementing capabilities.

Adapting to global financial markets

The IMF has also been instrumental in carrying out a number of initiatives launched by the

G-7 countries at the June 1995 Halifax Summit in response to the considerable changes that had occurred in the global capital market. The G-7 wanted to improve crisis prevention mechanisms and to provide sufficient resources to deal effectively and efficiently with those crises that may occur in the international financial system.

To improve early warning systems, the G-7 called for improved and effective surveillance of national economic policies and financial market developments by the IMF and fuller disclosure of key information to market participants. The IMF is expanding its surveillance activities to cover financial sector regulation and supervision in emerging market economies and is giving greater attention to financial sector reform in its adjustment programs, working with the World Bank and national and international regulatory authorities.

The IMF also adopted strong disclosure standards for the provision of comprehensive, timely, and accurate economic and financial data for countries seeking access to international financial markets. Over 40 countries have already subscribed to the standards, which has helped to create a new level of transparency and uniformity in the international reporting of vital national economic data, thus improving the ability of markets to evaluate risk and reward in cross-border financial transactions.

Transparency and accountability

Under continued urging by the United States, the IMF now publishes far more information on member countries' economies, including background papers for the annual consultations it has with members about their economic and financial policies under Article IV of the Fund charter. The IMF also encourages members to publish Letters of Intent describing their IMF-sponsored adjustment programs and the policy framework papers for ESAF lending. The IMF annual reports also contain more detailed commentary on individual countries' policies. We are continuing to push for release of more IMF documents and are gaining added support in this effort.

Moving Forward

Ability to press successfully for continued reforms in the IMF depends upon our demonstrating that our commitment to the institution is as strong now as it was when we spear-headed its creation over 50 years ago. If the IMF is to become a more effective engine of market-oriented structural reforms and trade liberalization, if it is to continue to adapt to new challenges in the global capital market, increase transparency and promote good governance, if it is to ensure more efficient use of its resources, we must assure that it has adequate resources to meet both normal and extraordinary challenges.

The Fund's quota resources have been steadily shrinking in size relative to the world economy and capital markets since the first half of the 1980s, even with the increase in quotas agreed by IMF members in 1990 and endorsed by the Congress in 1992. World GDP and world trade have roughly doubled from the time of the Ninth General Review of Quotas, which preceded that quota increase. Global capital flows have increased even more dramatically. The Fund is smaller now when measured against these features of the world economy than at any time in the past quarter century.

The rapid growth of international capital markets reflects the greater access that many countries now have to private investment flows that can help to finance payments imbalances for extended periods. The greater efficiency in the allocation of capital also increases the risk that crises may erupt very suddenly and that the resultant financing gap for a country in crisis can be very large. Far from diminishing the need for a strong IMF, the growth and liberalization of private capital markets underscore its continued importance.

At the Economic Summit in Halifax in 1995, the G-7 urged countries with the capacity to support the international financial system to double the amount of financing arrangements available from the G-10 countries to the IMF under the General Arrangements to Borrow (GAB) for dealing with crises that threaten the system. The GAB has not been increased since 1983.

NAB

In response to this call, the G-10 and 14 smaller industrial and emerging market countries have reached an agreement, subject to approval by the appropriate governmental authorities, to create the New Arrangements to Borrow. The IMF took a decision endorsing the NAB agreement in January 1997, subject to formal adherence by participants accounting for the necessary 85 percent of total credit arrangements, including those with the five largest arrangements.

Modeled on the GAB, which was created in 1962, the NAB is a set of credit lines to the IMF that would serve as a reserve tank to deal with financial crises that threaten the stability of the international financial system if the ordinary resources of the IMF need to be supplemented to address these situations. The NAB would amount to SDR 34 billion (approximately $47 billion) if all participants adhere, including the amount of the GAB-- SDR 17 billion ($23.3 billion). The GAB would remain in effect and could be activated independently, but the NAB will be the facility of principal recourse. No more than SDR 34 billion ($47 billion) could be provided under the GAB and NAB combined. G-10 countries will participate in both facilities.

The U.S. share of the NAB will be SDR 6.712 billion (about $9.2 billion), including the SDR 4.25 billion ($5.8 billion) now available under the GAB. At current exchange rates, this increase in our authorization and appropriation to lend to the IMF would amount to about $3.4 billion.

An important feature of the NAB is that it provides better burden sharing among the international community, while enhancing our ability to block inappropriate activation. The United States will have just under a 20 percent share of the total amount of the NAB which provides sufficient voting power to block activation with the concurrence of just one other participant, or in some circumstances, on our own.

Quotas

In addition to ensuring that the IMF can respond to large-scale financial emergencies that threaten the stability of the system, it is important to ensure that the IMF has sufficient ordinary resources to meet its ongoing responsibilities in the expanding global economy. IMF members have been reviewing current IMF quotas for some time under the Eleventh General Quota Review.

The Administration is also reviewing the adequacy of IMF quotas, which finance the ordinary lending of the institution. If, as a result of that review, we believe that an increase in IMF quotas is needed to ensure that the IMF has adequate resources to carry out its responsibilities well into the next decade -- and if we are able to negotiate a satisfactory agreement -- then we will propose that the Congress authorize an increase in the U.S. quota. We will consult closely with the Congress as this review proceeds.

The current U.S. quota is SDR 26.6 billion (about $36.8 billion), amounting to 18.25 percent of the total. The current U.S. share of IMF voting power is 17.78 percent, comfortably above the 15 percent needed to veto key decisions such as an increase in quotas or an amendment of the Articles of Agreement.

ESAF

I would like to turn now to our request for the Enhanced Structural Adjustment Facility. Created in 1988, ESAF was expanded in 1993 and now has received total contributions of about $14 billion for concessional lending to the poorest countries, provided they undertake comprehensive economic reforms. ESAF currently provides up to about $1.4 billion annually in affordable lending for the poorest countries in Africa, Latin America, the Caribbean, Asia and the former Soviet republics.

ESAF programs lay the foundations to support the basic infrastructure development that IDA lending and bilateral assistance provide. This is why ESAF programs are developed in close collaboration with the World Bank and why some bilateral and multilateral assistance is linked to ESAF program performance.

Through their emphasis on fiscal consolidation, improved accounting and budgetary procedures, trade liberalization, privatization and de-regulation, ESAF programs help to promote good governance by undermining the incentives for corruption and exposing expenditures and revenues to greater scrutiny. Greater focus in recent years on the impact of reforms on the most vulnerable elements of society has led to increased attention to the need for viable safety nets.

ESAF is also the vehicle for IMF participation in the Heavily-Indebted Poor Countries (HIPC) Debt Initiative which, for the first time, features debt relief provided by the international financial institutions. This Initiative will provide debt reduction for eligible poor countries in need of additional relief, based on a track record of sound policy implementation, with the objective of helping them achieve debt sustainability. The ESAF will play a critical role in guiding the reform efforts of countries hoping to qualify for relief under the HIPC Debt Initiative.

In 1994 the United States agreed to contribute a total of $100 million toward the ESAF. In FY 95 the Congress authorized and appropriated $25 million toward this commitment. This year we are requesting authorization for the remaining $75 million. This will be spread over 10 to15 years, and thus we are requesting $7 million in the FY 98 appropriation. U.S. contributions to ESAF are scored as budgetary outlays.

The total U.S. commitment amounts to about 5 cents for every dollar provided for the expansion of the Interest Subsidy Account from other donor sources. This is a modest and highly leveraged investment for opening new markets for U.S. goods and fostering sustainable development that helps to raise incomes abroad and at home.

SDR Equity Amendment

Finally, the IMF members are considering an amendment of the IMF Articles of Agreement to provide a special, one-time, allocation of SDRs to enable newer members of the IMF to participate on an equitable footing in the Special Drawing Rights arrangement. SDRs are a form of international reserve assets created by the IMF and allocated to members for use in transactions with the IMF and for transfers between members and other authorized holders. Any special allocation of SDRs would require authorization but would not require appropriation of budget authority.

Conclusion

Let me conclude by saying again that the IMF is a critically important institution for the United States. Its role in the system is more important now than ever before because of the rapid increase in financial integration and the dramatic changes in the international capital markets. It is a valuable institution with a remarkable concentration of economic and financial talent, an impressive record of success, and an ongoing commitment to change and reform.

We have a major stake in ensuring it can continue to serve as an effective instrument for promoting growth, openness and financial stability.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
March 21, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $13,750 million of 52-week Treasury bills to refund $13,680 million of publicly-held 52-week bills maturing April 3, 1997, and to raise about $75 million of new cash. In addition to the maturing 52-week bills, there are $20,448 million of maturing publicly-held 13-week and 26-week bills.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,016 million of the three maturing bills. These accounts are considered to hold $5,265 million of the maturing 52-week issue, which may be refunded at the weighted average discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

Federal Reserve Banks hold $4,671 million of the 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 $1,286 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, as amended) 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.

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Attachment

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED APRIL 3, 1997

March 21, 1997

Offering Amount	$13,750 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 4T 8
Auction date	March 26, 1997
Issue date	April 3, 1997
Maturity date	April 2, 1998
Original issue date	April 3, 1997
Maturing amount.	$18,945 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 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 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 24, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,648 million of 13-week bills to be issued March 27, 1997 and to mature June 26, 1997 were accepted today (CUSIP: 9127942R4).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.26%	5.41%	98.670
High	5.27%	5.41%	98.668
Average	5.26%	5.41%	98.670

$575,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 18%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$53,556,124	$11,648,073
Type		
Competitive	$48,304,556	$6,396,505
Noncompetitive	1,280,533	1,280,533
Subtotal, Public	$49,585,089	$7,677,038
Federal Reserve	3,274,235	3,274,235
Foreign Official Institutions	696,800	696,800
TOTALS	$53,556,124	$11,648,073

5.13 - 98.703

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 24, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,529 million of 26-week bills to be issued March 27, 1997 and to mature September 25, 1997 were accepted today (CUSIP: 9127945N0).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.32%	5.54%	97.310
High	5.33%	5.55%	97.305
Average	5.33%	5.55%	97.305

Tenders at the high discount rate were allotted 33%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$44,746,244	$11,528,982
Type		
Competitive	$37,813,090	$4,595,828
Noncompetitive	1,174,954	1,174,954
Subtotal, Public	$38,988,044	$5,770,782
Federal Reserve	3,030,000	3,030,000
Foreign Official Institutions	2,728,200	2,728,200
TOTALS	$44,746,244	$11,528,982

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
March 25, 1997

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN AND COUNCIL OF ECONOMIC ADVISERS CHAIR JANET L. YELLEN

The Administration recognizes and respects the independence of the Federal Reserve in making decisions about the nation's monetary policy. We share the goal of maintaining solid economic growth with low inflation.

Recent indicators suggest that our economy continues on a healthy and balanced course, with low unemployment, strong job creation and low inflation. We believe that the economy will continue on this path, led by strong private-sector investment which is creating a foundation for long-term growth and higher living standards for all Americans in the future.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 25, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,254 million of 2-year notes, Series AD-1999, to be issued March 31, 1997 and to mature March 31, 1999 were accepted today (CUSIP: 9128272N1).

The interest rate on the notes will be 6 1/4%. All competitive tenders at yields lower than 6.270% were accepted in full. Tenders at 6.270% were allotted 47%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.270%, with an equivalent price of 99.963. The median yield was 6.240%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.200%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$37,989,482	$17,254,292

The $17,254 million of accepted tenders includes $1,479 million of noncompetitive tenders and $15,775 million of competitive tenders from the public.

In addition, $1,600 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $889 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
March 25, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $14,000 million to refund $20,448 million of publicly-held 13-week and 26-week bills maturing April 3, 1997. This offering will result in a paydown for the Treasury of about $6,450 million. In addition to the maturing 13-week and 26-week bills, there are $13,680 million of maturing publicly-held 52-week bills.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,016 million of the three maturing bills. These accounts are considered to hold $6,751 million of the maturing 13-week and 26-week issues, which may be refunded at the weighted average discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

Federal Reserve Banks hold $4,819 million of the 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 $3,533 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, as amended) 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-1571

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED APRIL 3, 1997

March 25, 1997

Offering Amount	$7,000 million	$7,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 5D 2	912794 5P 5
Auction date	March 31, 1997	March 31, 1997
Issue date	April 3, 1997	April 3, 1997
Maturity date	July 3, 1997	October 2, 1997
Original issue date	January 2, 1997	April 3, 1997
Currently outstanding	$13,570 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

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 26, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $13,772 million of 52-week bills to be issued April 3, 1997 and to mature April 2, 1998 were accepted today (CUSIP: 9127944T8).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.64%	5.98%	94.297
High	5.66%	6.00%	94.277
Average	5.66%	6.00%	94.277

Tenders at the high discount rate were allotted 22%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$62,562,152	$13,772,362
Type		
Competitive	$60,345,310	$11,555,520
Noncompetitive	979,842	979,842
Subtotal, Public	$61,325,152	$12,535,362
Foreign Official Institutions	1,237,000	1,237,000
TOTALS	$62,562,152	$13,772,362

In addition, $5,265,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

5.65 -- 94.287

RR-1572

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 26, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $12,516 million of 5-year notes, Series E-2002, to be issued March 31, 1997 and to mature March 31, 2002 were accepted today (CUSIP: 9128272P6).

The interest rate on the notes will be 6 5/8%. All competitive tenders at yields lower than 6.660% were accepted in full. Tenders at 6.660% were allotted 29%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.660%, with an equivalent price of 99.853. The median yield was 6.640%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.490%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$31,736,865	$12,515,535

The $12,516 million of accepted tenders includes $644 million of noncompetitive tenders and $11,872 million of competitive tenders from the public.

In addition, $1,100 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $645 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

RR-1573

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Embargoed Until 2:30 P.M.
March 25, 1997

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $10,000 million of 14-day and $17,000 million of 19-day Treasury cash management bills to be issued April 3, 1997.

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.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356 as amended) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

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

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Attachment

RR-1574

HIGHLIGHTS OF TREASURY OFFERINGS OF CASH MANAGEMENT BILLS TO BE ISSUED APRIL 3, 1997

March 25, 1997

Offering Amount	$10,000 million	$17,000 million
Description of Offering:		
Term and type of security	14-day bill	19-day bill
CUSIP number	912794 4F 8	912794 6Y 5
Auction date	April 1, 1997	April 1, 1997
Issue date	April 3, 1997	April 3, 1997
Maturity date	April 17, 1997	April 22, 1997
Original issue date	October 17, 1996	April 3, 1997
Currently outstanding	$47,864 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$1,000	$1,000
Minimum to hold amount	$10,000	$10,000
Multiples to hold	$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

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

FOR IMMEDIATE RELEASE
March 31, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $7,062 million of 13-week bills to be issued April 3, 1997 and to mature July 3, 1997 were accepted today (CUSIP: 9127945D2).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.17%	5.31%	98.693
High	5.19%	5.33%	98.688
Average	5.18%	5.32%	98.691

Tenders at the high discount rate were allotted 10%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$37,979,234	$7,062,059
Type		
Competitive	$36,081,275	$5,164,100
Noncompetitive	1,417,759	1,417,759
Subtotal, Public	$37,499,034	$6,581,859
Foreign Official Institutions	480,200	480,200
TOTALS	$37,979,234	$7,062,059

In addition, $3,771,430 thousand was awarded to the Federal Reserve Banks for their own accounts.

RR-1575

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Contact: Hortense Henderson
(202) 622-2960

TREASURY DEPARTMENT PUBLIC ENGAGEMENTS SCHEDULE
For the Week of March 29- April 4, 1997

***Revised as of 12:30 p.m., Monday, March 31, 1997.**

TUESDAY, April 1

Deputy Secretary Lawrence H. Summers
U.S.-Russia Business Council's 5th Annual Forecast Conference
Remarks: U.S.-Russia trade and investment forecast '97
9:15 a.m. EST
The Four Seasons Hotel, Corcoran Ballroom
2800 Pennsylvania Avenue, N.W.
Washington, D.C.

WEDNESDAY, April 2

Treasury Secretary Robert E. Rubin
New York Stock Exchange Board of Directors and European, Asia Pacific and Latin American Advisory Committees
Remarks: APEC meetings
12:30 p.m. EST
Willard Inter-Continental Hotel, Crystal Room
1401 Pennsylvania Avenue, N.W.
Washington, D.C.

Comptroller of the Currency Eugene A. Ludwig
Bank of Boston Community Development Corporation
Remarks
11 a.m EST
Roxbury Comprehensive Health Center
435 Warren Avenue
Roxbury, Massachusetts

(more)

THURSDAY, April 3

*Note: The 11:45 a.m. remarks by United States Treasurer Mary Ellen Withrow, originally included on the public schedule, is a **CLOSED** event.

FRIDAY, April 4

No events scheduled.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
March 31, 1997

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $7,040 million of 26-week bills to be issued April 3, 1997 and to mature October 2, 1997 were accepted today (CUSIP: 9127945P5).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.29%	5.51%	97.326
High	5.31%	5.53%	97.316
Average	5.31%	5.53%	97.316

Tenders at the high discount rate were allotted 35%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$37,156,243	$7,040,293
Type		
Competitive	$34,241,555	$4,125,605
Noncompetitive	1,211,688	1,211,688
Subtotal, Public	$35,453,243	$5,337,293
Foreign Official Institutions	1,703,000	1,703,000
TOTALS	$37,156,243	$7,040,293

In addition, $2,980,000 thousand was awarded to the Federal Reserve Banks for their own accounts.

5.30 -- 97.321

RR-1576

W Rm [illegible]

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

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of February 1997.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $57.6 billion on February 28, 1997, posting a decrease of $10 million from the level on January 31, 1997. This net change was the result of a decrease in holdings of agency guaranteed loans of $10 million. FFB made 9 disbursements during the month of February. In addition, two RUS-guaranteed loans were refinanced under Section 306C. FFB also received 21 prepayments in February.

Attached to this release are tables presenting FFB February loan activity and FFB holdings as of February 28, 1997.

RR-1577

FEDERAL FINANCING BANK
FEBRUARY 1997 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Foley Services Contract	2/7	$98,019.00	7/31/25	6.858% S/A
HCFA Headquarters	2/7	$142,769.00	7/1/25	6.858% S/A
Foley Square Office Bldg.	2/14	$308,800.00	7/31/25	6.705% S/A
GSA/PADC				
ICTC Building	2/18	$9,062,296.28	11/2/26	6.656% S/A
RURAL UTILITIES SERVICE				
Bretton Woods Tele. #414	2/6	$6,000.00	1/3/11	6.516% Qtr.
Horry Tele. Coop. #419	2/6	$4,864,000.00	12/31/12	6.564% Qtr.
E. Nebraska Tele. #398	2/10	$560,000.00	1/3/17	6.651% Qtr.
Panhandle Tele. #400	2/24	$789,000.00	4/1/02	6.214% Qtr.
+Sho-Me Power #913	2/26	$656,172.47	1/2/18	6.529% Qtr.
+Sho-Me Power #913	2/26	$1,325,667.68	12/31/18	6.547% Qtr.
Colorado Valley #422	2/28	$1,000,000.00	1/3/23	6.817% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
306C refinancing

FEDERAL FINANCING BANK
(in millions)

Program	February 28, 1997	January 31, 1997	Net Change 2/1/97-2/28/97	FY '97 Net Change 10/1/96-2/28/97
Agency Debt:				
Export-Import Bank	$ 1,431.5	$ 1,431.5	$ 0.0	$$ -390.3
Resolution Trust Corporation	4,557.0	4,557.0	0.0	-1,439.1
U.S. Postal Service	0.0	0.0	0.0	-1,500.0
sub-total*	5,988.5	5,988.5	0.0	-3,329.4
Agency Assets:				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	17,875.0	17,875.0	0.0	-825.0
DHHS-Health Maintenance Org.	5.5	5.5	0.0	0.0
DHHS-Medical Facilities	18.8	18.8	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.1	0.1	0.0	0.0
sub-total*	26,173.3	26,173.3	0.0	-825.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,166.7	3,188.2	-21.5	-80.5
DoEd-HBCU	0.2	0.2	0.0	0.0
DHUD-Community Dev. Block Grant	37.2	37.6	-0.3	-1.9
DHUD-Public Housing Notes	1,561.4	1,561.4	0.0	-65.4
General Services Administration +	2,348.9	2,339.3	9.6	16.6
DOI-Virgin Islands	19.0	19.0	0.0	-0.8
DON-Ship Lease Financing	1,308.1	1,308.1	0.0	-74.7
Rural Utilities Service	16,709.6	16,702.4	7.2	-41.1
SBA-State/Local Development Cos.	300.3	304.8	-4.5	-18.1
DOT-Section 511	12.0	12.3	-0.2	-0.6
sub-total*	25,463.5	25,473.2	-9.7	-266.6
	=========	=========	=========	=========
grand-total*	$ 57,625.3	$ 57,635.0	$ -9.7	$ 4,420.9

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